



**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Meeting of the Board of Trustees  
December 3, 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, Christine Sweeney, Chief Legal Officer, TJ Carlson, Chief Investment Officer, Dan Wattles, Director of Governmental Relations, Rhonda Covarrubias, Director of Finance, Tom Masthay, Director of Private Equity, Jason Weiner, Director of Fixed Income, Sandra Vice, Director of Administration, Karen Jackson, Executive Assistant, Chris Gillis, Network/Systems Administrator and Leslee Hardy, Director of Actuarial Services (via Zoom). Marcia Beard of RVK also attended (via Zoom).

Mr. Philibert called the meeting to order at 1:00 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. Scott asked a question regarding the financial statements, and Ms. Covarrubias responded.

Mr. Scott moved that the Board adopt the Consent Agenda. Mr. Landis seconded the motion, which passed 6-0.

**Executive Director Reports**

**2. Executive Director's Report**

Mr. Wescoe announced that Scott Willrich, Director of Information Services and a 30-year veteran employee of TMRS, will be retiring in January. Mr. Wescoe discussed Mr. Willrich's success in delivering to TMRS a world-class IS organization and building a great team, including recruiting deputy Eric Obermier, who has been promoted to Director of Information Services. Mr. Wescoe also announced that he promoted the Director of Internal Audit, Sandra Vice to the newly created position of Director of Administration. Additionally, Mr. Wescoe

reported promotions to Member Services supervisor roles for Maryann Malave-Jaini, Cris Rodriguez-Horn, Shelley Ransom and April Hernandez.

Mr. Wescoe stated that staff is on track to complete the Senior Staff Action Plan for 2020 and that there has been great progress on the 2018-22 Board Strategic Plan. The Pension Administration System Modernization is on track with all 2020 items completed and several items for future years also complete while being under budget by thirty percent (30%).

Mr. Wescoe recognized Mr. Davis, Mr. Wattles, Ms. Sweeney and Ms. Hardy for their work in preparing materials to explain proposed TMRS legislative initiatives on return-to-work and cost-of-living-adjustment matters.

Mr. Wescoe said that in 2021 staff will work on improving clarity in member correspondence, as Member Services sends letters based on more than 200 templates every year. Michelle Mellon-Werch, Director of Communications, and her team already improved the templates for member and retiree statements for next year.

Mr. Wescoe reported that he leads an All Staff meeting each month, and during the most recent he recognized Chris Gillis for his work on the Board's virtual meetings during 2020 and Mike Dominkowitz for his great work on facilities issues and providing input.

Mr. Wescoe presented the new TMRS logo, which incorporates the colors of the State flag and includes a Lone Star that is located in the "R" to focus on retirement. The logo is the result of great work by TMRS' Communications team.

Mr. Wescoe recognized Frank Atkins from Investments for his achievement in passing the Chartered Alternative Investment Analyst Association's (CAIA) Level II examination and Kelsey Baldwin from Legal for passing the CAIA Level I examination.

### **3. Senior Staff Quarterly Board Reports**

Mr. Wescoe recognized Senior Staff for their Quarterly Board Reports and noted that he is lucky to work with the Senior Staff team.

### **4. Consider and Act on Election of Board Officers**

After brief comments, Mr. Philibert moved that the Board elect Mr. Landis as Chair of the Board and Mr. Garza as Vice-Chair for 2021. Mr. Scott seconded the motion, which passed 6-0.

### **5. Consider and Act on Board Committees Modification and Appointments for 2021**

Mr. Wescoe presented this item, noting that Committee appointments are for a one-year term. He discussed a proposed Committee name change from Internal Audit Committee to Audit Committee and proposed possible assignments to the Board Committees for 2021.

After discussion, Mr. Landis made a motion to (i) change the name of the Board's Internal Audit Committee to the "Audit Committee" and approve and authorize staff to make any necessary conforming changes to the Committee's charter and any other Board approved documents, as needed, to reflect the new Committee name, and (ii) to approve the following Committee assignments:

Budget and Compensation Committee:	Chair: Anali Alanis Vice-Chair: Johnny Huizar
Audit Committee:	Chair: Bob Scott Vice-Chair: Johnny Huizar
Advisory Committee on Benefit Design:	Chair: Jesús Garza Vice-Chair: Bill Philibert

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

### **Legal Report**

#### **6. Governance Manual Update: Consider and Act on Possible Changes to Board Education Policy, Board Consultant Evaluation Policy and Other Governance Documents**

Ms. Sweeney presented this item and stated it supports Strategic Plan Goal 3 to "identify and implement the best governance and management structure."

Ms. Sweeney first discussed the Board's Orientation and Education Policy and proposed changes to the policy, indicating that there have been changes in both applicable state law and the Pension Review Board's (PRB) minimum training requirements since the Board's existing policy was adopted. Mr. Garza asked questions regarding training for new Trustees, and Ms. Sweeney and Mr. Wescoe responded.

Ms. Sweeney next discussed the proposed Board of Trustees Consultant Selection and Evaluation Policy, which is a new policy focused on Board consultants only. She described the main policy sections and responded to questions from Trustees. Mr. Garza asked if action on the proposed policies was necessary today, and Ms. Sweeney replied that the proposed policies could be brought back to the Board for consideration in February.

Ms. Sweeney then discussed the proposed changes to the Board's Communications Policy. Ms. Sweeney stated the existing policy was reviewed and updated, including proposed revisions to make it consistent with recent changes to the Board's Bylaws regarding communications by the Chair and Vice-Chair in connection with their legislative responsibilities.

Ms. Sweeney recommended that the Board approve the proposed policies. Mr. Landis discussed whether to wait to take action on the proposed policies or whether to adopt and amend them later. In response to a question from Mr. Scott, Mr. Garza stated that he would

prefer to delay action to allow for further review. Mr. Wescoe stated that staff would bring all three policies back to the Board for possible action in February.

### **Plan Benefit Design**

#### **7. Consider and Act on Potential 2021 Legislation Concerning Return-to-Work and COLA Provisions**

Mr. Davis informed the Board that, since the last Board meeting, he and Mr. Wattles continued to discuss the potential legislative proposals for return-to-work (RTW) and cost-of-living adjustment (COLA) with Advisory Group class members and solicit their feedback. They also spoke to appropriate legislators and solicited information from 13 TMRS participating cities.

Regarding the RTW proposal, all Advisory Group class member representatives expressed support and there was no opposition from the 13 cities consulted. Staff for the legislators did not discourage the RTW proposal but said it could be slowed by other legislative issues affecting municipalities. TMRS staff recommends moving forward with RTW proposal.

Regarding the COLA proposal, two Advisory Group class member representatives expressed opposition while all of the cities consulted expressed support. Legislative staff advised that, in general, bills with opposition are unlikely to successfully emerge from the legislative committee process. While staff thinks the COLA proposal is good public policy, Mr. Davis stated that, in the past, TMRS has not forwarded legislative proposals without unanimous support.

Mr. Garza stated that staff's efforts resulted in information that gives the Board a good sense of where we stand on the proposals. Mr. Garza then moved that the Board adopt a legislative agenda to pursue, and authorize staff to pursue, the legislative proposal regarding RTW issues only. Mr. Landis seconded the motion, which passed 6-0.

### **Advisory Committee on Benefit Design**

#### **8. Consider and Act on Appointments to the Advisory Committee on Benefit Design**

Mr. Davis presented this item for proposed appointments to the Advisory Committee. He said individual class members are appointed by the Board to three-year terms. Group class members are recommended by the groups, subject to Board approval. In total, there are six proposed appointees (5 Group Class and 1 Individual Class): Paulette Hartman, proposed for a second term for the Texas City Management Association; Casey Srader, proposed for a second term for the Government Finance Officers of Texas; Lauren Safranek, of the City of Frisco, proposed for the Texas Municipal Human Resources Association; Evelyn Njuguna, proposed for the Texas Municipal League; Kevin Lawrence, proposed as alternate for the Texas Municipal Police Association; and, Allison Heyward, City of Schertz Councilmember, proposed for the individual class of elected officials. Mr. Davis thanked departing Advisory Committee members Bonita Hall, J.J. Rocha, Mitch Slaymaker and Julie Masters for their service.

Ms. Alanis moved that the Board approve the Group Class and Individual Class representative nominations to the Advisory Committee on Benefit Design and the alternate representative for the Texas Municipal Police Association. Mr. Huizar seconded the motion, which passed 6-0.

## **Finance Reports**

### **9. Consider and Act on Proposed 2021 Operating and PASMod Budgets**

Ms. Covarrubias presented this item and noted that proposed draft Operating and Pension Administration System Modernization (PASMod) budgets were previously presented at the October Board meeting. Staff now proposes a final operating budget that is approximately five percent lower than the 2020 budget. Ms. Covarrubias discussed the changes made to the proposed operating budget after the October Board meeting, with total net changes since October equaling approximately \$23,000. The PASMod budget has no changes since October. Mr. Scott was complimentary of the budget process and appreciated the budget cuts made. Mr. Huizar appreciated the clarity of the presentation attachments.

Mr. Scott moved that the Board adopt the 2021 Operating Budget and the 2021 PASMod Program Budget. Mr. Huizar seconded the motion, which passed 6-0.

### **10. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund**

Ms. Covarrubias explained that this transfer of monies is required by the TMRS Act, but is also based on a 2007 policy adopted by the Board to maintain the Fund Balance/Reserves in the Expense Fund of approximately 15% of the following budget year expenses. She noted that a surplus from the 2020 budget would be applied toward a portion of this reserve and that the proposed transfer is book entry only. In response to a question from Ms. Alanis, Ms. Covarrubias clarified that the transferred amount remains invested in the Trust Fund until the actual operating expenditures are made.

Mr. Landis moved that the Board adopt a resolution to transfer \$29,000,000 from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses for 2021. Mr. Scott seconded the motion, which passed 6-0. This action item was subsequently amended after the Board returned to open session following its executive session. At that time, the Board revisited the Agenda item, and Mr. Philibert moved to amend the Board's prior action on this item to instead adopt a resolution to transfer \$34,500,000 (rather than \$29,000,000) from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses for 2021. Mr. Huizar seconded the new amended motion, which passed 6-0.

## **Board Audit Committee Report**

### **11. Report on Board Audit Committee December Meeting**

Ms. Vice presented this report. She stated that, at its final meeting of the year on December 1, the Board's Audit Committee considered: 1) a confidential report on real estate investment fees, and 2) a memo regarding services provided to the Legal Department concerning the Strategic Plan objectives on compliance. The Audit Committee also discussed proposed changes to the Audit Committee Charter, designed to reflect TMRS Act amendments, amendments to other Board committee charters, and provisions based on other benchmark charters. Ms. Vice said the Audit Committee approved the amended Charter, which will be sent to the Board at its February meeting for adoption.

## **Investment Reports**

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

Mr. Carlson presented his CIO report.

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

Mr. Carlson presented the Private Market Investment Report and Public Market Investment Report.

### **14. Consider and Act on 2021 Investment Pacing Plan**

Mr. Carlson presented this item and stated that each year a proposed investment pacing plan is presented to the Board for approval.

Mr. Huizar moved that the Board approve the proposed 2021 Investment Pacing Plan. Ms. Alanis seconded the motion, which passed 6-0.

### **15. Consider and Act on Investment Beliefs and Related Amendments to Investment Policy Statement**

Ms. Beard presented the item regarding investment beliefs, the development of which is included in the Board Strategic Plan in Goal 1, Objective B, and Goal 3. Ms. Beard described the prior steps in the process and stated that today's discussion would be focused on investment beliefs concerning risk, portfolio construction, and implementation and monitoring of investments.

Ms. Beard then discussed the recommendations being made by TMRS staff and RVK with regard to the investment belief statements. Ms. Alanis proposed a wording change to item 6, the current belief statement regarding risk. Mr. Scott commented on item 7, the proposed additional belief statement regarding risk, noting that he felt it focuses too much on downside risk and volatility and has made TMRS very conservative as an investor. Following discussion,

Ms. Alanis and Mr. Scott stated that they would be comfortable changing item 7 to: "Trust fund risk must be managed."

Mr. Huizar moved that the Board approve the updated investment beliefs as presented by Ms. Beard, as modified by the recommendations from Trustees to: change item 6 to add "intelligent" between "increasing" and "risk" and change item 7 to drop the second sentence so that it reads in its entirety, "'Trust fund risk must be managed"; and authorize staff to amend the IPS to incorporate the 11 investment beliefs into the IPS effective Jan. 1, 2021. Mr. Landis seconded the motion, which passed 6-0.

### **Break**

Mr. Philibert announced that there would be a 10-minute break in the meeting at 2:40 p.m. Mr. Philibert reconvened the meeting at 2:50 p.m. and took roll, and all Trustees were present.

### **16. Consider and Act on Investment Fee Policy**

Mr. Carlson presented this item and stated it is in accordance with investment belief no. 11, regarding monitoring and managing costs because they impact investment returns. Mr. Carlson stated that having an investment fee policy is considered an industry best practice. It balances the cost of an investment program versus the skill of managers and aligns TMRS interests with our managers. Mr. Garza asked if TMRS had a similar policy previously. Mr. Carlson stated that his staff has built fee modeling programs to evaluate short term and long-term fee impacts, but TMRS has not documented an investment fee policy formally.

Mr. Scott moved that the Board adopt the Investment Fee Policy as presented to the Board. Mr. Landis seconded the motion, which passed 6-0.

### **17. Consider and Act on Private Equity Manager Recommendation**

Mr. Masthay presented the recommendation from investment staff and Albourne (TMRS' private equity investment consultant) to allocate a total of \$600 million to H.I.G. Strategic Partnership Fund II, L.P., and H.I.G. Capital – TMRS Capella SMA, L.P. Mr. Masthay stated that H.I.G. has many investment products and is an existing manager that has performed well. The proposed investments, if approved, would make TMRS one of H.I.G.'s top five investors in terms of total investments. Mr. Masthay added that the recommended investment totals \$600 million because the IPS's asset allocation to private equity increased from 5% to 10% last year. Capital will be committed to the HIG funds over the next 4 years, at the rate of about \$150 million per year.

Mr. Scott asked why staff did not discuss concerns identified by Albourne or how to mitigate them. Mr. Masthay stated that Albourne expressed a concern about lack of transparency in H.I.G. reporting, but H.I.G. is offering TMRS customized reporting because of TMRS's scope of investment. Albourne also noted high exposure by H.I.G. to new strategies (about sixty percent of the commitment), Mr. Masthay said, but H.I.G. uses a model where it identifies new strategies from existing product lines. TMRS staff sees this as a positive strategy, he said, and

only views about ten percent of the strategies as truly new. Mr. Garza stated that in prior presentations TMRS staff would include risk factors in power-point presentations. Mr. Masthay said he would be happy to include those in the future again. Mr. Philibert said that he thought some of the changes from prior power-point presentations were based on Board comments, demonstrating the difficulty in finding the right amount of detail to include.

Mr. Scott moved that the Board (i) authorize the following allocations, each as proposed and in accordance with the TMRS IPS, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to the Board, each individually contingent on favorable background checks, if required, and successful negotiation of the investment agreements:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
H.I.G. Strategic Partnership Fund II, LP	Multi-Strategy	\$500M	Yes
H.I.G. Capital – TMRS Capella SMA, LP	Co-Invest / Multi-Strategy	\$100M	Yes

and (ii) approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation. Mr. Garza seconded the motion, which passed 6-0.

#### **18. Annual Asset Class Review: Fixed Income**

Mr. Weiner presented the annual asset class review for fixed income, which is comprised of core fixed income assets and non-core assets. Mr. Weiner stated that core assets outperformed their benchmark by 36 basis points, net of fees, over the last five years, and non-core assets outperformed their benchmarks by 41 basis points, net of fees, over the last five years.

Mr. Weiner also said the investments team is reviewing the fixed income program for accountability and wants to increase the allocation to non-core, but market volatility this year affected opportunities for deployment. He expects TMRS' Fixed Income assets will be deploying about \$1 billion in 2021, some of that based on capital returned to TMRS.

#### **19. RVK Quarterly Investment Report**

Ms. Beard noted adjustments to the structure of the report and that all numbers are net of fees. This report is for the quarter ending September 30, 2020, she said, and it was a strong quarter for United States and foreign equities, and bonds were positive. TMRS assets outperformed

market benchmarks on net of fees basis over longer terms, particularly focused on the five-year return. She added that TMRS assets are not yet at target allocation from the IPS and are particularly short for private equity (and its 10% target), which target will take time to reach after it was changed from 5% in 2019. The report shows TMRS investment returns above benchmark with lower volatility than average.

### **Executive Session**

#### **20. Executive Session**

The Board went into Executive Session at 3:45 p.m., and the meeting reconvened in Open Meeting at 4:35 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.

After returning to the Open Meeting, Mr. Philibert moved to appoint Andrea Focht-Williams as Internal Audit Manager, at the salary recommended by the Executive Director, effective as of November 22, 2020. Mr. Landis seconded the motion, which passed 6-0.

Next, Mr. Philibert moved to amend the prior action item regarding Agenda Item Number 10 to instead adopt a resolution to transfer \$34,500,000 (rather than \$29,000,000) from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses for 2021. Mr. Huizar seconded the motion, which passed 6-0.

### **Future Board Agenda Items**

#### **21. Call for Future Agenda Items**

Mr. Philibert invited requests for future agenda items, but none were requested.

There being no further business, Mr. Philibert adjourned the meeting at 4:40 p.m.



David Landis  
Chair, Board of Trustees

ATTEST:



David B. Wescoe  
Executive Director