



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

**June 24, 2021 – 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 TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following Trustees present: David Landis, Chair, Jesús Garza, Vice Chair (via Zoom), Anali Alanis, Johnny Huizar, Bill Philibert and Bob Scott.

Staff present included: David Wescoe, Executive Director, Eric Davis, Chief Service Officer, TJ Carlson, Chief Investment Officer, Christine Sweeney, Chief Legal Officer, Sandra Vice, Director of Administration, Dan Wattles, Director of Governmental Relations, Rhonda Covarrubias, Director of Finance, Debbie Munoz, Director of Member Services, Anthony Mills, Director of City Services, Eddie Schultz, Director of Real Assets, Andi Focht-Williams, Internal Audit Manager, Leslee Hardy, Director of Actuarial Services, Karen Jackson, Executive Assistant, Madison Jechow, Assistant General Counsel. Consultants present included: Jason Ostroski, of CliftonLarsonAllen (via Zoom), and Marcia Beard and Spencer Hunter of RVK.

Mr. Landis called the meeting to order at 9:00 a.m. All Trustees were present except Mr. Garza, who joined the meeting at 9:32 via Zoom.

**Consent Agenda**

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

Mr. Philibert moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the May 27, 2021 meeting. Mr. Scott seconded the motion, which passed 5-0.

**Executive Director Reports**

**5. Consider and Act on Resolutions Recognizing Senator Bryan Hughes and Representative Rafael Anchia. (Taken out of order.)**

Mr. Wescoe said that Senate Bill (SB) 1105 was passed by the 2021 Texas Legislature and signed by the Governor to be effective September 1, 2021. Mr. Landis read resolutions expressing appreciation to Sen. Bryan Hughes and Rep. Rafael Anchia for their sponsorship of and support for SB 1105. Mr. Philibert moved that the Board adopt the resolution recognizing Sen. Hughes for his support of TMRS during the 87<sup>th</sup> Legislative Session and passing Senate Bill 1105. Mr. Huizar seconded the motion, which passed 5-0. Mr. Philibert moved that the Board adopt the resolution recognizing Rep. Anchia for his support of TMRS

during the 87<sup>th</sup> Legislative Session and passing Senate Bill 1105. Ms. Alanis seconded the motion, which passed 5-0.

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

Mr. Wescoe reported that the Audit Committee recently held its quarterly meeting on June 9, 2021.

Mr. Wescoe said that he, Anthony Mills, and Colin Davidson recently attended the Texas City Management Association meeting in person, and he had the opportunity to address the TCMA Board of Directors.

Mr. Wescoe recognized Debbie Munoz and Michelle Mellon-Werch for improving TMRS correspondence to Members to make it clearer and more understandable. Approximately 85,000 letters, many of which are automated, are sent from TMRS to Members annually.

Mr. Wescoe reported that the 2020 Comprehensive Annual Financial Report is TMRS' best ever and the city hall images on its cover remind everyone who we serve. He noted that many TMRS staff worked on this report and recognized Sandra Vice, Rhonda Covarrubias, Candace Nolte and Donna Neal for their efforts.

Mr. Wescoe recognized Eddie Schultz for being named one of 25 rising stars in Chief Investment Officer magazine.

Mr. Wescoe stated that Eric Davis announced his retirement to be effective at the end of August. Mr. Wescoe noted that in the 34 years that Mr. Davis worked with TMRS, participating cities almost doubled in number, Membership rose from 100,000 to more than 200,000, and Trust Fund assets increased from \$1.5 billion to more than \$34 billion.

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

Mr. Wescoe presented the quarterly reports from Senior Staff, noting that staff has accomplished an amazing amount in last 12 months.

## **Governmental Relations Reports**

## **4. Legislative Update and Overview of the 87<sup>th</sup> Legislative Session, including Discussion on Status of TMRS Legislation and Other Filed and Proposed Legislation.**

Mr. Wattles presented a legislative session overview. More than 7000 bills were introduced, but only about 1100 passed. TMRS' Senate Bill (SB) 1105 will become effective on September 1, 2021. Mr. Wattles expressed appreciation to Mr. Garza, Mr. Landis and the Trustees for their support of the bill. He also thanked Rep. Jim Murphy and his staff member Ben Williams; from Rep. Anchia's staff, Tsion Mengesha and Jeff Madden; and, from Sen. Hughes' staff, Drew Tedford and Caitriana Corkill.



Mr. Wattles discussed other bills that passed:

- House Bill (HB) 4068, that will allow the administrative staff of the Dallas Police and Fire Pension System (DPFPS) to become TMRS members; implementation will require action by the DPFPS's governing board; and,
- SB 13, that restricts certain investments in and certain contracts with companies that boycott fossil-fuel based companies. The Texas Comptroller is responsible for preparing this list of companies.
- SB 19, that requires certain contracts to include provisions that the vendors do not boycott certain companies in the firearms industry.

**5. Consider and Act on Resolutions Recognizing Senator Bryan Hughes and Representative Rafael Anchia.** *(Taken out of order. See above)*

**Internal Audit Report**

**6. Report on Audit Committee's June Meeting.**

Ms. Focht-Williams reported on the June 9 meeting of the Audit Committee, during which the Committee reviewed two reports: (1) Audit of Benefit Overpayments Due to Unreported Deaths; and (2) Status of Prior Audit Recommendations. Ms. Focht-Williams also reported the status of Internal Audit's 2021 budget and the 2021-22 Audit Plan. Mr. Scott and Mr. Huizar thanked staff for their thoroughness in answering questions on the reports to the Committee.

**Finance Reports**

**7. Receive Report on 2020 Financial Statement Audit Results and the Schedule of Changes in Fiduciary Net Position by Participating City.**

**8. Receive Report on System and Organization Controls (SOC) Audit Results.**

**9. Receive Required Auditor Communications to the Board of Trustees.**

Ms. Covarrubias introduced these three agenda items concerning the CliftonLarsonAllen (CLA) audit reports. Mr. Ostroski of CLA reported that:

- the financial statement audit resulted in an unmodified, clean opinion that the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP);
- CLA also issued an unmodified, clean opinion that the Schedule of Changes in Fiduciary Net Position by Participating City (regarding GASB 68) is presented fairly, in all material respects, in conformity with GAAP; and,
- for the SOC audit, CLA also issued an unmodified, clean opinion that system and organization controls implemented by TMRS were fairly presented, adequately

designed, and operating effectively to meet the stated control objectives for May 1, 2020, to April 30, 2021.

**Mr. Garza joined the meeting at 9:32 a.m. via Zoom.**

Mr. Ostroski presented required auditor communications, thanked TMRS management for their assistance with the audit, and invited questions.

Mr. Scott asked whether it was unusual among pension plans to have a SOC audit report note no exceptions? Mr. Ostroski commented that it is a little unusual but TMRS has been conducting SOC audits for about 8 years; TMRS' control objectives have been mostly consistent year to year; there were a few exceptions in the early years of TMRS's SOC audits, but none since; and that of about four agent-style pension plans with whom he works, only two do SOC audits. Mr. Scott said that he wished all agent plans were required to have a SOC report to independently verify numbers reported by agent plans to employers.

Mr. Ostroski also commented favorably on TMRS' newly revised 2020 Comprehensive Annual Financial Report, noting that the information presented was more clear, much easier to read, and targeted more toward the reader.

**10. Receive and Approve Distribution of 2020 Comprehensive Annual Financial Report.**

Ms. Vice reported that the 2020 Comprehensive Annual Financial Report is an excellent report about an excellent good year for TMRS. The Report is important for oversight of TMRS by cities, Members and the Pension Review Board (PRB) and now provides the information in more user-friendly ways as the result of staff's efforts and the clarity project included in the 2021 action plan. Ms. Vice said of the Report:

- the introductory section reports that TMRS' funded ratio is 89.5%, TMRS paid \$1.5 billion in retirement benefits in 2020, and TMRS has 895 participating cities (seven joined last year);
- the financial section reports on CLA's unqualified opinions on TMRS financial statements and includes management's discussion of investment returns, increases in city contributions (including lump sum contributions from two cities that issued pension obligation bonds), increases to retirement benefit payments and a decrease in the Supplemental Death Benefits Fund that is intentional because the fund had grown more than intended as a "pay-as-you-go" account;
- the investment section recognizes achievements regarding total investments (\$34.5 billion) and net investment return (7.65%) and includes a new table showing investment managers per PRB requirements; and,
- the Report includes actuarial and statistical sections.

Mr. Landis said that much use is made of the buzzword "transparency" and is a focus of GASB, but the clarity portion of this Report is improved and clarity is as important as transparency.



Mr. Scott moved that the Board approve the distribution of the 2020 Comprehensive Annual Financial Report to TMRS cities and interested parties. Ms. Alanis seconded the motion, which passed 6-0.

## **Investment Reports**

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

Mr. Carlson reported that the Trust Fund had returned 6.02% year to date, net of fees, through June 9. He congratulated Eddie Schultz for being recognized by Chief Investment Officer magazine, and he reported that Investment Compliance Officer Kurt Cressotti will begin reporting to the Chief Legal Officer based on best practices recommended by the CFA Institute. Mr. Carlson said that Staff Investment Committee (SIC) decisions are reported to the Board in its materials, and that the SIC updated the investment pacing plan to increase the projected investment target for Private Equity in 2021 to \$1.8 billion.

Mr. Scott asked, regarding the investment pacing plan, is it possible to provide estimated dates by which TMRS will reach target allocations such as the 10% Private Equity target? Mr. Carlson said such estimates typically are included in annual reports on each class, but staff can add to this report as well.

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

Mr. Carlson reported that the SIC approved the following investments:

- \$75M to Heartwood Partners, L.P., a Connecticut-based fund focused on middle market investments in industrial manufacturing and consumer products;
- \$60M to Tribe Capital Fund II, L.P., a San Francisco-based venture firm that invests in early stage technology companies;
- \$80M to Flagship Pioneering Fund VII; this will be TMRS' second investment with Flagship, which invests in life sciences, health and agriculture areas; and,
- \$200M to Ascentris-TM Partners, LLC; this investment will be a separate account, with TMRS the only investor in it, in a Denver-based private real estate firm.

### **13. Discuss Annual Review and Consider and Act on Asset Allocation.**

Ms. Beard stated that asset allocation, as reviewed at the April retreat, is the most important investment decision the Board makes in its Investment Policy Statement (IPS), as it must deliver the long-term return objective through market fluctuations and provide benchmarks.

Ms. Beard presented a chart of the current asset classes and allocations. Ms. Beard said changes to the names of asset class recommended by RVK and staff are:

- changing "Real Return" to "Other Public and Private Markets"; and,
- changing "Absolute Return" to "Hedge Funds."

Ms. Beard discussed asset allocation modeling and inputs. Forward-looking inputs include expected risk and expected returns (geometric to reflect volatility) and expected correlation (whether asset classes move up or down together). Based on modeling, asset class assumptions generally reflect lower expected returns for 2021 as compared to 2020. Mr. Scott asked why return assumptions are changing so much. Ms. Beard said lower return assumptions and increased volatility are consistent with industry forecasts. Placing returns in context, she said, expected returns went down 56 basis points. Mr. Scott said that he thought after the Board retreat that TMRS might be able to enhance return, but now thinks we can just hang onto return of 6.75% because the large market run-ups can't continue.

Ms. Beard presented a chart on which RVK modeled possible alternative asset allocation portfolios A, B, and C based on the lower 2021 assumptions, and also included the current and targets allocations for comparison. Ms. Beard said RVK and staff recommend Portfolio B for the new asset allocation, with a 6.22% expected long-term return without accounting for any asset management alpha. Based on thousands of models run in a Monte Carlo analysis of Portfolio B, Portfolio B hits the 6.75% target return in 50% of modeled runs. Ms. Beard recommended Portfolio B to be effective July 1, 2021, and because it will take a while to get Private Equity to 10%, while building toward that, she recommended a 1% Cash target in this portfolio to reflect liquidity for payments made by system.

Mr. Scott said that he was used to seeing target allocation to cash of 0% because a target allocation of 1% for cash would mean that TMRS will be over that target each period and will have to earn more in all other portions of the portfolio. Mr. Landis asked, with a 1% allocation to cash in the portfolio, what would be the range for cash? Mr. Hunter stated that a range of 0 to 3% in cash is common, and he added that recommended Portfolio B already reduces the commitment to Core Fixed Income and, therefore, capital preservation assets. Mr. Hunter stated that if TMRS took 1% from cash and moved it to Core Fixed Income, it would have the same level of capital preservation allocation in Portfolio B. Mr. Scott noted that because TMRS is a relatively young and growing system, adding cities and members, it does not have negative cash flow that needs to be managed like older systems. Mr. Carlson noted that TMRS has higher capital funding needs while building Private Equity and Real Estate portfolios, said that holding money in Core Fixed Income pending capital calls put TMRS at risk if yields are falling, and added that not having any allocation to cash results in an estimated 6 basis point lag because actual cash always will be higher than the target of 0%. Ms. Alanis asked if changing the allocation 1% from cash to Core Fixed Income would affect the expected return? Mr. Hunter said both expected returns and risk would go up marginally.

Ms. Scott moved that the Board (i) adopt the new Strategic Target Allocation shown in RVK's presentation as Portfolio B, with the stipulation that the allocation to cash be set at 0% with a range for cash from 0% to 3%, and 1% to be moved from cash to Core Fixed Income, with the understanding that the Board recognizes there will always be some cash on hand but the investment goal for cash is 0%, to be effective as of July 1, 2021; and (ii) amend the Investment Policy Statement and any documents as necessary to reflect the new asset allocation effective as of July 1, 2021. Mr. Philibert seconded the motion, which passed 6-0.



**Mr. Landis called for a break at 10:50 a.m. Mr. Landis called meeting back to order at 11:01 a.m. All Trustees were present.**

**14. Consider and Act on Asset Class Benchmarks.**

Mr. Hunter presented a chart of current asset class benchmarks and a chart with recommended changes to the asset class benchmarks. Mr. Hunter said that the Other Public and Private Markets asset class (previously called Real Return) does not have readily available benchmark, so RVK recommends using the Global Equity benchmark for this class. The same recommendation is made for Private Equity. Mr. Hunter said that recommended benchmarks are based on long-term views, and in the short term there can be lags in holdings like Private Equity and Real Estate. Using the Global Equity benchmark for Private Equity is appropriate during implementation of private equity investments, he said, but should be revisited when Private Equity reaches its target allocation as expected in 5 years.

Mr. Philibert moved that the Board (i) adopt the recommended asset classes and asset class benchmarks, as set forth in RVK's presentation, to be effective as of July 1, 2021, and (ii) amend the Investment Policy Statement and any documents as necessary to reflect the new asset class structure and benchmarks effective as of July 1, 2021. Mr. Huizar seconded the motion, which passed 6-0.

**15. Annual Asset Class Review: Real Estate.**

Mr. Schultz said that TMRS invests in Core Real Estate for income and diversification purposes, and in Non-Core Real Estate for enhancing return. The Core strategy focuses on buying and holding properties, while Non-Core involves buying, fixing and selling properties to add value to the overall portfolio. Mr. Schultz presented charts showing:

- Real Estate holdings by Core, Value Added and Opportunistic categories across sectors including Office, Apartment, Industrial, Retail and Other; and,
- the geographic breakdown of current TMRS Real Estate holdings. Mr. Schultz said that most of the holdings are in the top 25 Real Estate markets in the country.

Mr. Schultz said the Real Estate portfolio is reaching its target allocation, and the focus moving forward will be portfolio management. Calendar year 2020 caused a lot of uncertainty in Real Estate, Mr. Schultz said, but TMRS staff are happy with their Real Estate managers and already see bounce-back from the managers in 2021. Real Estate is compliant with all applicable IPS provisions, Mr. Schultz said.

**16. Annual Asset Class Review: Real Return.**

Mr. Schultz said that the name of the Real Return asset class is changing to Other Public and Private Markets, with the objectives of enhancing return, diversification and being inflation aware. This asset class is not intended to be dependent on the stock market, he said, and

includes sectors that provide diversification with high income components that are asset-centric. Five sectors included in this asset class are:

- Infrastructure, with mid-teen returns;
- Mining, for which there is a robust market and TMRS has good, stable managers;
- Energy, which is volatile, but for which TMRS has good managers;
- Agriculture, which is not very easy for institutional investor to access; and,
- Esoterics, which is an “other” bucket that has characteristics discussed above and currently focuses on spectrum licensing and health care royalties.

Mr. Scott and Mr. Schultz discussed investing in commodities, which TMRS does not own, as compared to private equity holdings in these industries. Mr. Landis asked if it is easy to differentiate mining from energy, and Mr. Schultz said it is now because markets went that way. Energy is largely oil and gas currently.

Mr. Schultz said TMRS is moving more into a private equity-based Real Return portfolio and moving away from public market holdings. The sectors in this asset class make it a global opportunities sector, and because this asset class includes both stocks and bonds, this helps with defensive nature of this sector. Performance measures show that the public market holdings in this class have performed well, while private market holdings have not been as strong but are picking up recently. Mr. Schultz said this asset class complies with all applicable IPS provisions.

### **Executive Session**

#### **17. Executive Session.**

There was no executive session.

### **Future Board Agenda Items**

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

Mr. Landis asked if there were any requests for future agenda items. There were none.

There being no further business, Mr. Landis adjourned the meeting at 11:34 a.m.



David B. Wescoe  
Executive Director



David Landis  
Chair, Board of Trustees