



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

**October 28, 2021**

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 2717 Perseverance Drive, Suite 300, in Austin, Texas, with the following Trustees present: Chair David Landis, Vice Chair Jesús Garza, Vice Chair, Anali Alanis, Johnny Huizar, Bill Philibert and Bob Scott.

Staff present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), Michelle Kranes (Chief Service Officer), Sandra Vice (Chief Administrative Officer), Michelle Mellon-Werch (Director of Communications), Anthony Mills (Director of City Services), Eric Obermier (Director of Information Services), Debbie Muñoz (Director of Member Services), Leslie Ritter (Director of Human Resources), Leslee Hardy (Director of Actuarial Services), Dan Wattles (Director of Governmental Relations), Rhonda Covarrubias (Director of Finance), Tom Masthay (Director of Private Equity), Eddie Schultz (Director of Real Assets), Kelsey Baldwin (Investment Attorney), Madison Jechow (Assistant General Counsel), Joe Newton (GRS), Marcia Beard (RVK), Spencer Hunter (RVK), Chris Gillis (Network/Systems Administrator), Mike Watts (Felix Media Solutions) and Greg Shipley (CLEAT).

Mr. Landis called the meeting to order at 9 a.m. and noted that it is a monumental day to be meeting at new TMRS offices, less than a year after the vision for the move was set.

**Consent Agenda**

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

Mr. Scott moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the September 23, 2021, meeting with two amendments proposed by Mr. Scott. Ms. Alanis seconded the motion, which passed 6-0.

**Executive Director Reports**

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

Mr. Wescoe said that TMRS's new office is the start of new era, and he thanked former Chair Bill Philibert for his leadership in prompting the move. An Open House is planned prior to December's Board meeting.

TMRS hosted a booth at the Texas Municipal League Conference and introduced a new TMRS mobile app that was downloaded in real time during TMRS's presentation. TMRS is the first statewide pension system to have an app. Mr. Wescoe thanked Mr. Garza for giving the push to develop the app.

Mr. Wescoe said the Chief Investment Officer search is on track, and the talent pool is deep.

Mr. Wescoe reported that the Budget and Compensation Committee met. Mr. Wescoe said he has received great feedback on recent changes in Member Services and City Services, which are now led by Michelle Kranes as Chief Service Officer. Also, Sandra Vice has been promoted to Chief Administrative Officer.

### **3. 2021 Senior Staff Action Plan Update.**

Mr. Wescoe presented a report on staff Action Plan items for 2021; six of 10 are complete, and the other four will be before year end.

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

Mr. Landis suggested five meetings plus a retreat. Mr. Garza proposed moving meetings to Thursday / Friday rather than Wednesday / Thursday, and he also asked for a master calendar that includes Committee meetings for the whole Board to consider the schedule. Trustees discussed their preferences for Friday or Thursday meetings and whether to hold executive sessions on Thursdays or to start Friday meetings earlier. Mr. Philibert asked if five meetings would be enough for Investments matters, and Mr. Wescoe confirmed it would.

Mr. Huizar moved that the Board hold five meetings and one retreat on a Thursday / Friday schedule for 2022. Mr. Philibert seconded the motion, which passed 6-0.

After the vote, Mr. Garza asked if the Board would come back to determine actual meeting dates, and Mr. Wescoe confirmed it would.

### **5. Consider and Act on Matters Concerning the TMRS 1200 No. Interstate 35 Building.**

Mr. Wescoe discussed matters concerning the TMRS 1200 No. Interstate 35 Building ("Property") and presented this item for action.

Mr. Garza moved that the Board authorize the Executive Director to take all steps necessary or appropriate to place the Property on the market for sale, and to negotiate the price, terms and conditions of the sale of the Property ("Terms"); provided, however, that the final Terms and execution of an agreement to sell the Property are subject to approval by the Board. Mr. Philibert seconded the motion, which passed 6-0.



## **Legal Reports**

### **6. Consider and Act on Matters Regarding City of Irving Pension Obligation Bonds.**

Ms. Sweeney presented matters regarding the City of Irving'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, and that neither Mr. Wescoe, senior investment staff or the Director of City Services had concerns with the City's proposed extra contribution.

It is expected that the City's bond issuance will be priced in November and closed in December. Ms. Sweeney said staff recommends approval of the proposed written agreement.

Mr. Philibert asked about the City's reasons for bond issue. Ms. Hardy responded and said that lower interest rates are expected for the proposed bond payments than are expected for TMRS investment returns. Mr. Scott added that interest rates are very low for city bonds, and also that Senate Bill 2 put city tax caps in place, so by issuing POBs a city can convert TMRS payments from operating expense to debt service expense.

Mr. Scott moved that the Board approve the Agreement Regarding City Pension Obligation Bonds ("Agreement") and the Certificate of Authority and Resolution (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 by and on behalf of the System; with such modification or amendments to the Agreement or Certificate as are satisfactory to the Board Chair or 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. Philibert seconded the motion, which passed 6-0.

### **7. Consider and Act on Proposed TMRS Rule Amendments – Chapter 129.**

Ms. Sweeney said current Chapter 129 of TMRS' rules would be repealed and replaced with the proposed amended rules. The Chapter 129 rules provide processes for the review of a Qualified Domestic Relations Order (QDRO), which is a court order regarding a domestic relations matter (such as a divorce or child support) that orders payment of TMRS benefits to someone other than a TMRS member or retiree. Although a QDRO is a court order, TMRS also must approve the QDRO to make sure that it does not award benefits in excess of what the TMRS plan allows. All proposed rule amendments were developed collaboratively by Legal and Member Services staff. Most of the proposed rules clarify or formalize processes that already exist. The four most significant proposed rule amendments:

- Require use of TMRS pre-approved QDRO forms so that TMRS may reject a proposed order if it is not on a TMRS pre-approved form. The pre-approved forms will still allow parties and court to decide how much to award an alternate payee but ensures the division can be administered consistent with TMRS' plan.

- Provide that if an order is not clear on how to divide future interest credited on accumulated contributions after the date of divorce until the time benefit payments begin, then the portion of benefits awarded to the alternate payee will be allocated its proportionate share of future interest.
- Clarify how existing processes work when a proposed order is rejected, including clarifying the processes for pre-retirement orders and post-retirement orders, processes regarding withholding benefits pending review, and timeframes for seeking a corrected QDRO.
- Clarify processes where both a court and TMRS have approved a QDRO but one party contests the approval, including clarifying the processes for pre-retirement QDROs and post-retirement QDROs, and specifying timeframes to contest the matter.

Ms. Sweeney said that staff recommends approval and submission of the proposed rule repeal and rule amendments to the Governor's office for review and afterward for publication as proposed rules in the *Texas Register*.

Mr. Landis asked how many QDROs does TMRS receive annually. Ms. Muñoz estimated that more than 100 a year are received. Ms. Scott asked who might be commenting during the comment period after the proposed rules are published? Ms. Sweeney said she did not know who might comment, but TMRS has not received any comments on other rule amendments that TMRS has proposed during her tenure at TMRS.

Ms. Alanis moved that the Board authorize the Executive Director, and his designee(s), (i) to submit the proposed repeal and replacement amendments to Chapter 129 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 129 with the Secretary of State for publication in the *Texas Register*. Mr. Scott seconded the motion, which passed 5-0 (with Mr. Garza absent).

### **Budget and Compensation Committee Reports**

#### **8. Report on Budget and Compensation Committee's October 13, 2021 Meeting.**

Ms. Covarrubias said the Budget and Compensation Committee met on October 13, 2021, with Chair Alanis and Vice Chair Huizar. Items discussed included:

- Personnel requests from Member Services for eight new positions that include five Member Services analysts, two call center analysts and one deputy Member Services manager;
- Lease expenses resulting from the move to The Grove; and,
- That the overall budget, aside from lease expenses, would be flat as compared to the 2021 budget, and that the 2021 budget was 5% less than 2020's budget.

Ms. Alanis said the Committee supported the requested staff increases for Member Services based on the evaluation of what Member Services staff are doing.



## **9. Discuss 2022 Draft Operating, Capital and PASMod Program Budgets.**

Ms. Covarrubias presented proposed 2022 budgets. Budget highlights include personnel are estimated at 134 full-time equivalents (“FTEs”); a 16.12% contribution rate to TMRS for retirement; and Professional Services lower due to savings for custodial services. Facilities costs include expenses at The Grove and maintenance of the IH35 building until it is sold. The Information Services budget reflects costs for keeping software updated, hosting fees after the data center was moved, which allowed for duplication of data, and hardware for 8 new positions. Information Services capital expenditures are due to its equipment lifecycle policy.

Ms. Covarrubias stated that the Pension Administration System Modernization (“PASMod”) budget was originally \$10.5 million, but savings achieved by staff since 2020 have reduced that by \$5.8 million. The proposed 2022 budget includes completion of the city contribution project.

Mr. Garza asked what value will new Member Services positions bring, and when was last time staff was added to that team, and Ms. Muñoz responded. Even with addition of these eight positions, Mr. Wescoe said, the budget is flat other than the lease, and TMRS is the only statewide system that decreased its budget by 5% in 2020. Ms. Muñoz said her team has been doing more with less for a long time. Mr. Philibert referred to a prior benchmarking study by consultant CEM and asked to see the study before the December meeting. Mr. Scott said that if Member Services was understaffed 10 years ago, when TMRS had 43,000 retirees, he could truly understand the request for staff increases now that TMRS has more than 70,000 retirees. Mr. Garza said that the proposed budget also includes a pool for bonuses. Ms. Covarrubias said that was in the 2020 budget as well, and Mr. Wescoe said it is \$100,000 in total for staff work that goes above and beyond for major projects like the move. Ms. Covarrubias said the budget will be brought to the Board for approval in December.

## **Investment Reports**

### **10. Chief Investment Officer’s Report.**

Mr. Wescoe said the Trust Fund is up 9.2% for 2021 through September 30. The Chief Investment Officer search is going well; and two investment analysts and an investment compliance officer also are being recruited.

### **11. Receive Investment Activity Report.**

Mr. Wescoe presented the updated 2021 Annual Investment Commitments Report provided in the Board materials and made available on the TMRS website.

### **12. Discuss Asset Allocation and Asset Liability Topics.**

Ms. Beard presented a chart summarizing how the TMRS Board has reviewed its asset classes and allocations over the last several years. She discussed how the review process “marries” asset allocation policy and funding policy, allowing RVK to gauge how much risk the Board is willing to take. Industry best practice is to do this once every 6 years, she said, and TMRS has done it



once every 3 years. In 2021, the Board's desire to increase expected risk for greater expected return resulted in allocation increases to Global Equity and Real Estate. These allocation changes increased return expectations with a slight increase in expected risk and were all done in the context of funding future liabilities. Mr. Newton said that after the Board retreat in April 2021, the consensus was to accept more risk for the greater probabilities of lower expected funding risks. Mr. Newton commented that a lot of times shorter term risks do not translate into reducing future funding risks, and if you get too conservative in your investments, however, you can increase funding risk. Mr. Newton said the new asset allocation is less risky because it reduces funding and contribution risks. Ms. Beard said the Board has been following best practice and following its Investment Policy Statement ("IPS"), and the next step, due next year, is for an asset allocation study that could include an asset liability study also as part of that. In the interim, she said, RVK and GRS will discuss how to add information to their reports so the Board can see funding information as well as investment return information

Mr. Scott said that there are important changes occurring that could impact investment assumptions, such as the recent run up of equity markets, supply chain issues, climate change, and other disruptions to economy, and those could affect investment returns over time. It will be important to understand how significantly different these assumptions are, he said, and whether there will be a substantial reduction in long term expectations for what markets will return. Mr. Hunter said that taking slightly more investment risk is expected to lower city contributions. Mr. Scott said that he is willing to take on a little more risk and volatility if it produces longer term return and lower contributions. Mr. Garza asked if Mr. Scott was asking for more risk than what the Board already approved in June. Mr. Scott said no. Mr. Garza said he was comfortable with the current allocations, but asked when would be the appropriate time to look back on the allocation changes from this year. Ms. Beard said TMRS needs to get to its actual investment allocation and then look back after five years.

### **13. Board Education: Private Equity Asset Class.**

Mr. Masthay presented this topic and said that TMRS invests in Private Equity to enhance Trust Fund performance. The three goals for Private Equity are: 1) outperform public equities; 2) achieve 10% target allocation; and, 3) reduce program costs by scaling co-investment opportunities. TMRS has made investment commitments of \$5.4 billion in this asset class, and \$2.4 billion of that has been deployed by the managers. TMRS controls when capital is committed, and managers control when capital is invested. Mr. Masthay stated that investing in Private Equity produced almost \$300 million more than if TMRS had been invested in public equities since December 2015. TMRS is achieving better than industry average fees in this asset class. Private Equity is compliant with all IPS provisions, and no concerns were identified in 2020-21 monitoring of this class. Staff's goals for 2022 are to deploy \$900 million, scale co-investments and maintain TMRS' relative performance edge. As managers get larger, he said, it gets harder to outperform, so staff is monitoring that and using co-investments to help with this.

### **14. Board Education: Role of General Investment Consultant.**

Ms. Beard said RVK's role is to report to the Board, to act as a fiduciary and advise the Board on investment issues, and work closely with investment staff to implement the Board's investment



policies and decisions on the pace that the Board sets. She summarized RVK's scope of work. Mr. Garza asked if review of potential managers was done with the Staff Investment Committee ("SIC"). Mr. Hunter said yes, although the SIC is more focused on private market investments, which Albourne reviews. RVK's role with regard to private markets is more like third-party independent oversight with respect to what the SIC is implementing, to ensure implementation is in line with Board expectations. Ms. Beard discussed the role of RVK in last year's search for custodian and security lending services.

Mr. Scott asked what does fiduciary mean in the context of RVK's services? Mr. Hunter said RVK is a fiduciary to TMRS so that it always puts TMRS' interests ahead of RVK's. He said that he would be concerned if TMRS hired an investment consultant who was not a fiduciary because such an investment consultant could recommend decisions that benefitted the consultant rather than TMRS. Ms. Beard said that RVK does not offer any conflicting investment products. Mr. Scott asked if Albourne is a fiduciary, and Mr. Masthay said yes and that all TMRS investment managers are fiduciaries as well.

Mr. Scott said he did not recall seeing a presentation by Albourne and asked, as TMRS shifts more to private market investments, will the Board see more of Albourne? Because of the Board's delegation of authority to investment staff, Albourne generally would only appear at meetings if investments exceed delegated authority limits. Mr. Masthay said Albourne also works for the Board, with a similar scope of work and similar directive to support staff. Mr. Masthay said that, in the Board materials, for each investment proposed to the SIC, there is an Albourne support memo for each recommendation. Mr. Garza asked about the process for hiring Albourne, and Mr. Masthay said that proposals were requested in 2015 and in 2019, when all private equity was consolidated under Albourne. In 2020, the Board delegated investment decisions in private markets under certain levels to the SIC, with documentation in the form of staff memos with recommendations on those decisions and Albourne providing a separate memo reviewing each decision. Albourne was selected, he said, because of its operational due diligence expertise. Mr. Hunter said that RVK's scope overlaps with Albourne because RVK's scope includes all investment matters. Mr. Garza asked if there is any part of RVK's role where RVK oversees Albourne. Mr. Hunter said RVK's scope is all investment matters, but their scope is not to oversee any of TMRS' other consultants, so in practice that translates into RVK monitoring asset allocation implementation. Mr. Hunter reviewed charts of recurring work, like asset allocation reviews, and non-recurring work, like custodian searches, the latter recently resulting in saving \$850,000 per year. Mr. Wescoe suggested RVK providing for an annual or semi-annual report on "what your consultant is doing for you."

## **Executive Session**

### **15. Executive Session.**

The Board went into Executive Session at 11:53 a.m. The meeting reconvened in Open Meeting at 12:13 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**

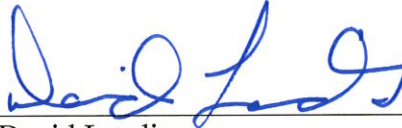
**16. Call for Future Agenda Items**

Mr. Garza stated his desire to review Board consultant roles with the Board. Mr. Landis said the topic could be looked at in December. Mr. Garza asked for a conversation among Trustees regarding the scope of what consultants do for us.

Mr. Landis adjourned the meeting at 12:18 pm.



David B. Wescoe  
Executive Director



David Landis  
Chair, Board of Trustees