



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

**October 22, 2020 – 1:00 p.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:00 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following Trustees present: Bill Philibert, Chair, David Landis, Vice Chair (via Zoom), Jesús Garza (via Zoom), Anali Alanis (via Zoom), Johnny Huizar (via Zoom) and Bob Scott (via Zoom).

Staff present included: David Wescoe, Executive Director, Eric Davis, Chief Service Officer, TJ Carlson, Chief Investment Officer, Christine Sweeney, Chief Legal Officer, Dan Wattles, Director of Governmental Relations, Rhonda Covarrubias, Director of Finance, Tom Masthay, Director of Private Equity, Karen Jackson, Executive Assistant, Leslie Ritter, Director of Human Resources, Michelle Mellon-Werch, Director of Communications, Sandra Vice, Director of Internal Audit, Chris Gillis, Network/Systems Administrator, and Madison Jechow, Assistant General Counsel. Marcia Beard of RVK, investment consultant to the Board, was present via Zoom.

Mr. Philibert called the meeting to order at 1:01 p.m. and did a roll call, all Trustees were present.

**Consent Agenda**

**1. Consider and Act on Consent Agenda.**

Mr. Philibert introduced the consent agenda and asked if there were any questions or comments. Mr. Landis moved that the Board adopt the minutes from the September 17, 2020, Board meeting. Mr. Huizar seconded the motion, which passed 6-0.

**Executive Director Reports**

**2. Executive Director's Report.**

Mr. Wescoe discussed the September Advisory Committee Meeting and recognized Mr. Davis, Mr. Wattles and Ms. Sweeney for a great job with the Advisory Committee on Benefit Matters regarding proposals for possible legislation on Return to Work and Cost of Living Adjustment (COLA) issues.

Mr. Wescoe recognized Ms. Alanis and Mr. Scott for their work with the Budget and Compensation Committee. Mr. Wescoe stated that the proposed 2021 operating budget is reduced by five percent, consistent with the requests from state leaders to state agencies. Mr.

Wescoe also stated that the Pension Administration System Modernization (PASMOD) project is under budget by about thirty percent and on track.

Mr. Wescoe stated that Bill Wallace, Director of Communications, retired in September after many years of great service to TMRS. He reported that a search committee did a thorough review of internal candidates for Mr. Wallace's replacement, that Michelle Mellon-Werch, formerly Assistant General Counsel, was selected as the new Director of Communications, and that Ms. Mellon-Werch is a great communicator and leader.

Mr. Wescoe reported that he had organized three internal management teams: the Administrative Team, Communications Team, and Technology Team. The teams will be led by Ms. Ritter, Ms. Mellon-Werch, and Mr. Willrich, respectively, and will address interdepartmental issues affecting TMRS.

Mr. Wescoe stated that the Senior Staff 2020 Action Plan is on track.

Mr. Wescoe reported that, as part of his transition to TMRS, he mailed approximately 300 letters to officials in the largest 25 participating cities and that he established a new TMRS protocol for cities joining TMRS to receive a letter from Mr. Wescoe, Mr. Davis (Chief Services Officer) and Anthony Mills (Director of City Services).

### **3. Consider and Act on 2021 Board Meeting Dates.**

Mr. Wescoe introduced the proposed schedule for Board meeting dates for 2021. He noted that the Board met eight times in 2020 but he thinks that next year's business can be completed with seven meetings. The meeting dates proposed are:

Thursday, February 25  
Thursday, March 25  
Thursday, May 27  
Thursday, June 24  
Thursday, September 23  
Thursday, October 28  
Thursday, December 2

Mr. Wescoe said that a special meeting can be added if necessary. Mr. Garza stated that he found value in having an offsite Board retreat, and Mr. Wescoe said he would look into scheduling a Board retreat for 2021.

Ms. Alanis moved that the Board adopt the proposed 2021 meeting dates. Mr. Huizar seconded the motion, which passed 6-0.



## **Legal Reports**

### **4. Consider and Act on Matters Regarding City of Bryan Pension Obligation Bonds**

Ms. Sweeney presented matters regarding the City of Bryan's proposed issuance of Pension Obligation Bonds (POBs) for the purpose of making an extra contribution to TMRS. Ms. Sweeney noted that TMRS' rules allow a city to make an extra contribution, but also allow the Executive Director to decline to accept an extra contribution if it would result in an unreasonable investment or administrative burden. She stated that Mr. Wescoe discussed this with TJ Carlson, CIO, and Debbie Munoz, Director of Member Services, and neither had concerns with the City's proposed extra contribution.

Mr. Scott asked if any other cities were proposing issuance of POBs. Ms. Sweeney stated that three more cities have contacted TMRS expressing an interest in issuing POBs, but none of those cities proposes to do so in 2020. Mr. Scott said that industry commentators advise against POBs generally, so due diligence and careful thought is needed by the city when considering issuing POBs.

Mr. Scott moved that the Board approve the Agreement and the Certificate, in substantially the form presented; authorize the Board Chair to negotiate, execute, acknowledge and deliver the Agreement by and on behalf of the Board; and authorize the Executive Director to negotiate, execute, acknowledge and deliver the Certificate; with such modifications or amendments to the Agreement or Certificate as are satisfactory to the Board Chair or the Executive Director, respectively, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Board Chair and the Executive Director, respectively. Mr. Garza seconded the motion; which passed 6-0.

### **5. Consider and Act on Final Adoption of TMRS Rule Amendments – Chapter 123.**

Mr. Sweeney described the Chapter 123 rule-making process to date and presented a proposed Final Order for the Board to repeal current Chapter 123 of the TMRS Board rules and adopt new Chapter 123 rules to replace it. The proposed repeal and adoption of new Chapter 123 rules were published in the Texas Register on September 11, 2020, and no comments were received during the 30 day comment period. If adopted, the final repeal and adoption of new Chapter 123 must be filed for publication again in the Texas Register and will become effective 20 days after publication. Ms. Sweeney recommended Board approval.

Mr. Landis moved that the Board approve and authorize the Board Chair to execute the Final Order, adopt the repeal of the current Chapter 123 rules, and adopt the new Chapter 123 rules, to be effective 20 days after filing with the Secretary of State's *Texas Register* division, without changes to the proposed language as published. Mr. Huizar seconded the motion, which passed 6-0.

**6. Consider and Act on Proposed TMRS Rule Amendments – Chapter 125.**

Ms. Sweeney presented proposed rule amendments for Chapter 125 of the TMRS Board administrative rules (Chapter 125 Rules). Ms. Sweeney noted that the TMRS Act gives the Board authority to adopt rules for the efficient administration of TMRS, and that other State law also calls for the periodic review of TMRS' administrative rules. She added that the current TMRS rule review project is also in furtherance of the Board's Strategic Plan.

Mr. Garza requested that a slide-deck presentation be prepared for similar agenda items in the future, so that the public may see a summary of the proposals. Ms. Sweeney recognized Mr. Garza's request and added that the proposed rules will be published in the Texas Register with a 30-day comment period to follow if the Board authorizes staff to proceed.

Mr. Scott moved that the Board authorize the Executive Director (i) to submit the proposed amendments to Chapter 125 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) file the proposed amendments to Chapter 125 with the Secretary of State for publication in the *Texas Register*. Mr. Landis seconded the motion, which passed 6-0.

**7. Governance Manual Update: Consider and Act on Proposed Changes to Ethics Policies.**

Ms. Sweeney presented proposed changes to TMRS' ethics policies, which changes are in furtherance of the Board's Strategic Plan Goal 3 to "identify and implement the best governance and management structure." She noted the existing TMRS Ethics Policy was adopted in 2004 and applies to the Board and Key Employees (as defined), and ethics provisions for all TMRS employees are found in the Employee Policies and Benefits Manual. Since 2004, there have been changes to applicable state laws and new guidance from the Texas Pension Review Board on ethics and conflicts-of-interest policies for Texas public retirement systems. After reviewing the issues, staff determined the best approach is to establish separate ethics policies for the Board and TMRS employees.

The proposed Board Ethics Policy was presented to the Board. Ms. Sweeney recognized Ms. Vice for her research and work on this matter, and noted that a separate ethics policy for staff is being drafted for review and approval by the Executive Director. Ms. Sweeney stated that the Board Ethics Policy streamlines, but still covers the same major concepts as, the existing policy, and described the structure and topics of the Policy.

Mr. Philibert asked whether the Policy's financial disclosure provisions relate to the personal financial statements that Trustees are required to file with the Texas Ethics Commission, and Ms. Sweeney confirmed they do. Mr. Scott said the provisions of the proposed Policy seemed transparent, reasonable and forthright.

Mr. Scott moved that the Board approve the proposed Board of Trustees Ethics Policy. Ms. Alanis seconded the motion, which passed 6-0.



## **Plan Benefit Design**

### **8. Consider and Act on Possible 2021 Legislation Concerning COLAs and Return-to-Work.**

Mr. Davis presented staff's proposals regarding possible 2021 legislation.

Mr. Davis first discussed possible legislation that would allow a retiree to return to work at the city from which he or she retired, after a bona fide termination and at least a one year break in service, without suspension of the retiree's annuity. Mr. Davis stated that he and Mr. Wattles had visited with representatives from all groups represented in the TMRS Advisory Committee on Benefit Matters and all groups expressed support for the proposal with the exception of the Texas Municipal League, for which the governing body had yet to meet to consider the proposal. Mr. Davis and Mr. Wattles also discussed the proposal with interested cities and with TMRS' legislative consultant, and all expressed support.

Mr. Landis moved that the Board approve the benefit design proposal to allow, after a bona fide termination and a one-year break in service, a retiree to return to work for the same city from which the retiree retired without a suspension of the monthly annuity and to authorize staff to seek bill sponsors, and request that sponsors submit the staff-drafted bill language to the Legislative Council for further drafting. Mr. Garza seconded the motion, which passed 6-0.

Mr. Davis then presented staff's proposal for COLA legislation that would make the TMRS COLA "catch-up" feature an optional feature, rather than a mandatory feature as currently provided in the TMRS Act. Mr. Davis and Mr. Wattles also visited with members of the Advisory Committee regarding this topic, and Mr. Davis reported that the members were in support with the following exceptions: TML's governing body had not met to provide guidance yet; one group wanted to see the draft bill language before taking a position; and, another group opposes because of its fear that the proposal will allow cities to drop repeating COLAs that are currently provided without consequence. Mr. Davis stated that some cities were contacted by TMRS staff and they were in favor of the COLA provision. He also added that TMRS' legislative consultant advised that a proposal that draws opposition has a greatly reduced chance of passage. Mr. Davis stated that the Advisory Committee found these advantages and disadvantages with the proposal: the advantages included the flexibility the proposal provided to cities in granting COLAs where cities have not adopted COLAs previously or consistently; the disadvantages were the concern that cities currently providing COLAs might drop them.

Mr. Garza moved that the Board approve the benefit design proposal to make the COLA retroactive "catch-up" feature optional and to authorize staff to seek bill sponsors, and request that sponsors submit the staff-drafted bill language to the Legislative Council for further drafting. Ms. Alanis seconded after Mr. Wescoe confirmed that staff would bring this matter back to the Board in December regardless of whether staff was authorized to proceed today. The motion was approved by a vote of 6-0.

At 2:16 p.m., Mr. Philibert called for a break in the meeting. Mr. Philibert reconvened the meeting at 2:24 p.m.; all Trustees were present.

## **Budget and Compensation Committee Reports**

### **9. Discuss 2021 Draft Operating and PASMODO Program Budgets.**

Ms. Covarrubias presented the draft operating and PASMODO Program budgets for 2021 for discussion only; she said the budgets would be presented for approval in December.

Ms. Covarrubias reviewed the five categories covered by the operating budget: Personnel Services, Professional Services, Communications, Information Services and Miscellaneous. Personnel Services and Professional Services comprise 80% of the budget.

Mr. Philibert asked if there were concerns with consulting services reductions. Mr. Wescoe stated that some consultant reductions related to services that were one-time costs, so no concerns with those, and he also had no concerns about staff taking over PASMODO consultant responsibilities because moving the responsibilities to staff promotes ownership by staff. Mr. Garza asked whether TMRS owed any money for the TMRS building, and Ms. Covarrubias stated that TMRS did not. No action was taken.

### **10. Consider and Act on Amendments to Compensation Administration Guidelines and Salary Schedules.**

Ms. Ritter presented proposed amendments to the Compensation Administration Guidelines and Salary Schedules that had been reviewed by the Budget and Compensation Committee. Ms. Ritter described the two main changes in the amended guidelines.

Mr. Huizar moved that the Board approve the amended Compensation Administration Guidelines. Mr. Scott seconded the motion, which passed 6-0.

Ms. Ritter then presented the amended Investment Salary Schedule and the amended Non-Investment Salary Schedule, which schedules are periodically reviewed to keep in the median as recommended by the Board. Ms. Ritter noted that the schedule for the investments group reflects slight market movement since 2018, while there was no movement for the non-investments schedule.

Ms. Alanis moved that the Board approve the revised Investment and Non-Investment Salary Schedules. Mr. Huizar seconded the motion, which passed 6-0.

## **Investment Reports**

### **11. Chief Investment Officer's Report.**

Mr. Carlson presented his report and stated that the Staff Investment Committee (SIC) met on October 1 and approved (i) the proposed amendments to the Investment Policy Statement contained in Agenda Item 13, (ii) an investment fee policy to be presented to the Board in



December, and (iii) a \$100 million private equity commitment to GTCR Fund XIII, L.P. He reported that the investments team meeting count was up because of the critical due diligence needs arising from the impact of COVID-19. Mr. Carlson said the TMRS portfolio was positive 1.1% net of fees through the day prior to the Board meeting. Finally, Mr. Carlson recognized the retirement of Debbie West after 13 years with the investments team and wished her the best. No action was taken.

## **12. Receive Private Market Investment Report.**

Mr. Carlson presented the Private Market Investment Report, for which he provided more details regarding the commitment by TMRS of \$100 million to GTCR Fund XIII, L.P. He said that this commitment is the second by TMRS to this manager, following an initial investment in 2017. Mr. Carlson stated that he had no public market activity to report at this time. No action was taken.

## **13. Consider and Act on Proposed Revisions to Investment Policy Statement.**

Mr. Carlson and Ms. Beard presented the proposed amendments to the Investment Policy Statement.

Ms. Beard reported on the proposed change for the benchmark of the Absolute Return class to the rate for three-month Treasury Bills plus four percent (because LIBOR going away). Mr. Scott asked about how benchmarks are set, and Mr. Carlson discussed staff's process working with RVK to set benchmarks and review them annually as part of the IPS review.

Mr. Carlson next discussed amendments regarding managers curing violations of portfolio policies after a security is purchased. Mr. Philibert asked how often such violations of portfolio policies occur. Mr. Carlson responded typically once per two to three months but more often during the market fluctuations after the COVID-19 pandemic began.

Mr. Carlson discussed amendments to SIC approval for co-investment vehicles so that SIC approval is needed only for single-asset co-investment vehicles, otherwise fund documents control. Mr. Carlson also discussed amendments to use rule-based strategies for the core component of the global equity class rather than the satellite component.

Ms. Beard discussed proposed changes in the allocations to the core and core-plus fixed income classes so that TMRS is not required to hold the more volatile core-plus class. She also discussed an amendment to allow more flexibility with respect to mortgage-backed securities in the core fixed income class. Mr. Carlson discussed amendments to add diversification guidelines in the non-core fixed income space.

Ms. Beard discussed amendments to guidelines for real estate that expanded the ranges for holdings of different real estate classes so that TMRS is not required to have a minimum exposure in each class.

Mr. Carlson discussed amendments to the private market asset class benchmark language made to conform to benchmark language for other asset classes and he noted a five percent increase to the venture/growth/minority range for private equity class guidelines. Mr. Carlson then noted an amendment that, if TMRS participates in a securities lending program, the lending agent will be responsible for approving the credit of persons borrowing securities.

Mr. Landis moved that the Board approve the proposed amendments to the Investment Policy Statement. Ms. Alanis seconded the motion, which passed 6-0. Ms. Sweeney and Mr. Carlson confirmed that the amendments take effect January 1, 2021.

**14. Annual Asset Class Review: Private Equity.**

Mr. Masthay presented the asset class review for private equity and described three strategy groups – buyout and control; venture capital/growth equity; and special situations. Mr. Masthay then reviewed TMRS' progress in allocating capital to private equity investments. Mr. Scott asked how often TMRS flips private equity funds or reinvests with managers. Mr. Masthay stated that a private equity firm typically raises capital on a two- to four-year cycle, and TMRS has many managers with multiple fund vehicles; TMRS invests in about 30 managers but is invested in more than 50 funds. No action was taken.

**Executive Session**

**15. Executive Session.**


The Board went into Executive Session at 3:35 p.m., and the meeting reconvened in Open Meeting at 4:32 p.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present when open session reconvened.

**Future Board Agenda Items**

**16. Call for Future Agenda Items.**

Mr. Philibert asked if the Board members had any future agenda items to request, but none were requested.

There being no further business, Mr. Philibert adjourned at 4:33 p.m.

  
David B. Wescoe  
Executive Director

  
Bill Philibert  
Chair, Board of Trustees