



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

**February 11, 2022 – 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 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), Michelle Kranes (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Sandra Vice (Chief Administrative Officer), David Hunter (Chief Investment Officer), Leslee Hardy (Director of Actuarial Services,) Dan Wattles (Director of Governmental Relations) Marcia Beard (RVK), Spencer Hunter (RVK), and Dr. Anthony Picchioni.

**Consent Agenda**

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

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

**Board Organization**

**2. Consider and Act on 2022 Board Meeting Dates.**

Ms. Sweeney said that the Board, at its December meeting, decided on six Board meetings and one retreat for 2022 and that meetings occur on Fridays, but did not pick dates. Based on that, Staff identified potential Friday meetings dates on: March 25, May 27, June 24, September 23, October 28 (for a Retreat) and December 9.

Ms. Alanis moved to approve the meeting dates, and Mr. Huizar seconded the motion. Mr. Philibert asked why the Board was considering Fridays for meetings rather than Thursdays because Friday meetings would require some Trustees to travel late Friday or even on Saturday. Trustees discussed whether Thursday meetings would cause conflicts with their city council or other city meetings.

After discussion, Ms. Alanis amended her motion to hold the 2022 Board meetings on the Thursdays one day before the dates proposed by staff, so that the meeting dates would be:

March 24, May 26, June 23, September 22, October 27 (Retreat) and December 8. Mr. Landis seconded the motion, which passed 6-0.

### **Executive Director Reports**

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

Mr. Wescoe recognized Mr. Garza for serving in his first meeting as Chair and thanked Mr. Landis for his leadership as Chair in 2021. Mr. Wescoe welcomed new Chief Investment Officer David Hunter. Mr. Wescoe said the 2021 Senior Staff Action Plan was completed successfully and that the Senior Staff recently met off-site and developed another ambitious 2022 Senior Staff Action Plan. Mr. Wescoe reported that the move to the new offices at The Grove was allowing TMRS staff to conduct its business in a more efficient manner. He said that TMRS delivered to its 2021 1099-R forms to retirees by the third week of January. Also, TMRS has enhanced electronic delivery of its redesigned and improved communications.

#### **4. Consider and Act on Resolution to Recognize 2021 Board Chair David Landis.**

Mr. Garza read a resolution recognizing Mr. Landis for serving as Board Chair in 2021 during a year of TMRS achievements that included a new Investments asset allocation, the move to The Grove, the passage of Senate Bill 1105 as the first benefit enhancement legislation for TMRS in almost two decades, and the release of the TMRS mobile app.

Ms. Alanis moved that the Board approve the resolution as presented for Mr. Landis. Mr. Philibert seconded the motion, which passed 6-0.

### **Plan Benefit Design**

#### **5. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2022 (Received after the December 2021 Board Meeting).**

Ms. Kranes said that the TMRS Act requires the Board to approve ordinances received from cities adopting Updated Service Credit (USC) or Annuity Increases, also known as cost-of-living adjustments (COLAs) to retirement benefit payments. These types of ordinances have a January 1 effective date. At the December Board meeting, as part of the Consent Agenda, the Board approved those ordinances presented at the meeting and such other qualified ordinances as may be received by the System prior to January 1, 2022. Ms. Kranes then presented a list of additional ordinances adopting these changes that were received by TMRS after the December 2021 Board meeting but on or before December 21, 2021.

Mr. Landis moved that the Board ratify the approval of Updated Service Credit and/or Annuity Increase ordinances that were received by TMRS after the December 2021 Board meeting but before the January 1, 2022 effective date. Mr. Philibert seconded the motion, which passed 6-0.

Mr. Scott asked about COLAs based on the consumer price index (CPI) and what the CPI was for 2021. Ms. Hardy said that the 2021 CPI was approximately 7% but that the TMRS COLAs based on the 2021 CPI would take effect in 2023. Ms. Hardy said that COLAs taking effect in 2022 are based on the 2020 CPI of 2.1%. Mr. Scott noted that inflation will also affect actuarial assumptions.

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

#### **6. Report on Advisory Committee's February 4, 2022 Meeting.**

Mr. Garza reported that the meeting of the Advisory Committee on Benefit Design scheduled for February 4, 2022, was cancelled because of inclement weather, but that prior to the meeting staff had researched and survey cities on two benefit design topics for the Committee. Ms. Kranes presented the research done for the Committee on the two topics.

On the first topic, Ms. Kranes said that under the TMRS Act cities cannot provide COLAs for its retirees without also providing updated service credit (USC) for active employees. Staff sent a survey to all TMRS cities about "delinking" these two benefits so that cities could offer COLAs without USC. Mr. Kranes also reported on the cost for adding both USC and COLAs. Mr. Scott asked about the costs as a percentage of pay, and Ms. Hardy said the cost for COLAs on top of USC was 8.75% on average, and without USC, the cost for COLAs was 7.92% on average. Ms. Hardy said that, in general, the cost for USC was about 4.5%. The combined cost for USC and COLAs, she said, was on average about 13.25% as a percentage of payroll. Ms. Kranes summed up that USC is about one-third of the cost when a city must add both USC and COLAs. Also, she said, the COLAs themselves are more expensive when USC must be layered on top of them. Ms. Kranes said that about 17% of cities responded to staff's survey on this issue, and 66% of those responding supported allowing cities to provide COLAs for retirees without having to provide USC for active employees. She said two employee associations asked about delinking COLAs from USC had no concern with doing so, and a third was researching the question.

On the second topic, staff also studied delinking the retiree Supplemental Death Benefit (SDB) from the Member SDB. Ms. Kranes said staff surveyed cities about this issue too, and of the 17% of cities who responded 56% to them said that they did not support providing a retiree SDB without a Member SDB. She added, however, that comments from cities reflected that they had no concern with allowing flexibility but rather would continue both benefits themselves. Ms. Alanis asked, and Ms. Kranes confirmed, that delinking the two SDBs would only give cities an additional option and not take away an existing option.

Ms. Kranes said that staff concluded that there was majority support from the responding cities for delinking USC from COLAs and that support was split for delinking the retiree SDB from the Member SDB. Mr. Garza posed a question about costs, and Ms. Hardy responded that on average the Member SDB costs 0.1% of payroll and the retiree SDB costs 0.05% of payroll. Mr. Garza said that he heard consistently from the Advisory Committee that it sought ways to make it easier for cities to offer COLAs, so delinking COLAs from USC was one way to do

that. Mr. Garza supported the delinking of these benefit options to allow additional benefit possibilities to cities, and Mr. Philibert agreed with Mr. Garza's comments.

## **Governmental Relations Report**

### **7. Discuss 2022 Legislative Calendar.**

Mr. Wattles gave an update on key dates for the interim legislative period leading up to the 2023 session of the Texas Legislature. After discussion at following meetings and if the Board decides it wants to pursue legislation in 2023, final direction on draft bill language would be requested at the September meeting. Legislation bills may be filed beginning November 7, 2022. Board decisions may be delayed until December, but filing bills earlier is better. Mr. Garza said that administrative and clean-up proposals for legislation considered in prior years should be reviewed again in addition to the benefit enhancement items discussed today and recently with the Advisory Committee.

## **Investment Reports**

### **8. Introduction of New Chief Investment Officer, David Hunter.**

Mr. Wescoe introduced Mr. Hunter, who was hired after a comprehensive national search. Mr. Wescoe provided an overview of Mr. Hunter's academic background and investment experience.

### **9. Chief Investment Officer Reports.**

Mr. Hunter reported a 2021 preliminary net investment return of 12.8%, net of fees. That return beat its benchmark by 61 basis points, which equates to about \$218 million. On a five- and ten-year basis, the returns were 8.94% and 7.69%, both of which were 23 basis points better than the benchmarks. Mr. Garza asked to what the good returns could be attributed, and Mr. Hunter said that private equity and real estate both surpassed their benchmarks by quite a bit. Regarding asset allocations, Mr. Hunter said that all asset classes were within approximately 1% of their targets with exceptions for Public Equity (overweight 2.3%), Private Equity (underweight 2.3%) and Hedge Funds (overweight 3.3%). The most important driver of returns is asset allocation, Mr. Hunter said, and being overweight in Public Equity was offsetting being underweight in Private Equity as TMRS waits for its Private Equity managers to draw on TMRS capital commitments. Mr. Hunter said that reducing TMRS exposure to hedge funds was well underway. Mr. Hunter said that the Staff Investment Committee (SIC) approved a total of ten investments in private market managers totaling \$1.375 billion since November 2021. He discussed the due diligence process used by the SIC for these investments and said that TMRS was doing as good a job in that regard as anyone for whom he had worked in the past. Mr. Hunter said that the Request for Proposals for a General Investment Consultant was published on the TMRS website and sent to the 10 largest investment consulting firms.

**10. RVK Report.**

Ms. Beard reported that the Total Fund returned 3.71%, net of fees, in the 4th quarter and 12.8%, net of fees, over the trailing 12 months (calendar year 2021) based on preliminary market data before auditing. TMRS outperformed its benchmarks in most asset classes, Ms. Beard said. Other Public & Private Markets slightly underperformed but only by four basis points net of fees in a portfolio that has been transitioning. Public Equity underperformed its benchmark, but Ms. Beard said it is hard to outperform an equity index during a strong market. Ms. Beard reviewed allocations within asset classes relative to the Board's strategic target allocations, and said that all asset classes were within their expected ranges at end of the quarter, and TMRS was within its policy benchmarks.

**Executive Session**

**11. Executive Session.**

The Board went into Executive Session at 10:40 a.m. The meeting reconvened in Open Meeting at 2:01 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**

**12. Call for Future Agenda Items.**

There were no future agenda items. Mr. Garza adjourned the meeting at 2:01 p.m.

  
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David B. Wescoe  
Executive Director

  
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Jesús Garza  
Chair, Board of Trustees