



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

**December 2, 2021 – 8:30 a.m.**

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

Staff present included: David Wescoe (Executive Director), Michelle Kranes (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Sandra Vice (Chief Administrative Officer), Michelle Mellon-Werch (Director of Communications), Anthony Mills (Director of City Services), Debbie Muñoz (Director of Member Services), Leslee Hardy (Director of Actuarial Services), Dan Wattles (Director of Governmental Relations), Rhonda Covarrubias (Director of Finance), Andi Focht-Williams (Internal Audit Manager), Nick O’Keefe (Lead Investment Attorney), Kelsey Baldwin (Investment Attorney), Madison Jechow (Assistant General Counsel), Leslie Ritter (Director of Human Resources), Tom Masthay (Director of Private Equity), Eddie Schultz (Director of Real Assets), German Gaymer (Senior Investment Analyst), Dmitry Shishkoff (Director of Risk Management), Ryan Conner (Investment Data Analyst), Chris Gillis, Network/Systems Administrator), Joe Newton (GRS), Marcia Beard (RVK), Spencer Hunter (RVK), Robert Klausner (Klausner, Kaufman, Jensen & Levinson), Dr. John Claisse (Albourne), and Spencer Edge (Albourne).

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

**Consent Agenda**

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

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

**Advisory Committee on Benefit Design**

**2. Report on Advisory Committee’s December 1, 2021 Meeting.**

Mr. Garza reported that the Advisory Committee on Benefit Design met on December 1, 2021, and, based on direction from the Board, discussed Cost of Living Adjustment (COLA) matters regarding the retroactive feature and COLA percentage options and also discussed the retiree Supplemental Death Benefit (SDB). He said that, after discussion, the Committee members

concluded that they did not observe a need for any legislative changes regarding the COLA retroactive feature or retiree SDB. Committee members did express an interest in TMRS exploring the possibility of adding another COLA percentage option (90%) as an additional benefit design feature to offer cities. The Committee's comments were based on the results of staff surveys of cities, which surveys showed that the retroactive feature did not affect city decisions regarding COLAs and that cities had no interest in adding more COLA options below 70%.

**3. Consider and Act on Appointments to the Advisory Committee on Benefit Design and on Possible Recommendations for Additional Advisory Committee Study Topics.**

Mr. Garza presented recommendations to the Board for additional study topics for the Committee. Mr. Garza commented that the Committee discussed the TMRS Act provisions that require a city to provide Updated Service Credit (USC) to adopt a COLA and require a city to provide an active Member Supplemental Death Benefit (SDB) to provide a retiree SDB. Mr. Garza recommended that the Board authorize the Advisory Committee to study the possibility of "uncoupling" those requirements.

Mr. Garza moved that the Board authorize the additional study topics. Mr. Philibert seconded the motion, which passed 6-0.

Ms. Kranes presented three Group Class nominees for the Advisory Committee on Benefit Design:

- Scott Leeton was nominated by Combined Law Enforcement Associations of Texas (CLEAT) to serve a second term;
- Mitch Landry was nominated by Texas Municipal Police Association (TMPA) to serve a second term; and
- Cheree' Bontrager of University Park was nominated by the Texas Municipal Human Resources Association (TMHRA) to succeed Lauren Safranek.

Mr. Philibert moved that the Board approve the Group Class representative nominations to the Advisory Committee on Benefit Design for three-year terms as presented. Mr. Scott seconded the motion, which passed 6-0.

Mr. Garza asked Ms. Sweeney to provide an overview of recent legislative proposals. He would like to have that discussion in the spring in order to have any potential TMRS legislative proposals completed before the 2023 legislative session.

**Audit Committee Report**

**4. Report on Audit Committee's November 17, 2021, Meeting.**

Ms. Focht-Williams presented an update from the Audit Committee meeting of November 17, 2021, at which two reports were presented. The first report, about TMRS compensation guidance for cities, concluded that TMRS has comprehensive guidance about compensation for participating cities and detailed support materials for staff. Ms. Vice presented a second report on TMRS'



successful implementation of a framework to address organization-wide risk, pursuant to Strategic Goal 3, Objective D, of the 2018-2022 Strategic Plan.

Ms. Focht-Williams said the 2021-2022 Audit Plan was on track, and Audit Committee meeting dates for 2022 had been set. Mr. Scott asked for review of Investments-related audits from past years with feedback from the new Chief Investment Officer.

## **Board Organization**

### **5. Consider and Act on 2022 Board Meeting Dates.**

Ms. Sweeney said that during the October meeting the Board voted to hold five regular meetings and one Board retreat on a Thursday / Friday schedule, but did not vote on actual meeting dates. This matter is being brought back to vote on dates, and at Mr. Garza's request to further discuss the number of meetings for 2022.

After discussion, Mr. Garza moved that the Board adopt a 2022 schedule for six meetings and one Board retreat. Ms. Alanis seconded the motion, which passed 6-0.

Mr. Wescoe said that staff would suggest specific meeting dates for the six meetings and a retreat.

### **6. Consider and Act on Election of 2022 Board Officers and Possible Related Amendments to the Board Bylaws.**

Mr. Landis expressed his support for rotating the Chair position annually. Ms. Sweeney confirmed the Board's Bylaws currently do not limit the number of times a Trustee can be elected as Chair or Vice Chair. She also said there is no specific Bylaws requirement or restriction about a particular Board officer serving on a particular committee.

Mr. Philibert moved that the Board elect Mr. Garza as Chair for 2022. Ms. Alanis seconded the motion, which passed 6-0. Mr. Huizar moved that the Board elect Mr. Scott as Vice Chair for 2022. Mr. Philibert seconded the motion, which passed 6-0.

### **7. Consider and Act on 2022 Board Committee Appointments.**

After Board discussion, Mr. Garza moved that the Board appoint himself as Chair and Ms. Alanis as Vice Chair of the Advisory Committee on Benefit Design. Mr. Philibert seconded the motion, which passed 6-0.

Mr. Landis moved that the Board approve the appointment of Mr. Philibert as Chair and Mr. Landis as Vice Chair of the Audit Committee and the appointment of Mr. Scott as Chair and Mr. Huizar as Vice Chair of the Budget and Compensation Committee. Mr. Scott seconded the motion, which passed 6-0.

## **8. Consider and Act on 2022 Schedule for Consultant Evaluations.**

Ms. Sweeney noted that the Consultant Selection and Evaluation Policy adopted by the Board in March provides that the Board is to annually review its list of Board consultants and prospectively set a schedule of evaluations.

Mr. Garza said that evaluations of the Board's governmental relations consultant, governance consultant and fiduciary counsel should be prioritized because agreements are at the end of their terms, and requested a review of the governmental relations consultant in advance of the 2023 legislative session. Mr. Philibert asked whether the Policy requires a Request for Qualifications (RFQ) for each consultant search, and Ms. Sweeney responded that the Policy provides flexibility to determine the appropriate method for each search.

## **Executive Director Reports**

### **9. Executive Director's Report.**

Mr. Wescoe discussed 2021 highlights including: rebranding TMRS; passage of Return to Work legislation; the successful move to the Grove; completion of all items on the 2021 Senior Staff Action Plan and the Board's Strategic Plan; filling the Chief Investment Officer position expected by year end; the Board's new asset allocations and benchmarks for Investments; a new staff Investments report that RVK says is best practice; TMRS' best attended annual conference; and the introduction of the first-ever TMRS mobile app. He also said TMRS was joined by its 900<sup>th</sup> city, the City of Garrett, a year away from TMRS's 75<sup>th</sup> anniversary.

### **10. Receive Senior Staff Quarterly Reports.**

Mr. Wescoe presented the Board with quarterly reports from TMRS senior staff.

## **Actuarial Services**

### **11. Consider and Act on Supplemental Death Benefit Fund Assumptions and 2023 Rates.**

Ms. Hardy addressed Supplemental Death Benefit (SDB) rates for 2023. Due to the pandemic, the SDB fund has been impacted by an increase in deaths and the fund balance was down by \$6.7 million, from \$12.6M to \$5.9M, after the first nine months of 2021, so GRS recommends that TMRS increase 2023 rates for the SDB fund. Mr. Newton said that the SDB for retirees is \$7500 but for employees it is approximately one times their annual salary. Mr. Newton discussed how the SDB rate proposal would work.

Mr. Garza moved that the Board increase the 2023 SDB contribution rates as determined in the December 31, 2021, actuarial valuation by (i) removing the assumption that grants a small credit to active rates, (ii) adding a load of 100% to the active rates, and (iii) adding a load of 10% to the retiree rates. Mr. Scott seconded the motion, which passed 6-0.



**12. Discuss 2022 Supplemental Death Benefit Funding.**

Ms. Hardy noted the risk of asset depletion in the Supplemental Death Benefit (SDB) fund in 2022. Currently there is a zero balance in the general reserves account, but the TMRS Act allows the Board to transfer money to the general reserves account from the interest reserve account after all other interest requirements have been met for the year. This is not an action item at this time, she said, but staff and GRS will come back to the Board in March to ask that money from the interest reserve account be transferred to the general reserves account in case it is needed to cover any SDB fund deficiencies.

**Finance Reports**

**13. Consider and Act on Proposed 2022 Operating, Capital and PASMod Program Budgets.**

Ms. Covarrubias presented the Operating, Capital and Pension Administration System Modernization (PASMod) budgets for 2022. She noted that, except for The Grove lease, the proposed 2022 budget is four percent lower than the 2020 budget despite eight new positions for Member and City Services departments being added in 2022. No changes were made to the Capital or PASMod budgets from the prior versions presented in October.

Mr. Philibert moved that the Board approve the 2022 Operating, Capital and PASMod Program budgets. Mr. Scott seconded the motion, which passed 6-0.

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

Ms. Covarrubias explained that adding \$27.2 million to the current Expense Fund balance will cover the TMRS budget, and Board policy in prior years has been to add a 15% reserve.

Mr. Scott moved that the Board transfer \$33.1 million from the Interest Reserve Account to the Expense Fund for 2022 budgeted expenses. Mr. Huizar seconded the motion, which passed 6-0.

**Investment Reports**

**15. Chief Investment Officer Report.**

Mr. Wescoe said that the Trust Fund currently has an 11.4% return for the year. The Chief Investment Officer search is going well and should be completed by year end. The Staff Investment Committee (SIC) is implementing the new asset allocations adopted by the Board in June and recruiting for Investments staff has been successful. Investment activity reports improve every month and are published on the TMRS website.

Mr. Wescoe noted that in 2021 the Board received 35 comprehensive reports on Investment topics and held a retreat to discuss risk tolerance and benchmarks. A Request For Proposals (RFP) for custodial services resulted in negotiation of fee reductions with the custodian, State Street. RVK

has provided quarterly reviews of Investments, and the Board also received four Investment risk reports and four Investment compliance reports this year.

Mr. Masthay presented a Trust Fund Report for the third quarter of 2021 and said this third quarter report is the first on results from the new asset allocations set in June.

Mr. Garza asked for a reminder of the current thresholds that require staff to bring certain investments to the Board for approval, and Mr. Masthay responded. Mr. Garza asked for a summary of the thresholds that is updated annually.

Mr. Masthay also delivered quarterly investment reports for asset classes; data, performance, and risk; investment commitments; and investment pacing.

**16. Receive Third Quarter 2021 Investment Compliance Report.**

Mr. O'Keefe presented the third quarter investment compliance report. After running more than 6,000 automated tests to ensure managers are in compliance with Investment guidelines, he said, there are no compliance issues to report.

**17. General Investment Consultant Investment Quarterly Report.**

Ms. Beard presented and said staff's new Investments reporting is excellent. She reported that the TMRS Trust Fund outperformed the expectations set out in the Investment Policy Statement (IPS) in every time period except for one basis point of underperformance in the three-year period.

**18. Consider and Act on 2022 Investment Pacing Plan.**

Mr. Masthay presented the 2022 Investment Pacing Plan and discussed expected allocations to investments over the next year of \$900 million to Private Equity, \$1.5 billion to Other Public and Private Markets (OPPM), \$750 million to Real Estate and \$1.25 billion to Private Credit.

**19. Discuss Scope of Work for General Investment Consultant.**

Mr. Wescoe presented a scope of work for an upcoming Request For Proposal (RFP) for the Board's general investment consultant, which is based on the Investment Policy Statement Mr. Garza asked about the timing of this RFP in relation to the asset allocation study process and asset liability review scheduled in 2022. Mr. Wescoe said he expects a selection by the end of the first quarter of 2022.

**Board Education**

**20. Board Education: Fixed Income Asset Class.**

Mr. Gaymer presented a Board education item regarding the fixed income asset class.

**21. Board Education: Role of Specialized Investment Consultant.**

Dr. Claisse, Chief Executive Officer of Albourne, TMRS' consultant for alternative investment classes, presented an overview of Albourne and its services. Albourne serves as a fiduciary to the Board. It has monthly calls with each TMRS investment class team and focuses on research and due diligence, including investment due diligence, diligence on operations controls and also quantitative due diligence. When Albourne reviews an investment to write its memo to TMRS, the investment must comply with the IPS, and no investment will reach the Staff Investment Committee unless it is in compliance with the IPS.

**22. Board Education: A Trustee's Fiduciary Responsibilities.**

Mr. Klausner presented a Board education session regarding fiduciary responsibilities. Texas law defining a prudent investor includes in the definition loyalty, impartiality, cost consciousness and careful review for compliance. He discussed the importance of delegation of authority to the Executive Director and staff as well as the importance of accountability for those delegated responsibilities.

**Future Board Agenda Items**

**23. Call for Future Agenda Items.**

Mr. Landis asked for future agenda items. Mr. Garza referred to items he raised earlier during the meeting, but there were no other items added. Mr. Landis adjourned the meeting at 12:37 p.m.

  
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David Wescoe  
Executive Director

  
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Jesús Garza  
Board Chair