



**MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM
Meeting of the Board of Trustees**

September 22, 2022 – 8:30 a.m.

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:30 a.m. at the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), David Hunter (Chief Investment Officer), Sandra Vice (Chief Administrative Officer), Rhonda Covarrubias (Director of Finance), Candace Nolte (Assistant Finance Director), Michele Fullon (Investment Compliance Officer), Tom Masthay (Deputy Chief Investment Officer), Josh Garcia (Senior Investment Analyst), Darren Schulz (Portfolio Director), Marcia Beard (RVK), Sam Austin (NEPC) and Greg Carpenter (Strategic Planning Consultant).

Mr. Garza called the meeting to order at 8:30 a.m.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Scott moved that the Board adopt the Consent Agenda, including the Minutes from the June 23, 2022, meeting. Mr. Garza and Mr. Huizar seconded the motion, which passed 6-0.

Executive Director Reports

2. Executive Director's Report.

Mr. Wescoe said that the Pension Administration System Modernization project (PASMMod) would be completed on schedule for \$4.3 million, or \$6.2 million less than the original project estimates. PASMMod's new City Contribution System will allow participating cities to report their monthly compensation and make contributions electronically. TMRS now has an online scheduling tool that allows Members to request a counseling session. The TMRS mobile app has been upgraded with this tool and additional information. Mr. Wescoe testified at a hearing of the Texas House Pensions, Investments and Financial Services Committee and reported that TMRS was fully divested from Russian assets. Mr. Wescoe and other staff members spoke at recent conferences in Texas hosting municipal information officers, city managers, local firefighters, law enforcement officers and at national conferences for institutional investors. TMRS hosted its

annual training seminar, and it was the best attended ever with more than 1,000 city contacts participating. Mr. Wescoe said that Debbie Muñoz was promoted to Chief Service Officer and Jennifer Andrews, who has led the City Contribution System project, was promoted to Director of Member and City Service. He recognized Ms. Alanis for being named Interim City Manager for the City of Pharr.

3. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the Senior Staff Quarterly Reports to the Board.

4. Receive Update Concerning Sale of the TMRS 1200 North Interstate 35 Building.

Mr. Wescoe said the sale of the previous TMRS office building closed on September 7, and TMRS deposited sales proceeds of \$36 million in the Trust Fund. Mr. Wescoe thanked Mr. Philibert for encouraging the process in 2020.

Budget and Compensation Committee Reports

5. Report on Budget and Compensation Committee's Meeting.

Ms. Vice said that the Committee met with staff two weeks ago. First, the Committee approved certain staff salary adjustments that needed Committee review under TMRS compensation guidelines. Second, the Committee reviewed and discussed with staff the proposed 2023 TMRS budgets. Mr. Huizar said the proposed budget was well presented, adjustments from the prior year's budget were justified, and the Committee supported the budget proposals. Mr. Scott agreed and said that a proposed increase in Information Services staffing showed how integrated information technology was in TMRS and how important cybersecurity practices were.

6. Discuss 2023 Draft Operating, Capital and PASMod Program Budgets.

Ms. Vice announced that Ms. Covarrubias is retiring after 28 years with TMRS. Mr. Scott discussed the important role Ms. Covarrubias played over the years and thanked her for her service. Ms. Vice said that Ms. Nolte, who has been with TMRS for more than 20 years, will become the Director of Finance.

Ms. Vice said the proposed operating budget is only slightly higher than the 2022 budget. Ms. Covarrubias said the draft operating budget totals \$37.5 million. The personnel budget includes six new positions in Information Services and reduction of four positions in Investments. The personnel budget includes a four percent merit adjustment. The budget maintains a contribution rate of 15.95% to TMRS, which is higher than actuarially calculated so that TMRS models for its participating cities the advantages of holding at higher rates to pay off unfunded liabilities sooner. Professional services are budgeted to be 11% higher due to increased investment consulting fees and fees for an actuarial experience study that occurs once every four years. The capital budget is significantly lower and includes costs for only a mail folding machine. The amounts in the PASMod budget are holdback amounts for completion of the City Contribution System later this year. The proposed budget will be presented for approval in December.

Investment Reports

7. Chief Investment Officer's Reports.

Mr. Hunter said that the asset allocation was in line with the strategic target asset allocation. Trust Fund returns as of June 30 were -2.9% and 5.9% for the one-year and five-year periods. The five-year return exceeded the asset allocation benchmark by 54 basis points, which translates to about \$800 million in excess returns and ranks TMRS in the 70th percentile among public pensions with more than \$1 billion in assets. The one-year return beat the benchmark by 235 basis points and ranks TMRS in the 15th percentile among the same public pensions. The primary drivers of excess returns were Private Equity, Real Estate and Non-Core Fixed Income. TMRS closed more than \$475 million of new private market commitments in the second quarter and Private Equity and Real Estate are both at target allocations, with other private asset classes expected to meet targets within two years. The Investments team completed \$4.2 billion in investments between January 1 and September 13.

8. Report on IPS Committee Meetings.

Mr. Hunter said the Investment Policy Statement (IPS) Review Committee met on September 21 and will present the revised IPS for approval in December.

Mr. Scott said the draft IPS puts in place certain controls and performance reporting and adds a proxy voting policy that includes hiring a proxy manager. Ms. Alanis thanked Investments staff and in-house counsel for completing the draft in language an average person can understand.

9. Receive Second Quarter 2022 Investment Compliance Report.

Ms. Fullon said that more than 2000 automated tests were run by State Street and confirmed that investment managers were in compliance with their investment guidelines. Other testing also confirmed that TMRS was in compliance with all testable IPS guidelines.

10. Consider and Act on Non-Core Fixed Income Manager Recommendation.

Mr. Schulz recommended a commitment to a fund-of-one with an existing investment manager. Mr. Schulz said the recommendation was to add \$200 million to the existing \$300 million already committed to TCW Brazos Fund. Mr. Schulz discussed TCW and staff's reasons for recommending the additional investment. Mr. Schulz stated the recommendation is supported by Albourne, TMRS' specialized investment consultant.

Mr. Scott asked if there has been any change in the TCW principals who set its track record. Mr. Schulz said no.

Mr. Landis moved that (i) the Board authorize the following investment, as proposed and in accordance with the IPS, with an investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to the Board and successful negotiation of the investment agreements:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Investment Allocation	Background Check Required (Yes or No)
TCW Brazos Fund LLC	NCFI / Direct Lending	\$200M	Yes

and (ii) approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Huizar seconded the motion, which passed 6-0.

11. Board Education: Private Equity Asset Class.

Mr. Masthay and Mr. Garcia co-presented an overview of the Private Equity asset class. TMRS hit its target allocation in August. Three goals drive TMRS construction of its Private Equity portfolio: (i) outperforming public equities, (ii) achieving 10% target allocation, and (iii) reducing program costs.

Mr. Wescoe said that the Chief Investment Officer of CalPERS, the largest pension plan in the country, recently told his board that its underperformance in the last decade was due to missing the Private Equity boat. Mr. Garcia said the PE team has taken TMRS from 2.5% in Private Equity a year-and-a-half ago to fully allocated. Mr. Scott said he was impressed with the Investments team kicking into turbo on private investments to go from 5% to 10% allocation. It is a big reason, he said, that TMRS has performed well compared to peers despite recent market volatility.

12. General Investment Consultant Quarterly Report.

Ms. Beard presented RVK's quarterly investment report.

Mr. Scott asked what type of Hedge Fund investments were causing underperformance in that class. Ms. Beard said there is no great benchmark for that class because there is not a specific Hedge Fund market. The fee impact is more significant in Hedge Funds, she said, and the Hedge Fund class is intended to be more defensive, but performance on an absolute basis has been better.

With respect to the total fund, on a five-year basis, TMRS' risk-return ratio shows that TMRS captured 91% of the return at only 65% of the volatility, and the target allocation did even better. Ms. Beard said TMRS was 100% allocated to fixed income in 2007 but now has reached its diversified strategic target allocation.

Mr. Garza said TMRS was grateful to Ms. Beard and RVK for the firm's years of service through that transition period from a fixed income to a diversified portfolio. Mr. Wescoe

presented to Ms. Beard a plaque recognizing RVK's service and said that she served TMRS with class, dignity and integrity.

13. General Investment Consultant Report.

Mr. Austin and Trustees discussed the risk appetite survey that each Trustee will complete. Mr. Garza said the Board, in setting the current asset allocation, intended it to be in place for five years to monitor its performance. Mr. Scott said the Board also thought it would take five years to reach the target allocation, now achieved, but the survey may confirm decisions about taking more risk in the target allocation.

14. Discuss Strategic Plan Process and Possible Goals.

Mr. Carpenter reviewed the proposed agenda and process for the upcoming Board Retreat.

Executive Session

15. Executive Session.

The Board went into Executive Session at 10:28 a.m. The meeting reconvened in Open Meeting at 11:15 a.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

Future Board Agenda Items

16. Call for Future Agenda Items.

There were no future agenda items requested, and Mr. Garza adjourned the meeting at 11:15 a.m.



David B. Wescoe
Executive Director



Jesús A. Garza
Chair Board of Trustees