



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

March 23, 2023 – 9:00 a.m.

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at the AT&T Conference Center, located at 1900 University Avenue, Austin, Texas, in Grand Salon D&E with the following Trustees present: Chair Bob Scott, Vice Chair Anali Alanis, Jesús Garza, Johnny Huizar, David Landis, and Bill Philibert.

Staff present included: David Wescoe, Christine Sweeney, Debbie Muñoz, David Hunter, Mike Apperley, Jac Greene, Leslee Hardy, Dan Wattles, Tom Masthay, Nick O’Keefe, Frank Atkins, Tim Sweeney, Michele Fullon, Madison Jechow. Consultants present were Sam Austin and Robert A. Klausner.

Mr. Scott called the meeting to order at 9:00 a.m.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Landis moved that the Board adopt the Consent Agenda, including the minutes from the December 8, 2022, and February 16, 2023, meetings. Ms. Alanis seconded the motion, which passed 6-0.

Board Organization

2. Discuss, Consider and Act on Board Committees.

Mr. Garza asked Mr. Wescoe for his recommendations for Board committees. Mr. Wescoe said that committees to review audits and budgets are good for any Board to have. Mr. Garza asked if the Audit Committee should have a representative who is not a Trustee. A majority of Trustees expressed support for retaining the Audit Committee in its current form. The Advisory Committee on Benefit Design has seen many changes since it was first created. He noted that several bills proposing changes have been filed by Committee affiliates without consideration by the Advisory Committee.

Mr. Garza said the Advisory Committee had discussions before the Board decided not to pursue any legislation this year. He said Advisory Committee discussions also considered TMRS

customer service and provided value, and he asked how a broader scope for the Advisory Committee could be developed with review of its membership, possibly to enhance member and retiree representation. Mr. Landis said that the Advisory Committee is a valuable ally with its ear to the ground on matters that go beyond benefit design. Ms. Alanis said the Advisory Committee offers expertise for continuous improvement by TMRS. Mr. Scott said he was involved with the Advisory Committee since 2000, and while the Advisory Committee is not efficient because of its size, it provides opinions from other sectors. As long as some cities do not offer cost of living adjustments to retirees, he said, discussions about benefit design will continue. If the Advisory Committee is continued, he said, it makes sense to include customer service in its charter.

Scott Leeton addressed the Board and said he serves on the Advisory Committee as a representative of the Combined Law Enforcement Associations of Texas. The Advisory Committee allows for good discussions among many stakeholders, and he asked the Board to retain the Advisory Committee the way it is.

After Board discussion, Mr. Wescoe summarized that the Audit and Budget and Compensation Committees would remain as is, but staff will provide some models to broaden the Advisory Committee charter for the Board to consider at a future meeting.

3. Consider and Act on 2023 Board Committee Appointments.

Mr. Garza recommended that the Board make the following 2023 Board Committee appointments:

- | | |
|---------------------------------------|--------------------------------------------------|
| Advisory Committee on Benefit Design: | Chair – Ms. Alanis
Vice Chair – Mr. Scott |
| Audit Committee: | Chair – Mr. Landis
Vice Chair – Mr. Garza |
| Budget and Compensation Committee: | Chair – Mr. Huizar
Vice Chair – Mr. Philibert |

After discussion, Mr. Garza moved and Ms. Alanis seconded the motion, which passed 6-0.

Executive Director’s Reports

4. Executive Director’s Report.

TMRS was congratulated for its 75th anniversary at the Texas Capitol, where Representative Rafael Anchía sponsored House Concurrent Resolution 66, which was passed by the Texas Legislature and signed by the Governor. Mr. Wescoe said Senior Staff Action Plans were completed for each year since 2020, and he presented the 2023 Senior Staff Action Plan. He reviewed talent additions and promotions in the Finance, Investments, and Information Services departments. He reported on the release of retiree and member annual statements and additional communications. Mr. Wescoe said that rule changes proposed today for Board consideration include eliminating a longstanding rule that prevented members from naming more than three beneficiaries.

5. Receive Senior Staff Quarterly Reports.

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

6. Report on 2022 Senior Staff Action Plan Results and Present 2023 Senior Staff Action Plan.

Mr. Wescoe said the Board's Strategic Plan sets priorities for Senior Staff Action Plans. In 2022, major accomplishments under the Action Plan were completion of the City Portal, retaining NEPC as the Board's general investment consultant, redesigning the TMRS website, enhancing City and Member training, and selling the old TMRS office building for top dollar.

Mr. Wescoe reviewed the 10 items on the 2023 Senior Staff Action Plan. There were no questions from the Board.

7. Receive Update on TMRS 75th Anniversary Activities.

Mr. Wattles described activities celebrating TMRS' 75th anniversary. Governor Abbott issued a Certificate of Recognition in January, which will be displayed near the Board Room along with the House Concurrent Resolution 66. TMRS sent letters marking the anniversary to all Texas House and Texas Senate members and all members of Congress from Texas. TMRS Communications staff designed a logo recognizing the anniversary and a website with photos of TMRS milestones, including the Board's ribbon-cutting for the new TMRS offices. TMRS will host a celebration at its offices prior to the June Board meeting.

Plan Design and Funding

8. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2023 (Received after the December 2022 Board Meeting).

Ms. Muñoz presented the Updated Service Credit and Annuity Increase ordinances received by TMRS after the December 8, 2022 Board meeting but before the end of 2022.

Mr. Landis moved to ratify the approval of Updated Service Credit and/or Annuity Increase ordinances received by TMRS after the December 8, 2022 Board meeting but before the January 1, 2023, effective date. Mr. Philibert seconded the motion, which passed 6-0.

9. Consider and Act on 2022 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account.

Ms. Hardy asked the Board to act on interest allocations to four TMRS trust funds. Staff and actuarial firm GRS recommend that TMRS maintain the Interest Reserve Account balance at \$310

million and that, based on the net estimated investment loss for 2022, an interest credit of approximately -7.42% be allocated to cities' BAF accounts.

Mr. Garza asked how the \$310 million reserve was originally determined and whether it should increase as TMRS assets increase. Ms. Hardy said that when the reserve was first set at \$290 million it was approximately 1% of the Trust Fund. The target reserve is reviewed annually by investment, finance and actuarial staff based on the total value of estimated private investments. This year, staff determined that \$310 million was sufficient to allow for variance in estimates of private investment returns, which may not be known until the end of April.

Mr. Scott said that an allocation to cities of -7.42% is not ideal, but action before May is necessary to allow TMRS' actuaries to complete their work before proposing contribution rates in May. Mr. Scott asked if it was safe to say that higher contribution rates are projected? Ms. Hardy said yes.

Ms. Alanis moved that the Board allocate, effective as of December 31, 2022:

- (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund;
- (ii) a credit of approximately -7.42% interest to the Benefit Accumulation Fund, as well as maintain the initial Interest Reserve Account balance at \$310 million;

and that the Board approve any differences in the final versus estimated fourth quarter private investment fund valuation adjustments, as well as any adjustments that may be necessary to finalize net investment income for the year, to be reflected in the final Interest Reserve Account balance as of December 31, 2022 and considered in the 2023 BAF interest credit determination. Mr. Philibert seconded the motion, which passed 6-0.

Legislative

10. Receive Legislative Update and Consider and Act on Legislative Items Affecting TMRS.

Mr. Wattles said the House Pensions, Investments and Financial Services (PIFS) Committee continues to have oversight over TMRS and other retirement systems. Mr. Wescoe and Mr. Wattles called on the Committee Chair, Vice Chair and Committee members and their staffs. In the Senate, the Senate State Affairs Committee has oversight over TMRS and is chaired by Senator Bryan Hughes. As of the March 10 bill filing deadline, over 8,200 bills had been filed. TMRS tracks a number of these, but there are four that directly impact TMRS. Legal aspects of these four bills affecting TMRS will be discussed in Executive Session.

Mr. Philibert asked if House Bill 3441, which would allow a city to increase employee contributions to 8% of employee compensation, would also increase city contributions. Mr. Scott said that, while that is a question for TMRS' actuaries, it should result in the city's cost going up as well.

Legal

11. Consider and Act on Proposed TMRS Rules Amendments – Chapter 127.

Ms. Sweeney proposed that the Board repeal current Chapter 127 of TMRS' rules and adopt a new replacement Chapter 127. Chapter 127 contains miscellaneous rules relating to the Texas Public Information Act, applicable provisions of the Internal Revenue Code (IRC), and certain internal procedures. Legal, Member and City Services and Benefits Administration collaborated on the proposed new Chapter 127 rules. Ms. Sweeney then discussed the proposed Chapter 127 rule amendments.

Mr. Philibert moved to authorize the Executive Director and his designee(s) (i) to submit the proposed repeal and replacement amendments to Chapter 127 to the Governor's Office for review; (ii) to make any non-substantive changes recommended by the Governor's staff or *Texas Register* staff; and (iii) to file the proposed amendments to Chapter 127 with the Secretary of State for publication in the *Texas Register*. Mr. Landis seconded the motion, which passed 5-0 with Mr. Garza absent.

Investment Reports

12. Chief Investment Officer Reports.

Mr. Hunter said that the Investment department is focused on driving excess returns by increasing commitments to top performing managers. The Trust Fund Report for the fourth quarter of 2022 shows that TMRS generated excess returns in the 1-, 3- and 5-year periods. For 2022, markets fell 12.3%, but TMRS investments fell by 5.9%, so TMRS outperformed the benchmark by 6.4%. For the first time, Trust Fund returns ranked in the first quartile of public pension plans with more than \$1 Billion in assets for three consecutive quarters, looking back one year from each.

Mr. Scott asked, after markets lost 12.3% last year, how TMRS is positioning itself as market conditions improve. Mr. Hunter said asset allocation is the number one driver of returns, and asset allocation changes made by the Board in June 2021 have TMRS better positioned for a rising market.

Mr. Hunter said that Investments, with support from Legal, closed \$4.5 billion in investments in 2022, while also trimming commitments to non-performing managers. The pacing of private market is on track, and TMRS already is at its target allocations to Private Equity and Real Estate.

13. Receive Fourth Quarter 2022 Investment Compliance Report.

Ms. Fullon said in the fourth quarter State Street completed more than 2,000 automated tests that confirmed that TMRS investment managers were in compliance with TMRS' investment guidelines. Investment Compliance's testing also confirmed that TMRS was in compliance with all testable parameters within the TMRS Investment Policy Statement and Investment Guidelines.

14. General Investment Consultant Quarterly Report.

Mr. Austin reviewed NEPC's report for the fourth quarter of 2022. Returns for the year were -5.86% and exceeded the Asset Allocation Benchmark by 6.39%. Compared to other pension plans managing more than \$10 Billion in assets, TMRS was in the first quartile for the 1-year period. TMRS' goal is to exceed its Actual Allocation Benchmark over a rolling 5-year period, and at quarter's end TMRS did so by 1.60% net of fees. TMRS trailed the Board's Assumed Long-Term Rate of Return of 6.75% with a five-year return at quarter's end of 4.32%.

15. Review and Discuss Importance of Asset Allocation.

Mr. Austin reviewed the asset liability model and asset allocation study timeline for 2023. In May, NEPC will present initial allocation study results with several allocation options. In June, the Board will consider which allocation option it wants to choose.

Mr. Austin presented NEPC's update to its capital market assumptions as of year-end 2022.

Mr. Scott asked whether NEPC develops its assumptions in-house or whether it surveys other firms' projections. Mr. Austin said that NEPC and its licensed actuaries do both. Forecasts are done for 70 asset classes. Mr. Scott asked how aggressive NEPC's outlook is, and Mr. Austin said NEPC falls within the mid-range of forecasts. Mr. Austin said that TMRS' current allocation averages out at a 7.1% return over the 10-year period. This return projects to be a little better than the average for other public funds and much better than the return of a classic 70% equities/30% bonds portfolio. The chance of a negative 1-year return is 30% and the chance of a negative 10-year return is 5%. The probability of a 10-year return under 6.75% is 46.6%, which is better than other public fund averages.

Mr. Scott said these expectations show that TMRS is being a conservative steward because there is less than a 50% chance that TMRS will not meet its 6.75% assumed rate of return. Mr. Austin agreed and said NEPC's expectations do not assume any alpha returns that investment managers may generate despite recent excess returns, as reported by Mr. Hunter.

Board Education

16. Board Education: A Trustee's Fiduciary Responsibilities.

Mr. Klausner reviewed fiduciary responsibilities with the Board.

17. Board Education: Global Equities Asset Class.

Mr. Sweeney reviewed the Global Equities asset class. Global Equities offer the highest expected returns, achieving 8.1% annual return on average over the last 10 years. At year end, TMRS Global Equities were valued at \$11.7 billion and constituted its largest asset class with a 35% target allocation. The actual allocation at year end was 33.1%, within the Board approved range. In this class, 87% of the portfolio is passively managed, which contributes to low fees. Active management of 13% of the class allows for excess return opportunities. Mr. Sweeney said that changes implemented by Investments staff in 2022 moved the Global Equities portfolio from being

underweight in U.S. Large Cap stocks to bring it in line with U.S. benchmarks. All current active managers in this class generated net investment returns that exceeded their benchmarks for the 5-year period ending December 31, 2022.

Mr. Atkins discussed updates by TMRS to its proxy voting policy. TMRS retained Institutional Shareholder Services (ISS) to assist TMRS with implementing TMRS' proxy voting responsibilities. The proxy voting policy now states: "Investment staff will vote proxies to maximize long-term investment returns consistent with the Board's fiduciary duty and the laws of the State of Texas. Proxies will not be voted to establish or endorse any social policy. A proxy advisory firm will assist investment staff in maintaining TMRS' custom proxy voting policy and monitoring compliance with it."

Mr. Philibert said he appreciates this strong policy.

Mr. Atkins reviewed TMRS' actions in the Global Equities class during 2022. Portfolio structure was improved with increased alignment with benchmarks. The class was re-weighted to retain active managers that generated alpha and to fund up the U.S. Large Cap passive account. Low fees, high liquidity and transparency were maintained. Goals for 2023 include improving returns through increasing active management up to 20% of the portfolio in a risk-aware and benchmark-aware manner while maintaining low fees and liquidity.

18. Executive Session.

The Board went into Executive Session at 11:38 a.m. The meeting reconvened in Open Meeting at 12:37 p.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

19. Call for Future Agenda Items.

There being no further business, Ms. Alanis moved at 12:38 p.m. that the meeting adjourn. Mr. Huizar seconded the motion, which passed 6-0.



David B. Wescoe
Executive Director



Bob Scott
Chair, Board of Trustees