



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

September 23, 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, Anali Alanis, Johnny Huizar, Bill Philibert and Bob Scott.

Staff present included: David Wescoe, Executive Director, Christine Sweeney, Chief Legal Officer, Michelle Mellon-Werch, Director of Communications, Anthony Mills, Director of City Services, Debbie Munoz, Director of Member Services, Dan Wattles, Director of Governmental Relations, Andi Focht-Williams, Internal Audit Manager, Nick O’Keefe, Senior Investment Attorney, Dimitry Shishkoff, Director of Risk Management, Ryan Conner, Investment Analyst, Jason Weiner, Director of Fixed Income, Tom Masthay, Director of Private Equity, Eddie Schultz, Director of Real Assets, Frank Atkins, Investment Analyst, Timothy Sweeney, Senior Investment Analyst, Karen Jackson, Executive Assistant, and Madison Jechow, Assistant General Counsel. Consultants present included Marcia Beard and Spencer Hunter, of RVK.

Mr. Landis called the meeting to order at 9:00 a.m. All trustees were present.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Scott requested the draft Minutes of the June Board meeting be amended to more accurately reflect his comments about the Board selecting a target allocation to cash of 0% but recognizing that there will always be some cash on hand.

Mr. Philibert moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the August 19, 2021 and June 24, 2021 meetings with the amendments proposed by Mr. Scott. Ms. Alanis seconded the motion, which passed 6-0.

Executive Director Reports

2. Executive Director’s Report.

Mr. Wescoe reported on a variety of matters, including:

- Implementation of TMRS’ Return to Work legislation

- TMRS' upcoming move to the Grove
- Status of the Pension Administration System Modernization project
- Workflow improvements implemented by the Member Services department
- Commencement of the Chief Investment Officer (CIO) search
- Hiring of a new Chief Services Officer, Michelle Kranes
- TMRS' 2021 Annual City Conference, held virtually in July
- Moving TMRS' data center to a new offsite location, and
- New cities joining TMRS

3. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the quarterly reports from Senior Staff, noting that their work is impressive and that TMRS has a talented management team.

Advisory Committee on Benefit Design

4. Report on Advisory Committee's August 19, 2021 Meeting.

Mr. Garza, Chair of the Advisory Committee, reported on the meeting of the Advisory Committee on Benefit Design held on August 19, 2021, and said that items discussed included: benefit design, communication improvements, education and transparency, technology improvements, and City and Member Services matters.

On benefit design, Mr. Garza said the topic most discussed was cost of living adjustments (COLAs), including whether TMRS should seek legislation to remove the COLA retroactive catch-up provision, possible ways to structure such a change, and other potential COLA changes.

Mr. Garza reported that the Committee discussed the retiree supplemental death benefit (SDB) and ideas for possible changes to the benefit.

The Committee also discussed TMRS' history regarding a "13th check" benefit for retirees and TMRS' legislative changes and fund restructuring that lead to the cessation of such payments.

Mr. Garza asked that Trustees and Advisory Committee Members continue to think about ideas for potential benefit design improvements. Mr. Philibert, Vice Chair of the Committee, said that a survey of Committee members prior to the meeting was a great idea and helpful to the meeting discussion. Mr. Scott commented that adding 10% increment options between the current 30%, 50% or 70% COLA levels might help cities with the rate impact of adopting a repeating COLA.

5. Consider and Act on Recommendation(s) for Future Advisory Committee Study Topics and Meeting.

Mr. Garza moved that the Board authorize assigning the COLA and SDB study topics to the Advisory Committee. Mr. Philibert seconded the motion, which passed 6-0.

Mr. Garza moved that the Board authorize the Advisory Committee to convene quarterly, as needed, to discuss the items approved by Board. Ms. Alanis seconded the motion, which passed 6-0.

Communications Report

6. Report on Follow-up Actions Relating to Board Retreat Topics.

Ms. Mellon-Werch reviewed four topics discussed at the April 2021 Board Retreat meeting. She stated that the benchmarking and the investment risk and risk tolerance topics had both been addressed at the June Board meeting and that there will be a Board education presentation today on hedge funds.

With regard to the topic of enhancing communications to and service for Members and participating cities, Ms. Mellon-Werch described enhancements made based on Board input from the retreat, including:

- Improving Annual Statements and templates for TMRS correspondence to Members, noting that TMRS sends about 68,000 letters and emails annually
- Increasing and expanding city communications, including plans to attend various conferences attended by city officials, and converting the TMRS Main Street publication to a quarterly newsletter emailed to all city contacts
- Surveying cities
- Improving clarity and readability of city rate letters, and
- Enhancing training on Updated Service Credits for the TMRS Member Service Center.

Ms. Alanis asked about processes regarding completion of beneficiary designations and a discussion followed.

Internal Audit Report

7. Report on Audit Committee's September 8, 2021 Meeting.

Ms. Focht-Williams reported on the September 8th Audit Committee meeting, at which she presented an audit report regarding TMRS staff travel expenses and recommendations to update the travel policy and have staff review access to the expense reporting software on a quarterly basis.

Ms. Focht-Williams also presented to the proposed Internal Audit 2022 Budget, noting that it was about 20% less than the prior budget because she does not anticipate a need for outside consulting services based on the 2021-2022 Audit Plan but would update the Committee if the need for a consultant arises. Mr. Scott, Audit Committee Chair, concurred with that approach.

Mr. Landis asked if Board travel was included in the travel expense audit, and Ms. Focht-Williams said it was not because Board travel is much smaller in amount and the current approval process includes review by both a staff member and the Executive Director.

Investment Reports

8. Chief Investment Officer's Report.

Mr. Wescoe presented this item. He stated he met with Mr. Shishkoff and they agreed that the Risk Team should be renamed to the Data, Performance and Risk Team to better reflect the nature of its work. Mr. Wescoe reported that Melissa Jerkins has announced she is leaving the team for another opportunity and thanked her for her good work at TMRS. Mr. Wescoe stated that this meeting has an expanded investment portion to provide the Board with additional information on TMRS' investment operations.

9. Q2 2021 Investment Compliance Report.

Mr. O'Keefe presented the investment compliance report, since TMRS' Investment Compliance Officer recently resigned. In June, the Compliance Officer's reporting relationship was moved from the Investment department, consistent with industry best practices. Now, this position reports to the Chief Legal Officer.

Mr. O'Keefe noted applicable compliance provisions in the Board's Investment Policy Statement and discussed the concept of testable parameters.

He said that staff together with TMRS' Custodian State Street completed 616 tests in the second quarter of 2021, and the tests found that TMRS and its investment managers complied with all testable parameters.

Mr. Garza asked how testable parameters are developed and Mr. Hunter and Ms. Beard, of RVK discussed the issue. They noted that RVK has reviewed the testable parameters and annually reviews the IPS, including the investment guidelines. Mr. O'Keefe discussed how testing can generate an alert about a possible issue and how compliance personnel handle such matters.

10. Q2 2021 Data, Performance and Risk Report.

Mr. Shishkoff presented, stating that his team tracks an enormous amount of information in the TMRS database for investments. The data is used for modelling of cash flows, investment pacing, asset allocations and monitoring risk of investments compared to Board guidance on benchmarks in the IPS. The team uses an industry standard model, the MSCI BarraOne Risk Model. Mr. Shishkoff said that as of June 30, 2021, all risk measures are in line with risk guidance set by the Board in the IPS. Mr. Shishkoff said Private Equity and Global Equity account for most of the risk in TMRS assets, which is not a surprise.

Mr. Garza asked whether the information reflects changes in IPS benchmarks made in June, and Mr. Shishkoff stated it does not because the report is for the second quarter, ending in June, and the benchmark changes will be first reflected in the report for the third quarter.

Mr. Shishkoff said that the investment asset allocations are within allowed ranges for all asset classes.

Mr. Scott commented on risk measures in addition to standard deviation. Mr. Philibert asked what the industry “best practice” is for measuring risk, and Mr. Shishkoff replied that standard deviation is the industry standard.

11. Receive Investment Activity Report.

Mr. Wescoe presented the investment activity report, which is available on the TMRS website and shows private investments since the last report. The report format has been improved to show investments throughout the calendar year.

12. Discuss Investment Pacing Plan.

Mr. Wescoe discussed the Investment Pacing Plan, including the proposed pacing of investments in asset classes where the Board made adjustments to asset allocations in June.

13. Asset Class Reports.

a. Fixed Income

Mr. Weiner provided a Fixed Income portfolio update. He said Core Fixed Income is intended for capital preservation and downside protection, and Non-core Fixed Income focuses on income and capital appreciation. The Core portfolio is invested in public holdings traded on exchanges, its allocation was reduced from 10% to 6% in June, and the portfolio is at its new allocation of 6%. The Non-core portfolio is built in coordination with our investment consultants, and a new recommendation for a manager will get TMRS to its Non-core target of 20% of the total portfolio. Commitments to Non-core are shown in excess of the target because investment managers control the timing of investment calls from capital committed by TMRS. Mr. Scott asked how much of the Non-core portfolio is public versus private? Mr. Weiner said that private investments are 30% of the Non-core portfolio while public is 70%. The Core and Non-core portfolios have exceeded their respective benchmarks net of fees on a 5 year and since inception basis.

b. Private Equity

Mr. Masthay presented and said the three goals for Private Equity are to outperform public equities, achieve 10% target allocation, and reduce program costs. The class currently is benchmarked against the public equity benchmark, and to date the TMRS portfolio has beaten that by a wide margin. Current expectation is to be fully allocated in Private Equity by 2024, perhaps sooner. In 2021, TMRS doubled its efforts in this class because the allocation was recently increased by the Board from 5% to 10%. In last twelve months, co-investments have been used to help reduce program costs. Mr. Masthay said TMRS has 39 Private Equity managers, more than other asset classes but modest as compared to other peer pension plans. Fees were 2.14% of the 2020 Private Equity net asset value and may not be lower next year, he said, but are projecting lower in the next 3 to 5 years. Fees are typically higher when capital calls are being implemented by managers and

stabilize afterward. Mr. Scott said that as frugal as he is, he is willing to pay fees if he sees positive returns.

c. Real Estate

Mr. Schultz presented and said he provided his annual review of this asset class in June, so today he is addressing what has been done since. Three goals for this class are to increase commitment pacing, rebalance the core portfolio and reduce program costs. The portfolio is fairly mature now, he said, and TMRS has established good manager relationships. Unlike Private Equity, TMRS has more control in cost reduction because of its negotiating position and ability to structure Real Estate investments. In June, the allocation for this class moved to 12% from 10%. To achieve, staff will increase 2021 pacing to \$1.2 Billion, which will be temporary. Performance in this class is bouncing back after 2020 pandemic impacts, and Mr. Schultz was pleased with improving performance numbers. TMRS employs 28 managers in this class, with 22 in active relationships and others winding down. Management fees were 1.48% of the 2020 class net asset value, and he said he expects to see fees in this range for Real Estate.

d. Other Public & Private Markets

Mr. Schultz said more changes have been made recently to this asset class, formerly known as Real Return. In June 2021, the asset class was renamed, the benchmark was changed to global equities (MSCI ACWI), and the allocation was increased from 10% to 12%. The class still uses public securities but is adding private markets investments in certain categories, and the amount in public market investments will go down as additional commitments to private markets are made. Private market investments provide exposure to private assets that may be overlooked and provide downside protection while enhancing return. The OPPM Portfolio makes up 4.1% currently, working toward 12%. Public markets in this class are at 7.2% but will move to 0%. The asset class is moving out of public securities that target inflation. The change in benchmark, to a passive global equities target, will reduce fees and simplify the funding process for the private market holdings. The pacing of investment changes in this class increased in 2021, Mr. Schultz said, and will further increase in 2022. Performance is ahead of benchmarks. TMRS employs 18 managers currently, and this number will increase as more of this class is moved into private assets. The current fees of 0.90% will increase as portfolio moves toward private assets.

e. Global Equities

Mr. Atkins said this asset class is the largest source of risk and return in the total Trust Fund portfolio. Reasons for investing in this class include that it drives returns, provides liquidity and transparency, and provides global exposure and harnesses global growth. As of the prior week, TMRS had invested about \$14.2 Billion in it representing about 38.5% of the total TMRS fund. Within the class, 80% is in passive investments and about 20% is in active investments. TMRS has long-term relationships with six managers in active strategies in this class. In the passive portion, Mr. Atkins said, there is slight U.S. overexposure and fees are 0.15% and going down to an expected 0.13%. In 2021, Mr. Atkins said, performance was up and in line with the benchmark with assets having a technology, health care and consumer tilt. China exposure and the energy sector were headwinds in this class. TMRS benefitted from being slightly overweight U.S. Goals

for 2022, he said, are to analyze what we own, adjust as needed on both passive and active sides, rebalance active strategies for appropriate levels of risk, and seek out new opportunities.

f. Hedge Funds

Mr. Sweeney said this asset class is moving toward its 5% allocation target after June's reduction from 10%. By December 2021, he said, this class should reach 8% and then reach the 5% target by December 2022. This class employs 15 managers that staff reviews with investment consultant Albourne. The goals for this class are to retain top managers while reducing the allocation to 5%, to move away from the "fixed income replacement" strategy, and to maintain diversification benefits. The benchmark changed on July 1, and in the one-year period performance is lagging the benchmark because of strength in equity market and because select managers underperformed. TMRS is redeeming funds from those managers as part of the reallocation.

14. Board Education: Hedge Funds Asset Class.

Mr. Sweeney continued with the Board Education session on the Hedge Funds Asset Class. The purposes of investing in a hedge fund, he said, are to diversify risk, enhance returns and protect trust fund capital. This class diversifies risk by providing positive returns with half of the risk of other classes. It enhances returns with an annualized return of 5.64%, which return largely is uncorrelated to both equity and fixed income markets. With low yields on treasuries and fixed income currently, hedge funds provide a complementing source of returns. As a result of the benchmark change for this class, he said, investment staff will target a modest increase to equity hedge fund strategies, allowing additional potential returns.

15. RVK Quarterly Investment Report.

Ms. Beard presented and said TMRS outperformed the IPS benchmarks, net of fees, for the second quarter. Global equity strategies that were not performing well have been taken out and more has been allocated to passive strategies. The Board's policy objective is to look at a 5-year rolling measure of performance, and TMRS has outperformed the actual allocation benchmark for the 5-year period 93% of the time. She said TMRS' asset allocation is working, and we are moving in the right direction. In each of the asset classes, she said, all are outperforming benchmarks with the exception of total equity, and TMRS has made adjustments to equity. The asset allocations are overweight to Total Equity and underweight to Private Equity, and that is expected while TMRS implements capital to Private Equity.

Mr. Garza and Ms. Beard discussed reviewing TMRS asset performance in relation to TMRS liabilities as part of the asset liability study performed once every three years. Mr. Garza asked if RVK's reports can speak about fund performance in the context of the overall health of TMRS. Mr. Hunter said it is possible for reports by asset class to be rolled up into a system-wide report that can be done through a combination of RVK and Joe Newton of GRS working with staff. Mr. Garza and Ms. Beard also discussed follow up from decisions made in June pertaining to investment risk, and Ms. Beard suggested a future agenda item to revisit investment risk information from the Board retreat in April. She said that TMRS has not been more aggressive in the past because TMRS has not needed to be more aggressive. Mr. Scott said TMRS cash flow net

of contributions is in a good position as compared to other plans because TMRS is still a relatively young and growing plan. One of the retreat reports from Joe Newton of GRS discussed the impact on rates if TMRS returned only 5.75%, Mr. Scott said, so we knew what risk we could tolerate to seek some additional returns. Mr. Hunter said that the Board consultants always appreciate more clarity from the Board regarding expectations on performance and policy objectives and it is important to make them clear in the IPS. Mr. Landis said this is important with the change in the Chief Investment Officer.

Executive Session

16. Executive Session.

The Board went into Executive Session at 12:44 p.m.

The meeting reconvened in Open Meeting at 2:11 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

17. Call for Future Agenda Items

Other than a future agenda item regarding asset and liability information as discussed in Item 16 by Mr. Garza and Ms. Beard, there were no calls for future agenda items.

There being no further business, Mr. Landis adjourned the meeting at 2:12 p.m.



David B. Wescoe
Executive Director



David Landis
Chair, Board of Trustees