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To: The Trustees, Members, Retirees, Beneficiaries and Participating Cities of the Texas Municipal Retirement System

I am pleased to present to you the Annual Comprehensive Financial Report for the year ended December 31, 2021 (Report) for the Texas Municipal Retirement System (TMRS).

TMRS Background

In 1947, the Texas Legislature established TMRS to provide retirement, disability and death benefits to the employees of TMRS participating cities. TMRS administers a cash-balance retirement plan in which the member's benefit is based on their own contributions and annual interest, their employing city's matching contribution and any additional earned credits. When the member retires, their monthly benefit payment is determined by their benefit option selection and actuarial factors, including their age.

As of December 31, 2021, TMRS had 144,635 members, 68,092 retirees and 901 participating cities. In 2021, TMRS paid \$1.6 billion in benefits, an increase of \$101.3 million, or 6.6%, from \$1.5 billion in benefits paid in 2020.

Investments

TMRS' 2021 net investment return was 12.86%, and Trust Fund investments totaled \$38.8 billion as of December 31, 2021. TMRS' three-year, five-year and 10-year net investment returns were 12.08%, 9.28% and 7.82%, respectively. The Investment Section summarizes 2021 investment operations and asset class performance.

TMRS' Investment Policy Statement (IPS) establishes the Trust Fund's asset allocation that is designed to meet our 6.75% actuarial return assumption, portfolio performance objectives, and appropriate benchmarks. The IPS and its asset allocation are reviewed at least annually and updated, if necessary, to reflect prevailing investment and economic circumstances. Compliance with the IPS is monitored by TMRS staff, and updates are reported regularly to the TMRS Board of Trustees (Board).

In January 2022, David Hunter was hired as Chief Investment Officer (CIO). Mr. Hunter comes to TMRS with extensive finance and investment management experience, most recently managing a more than \$20 billion investment portfolio as the Executive Director and CIO of the North Dakota Retirement and Investment Office.

Actuarial Valuation Report

Gabriel, Roeder, Smith & Company (GRS), the Board's independent actuary, provided an annual Actuarial Valuation Report in accordance with Actuarial Standards of Practice, Governmental Accounting Standards Board (GASB) principles and state law. The Actuarial Section contains a summary of TMRS' actuarial assumptions and funding progress.

While each TMRS participating city has its own funded ratio, TMRS' composite funded ratio was 90.5% as of December 31, 2021, an increase from 89.5% as of December 31, 2020.

In March 2022, the Board approved a 12.26% interest credit to participating city accounts effective as of December 31, 2021. The TMRS asset smoothing policy resulted in an actuarial return on assets of 7.57%.

Executive Director's Letter of Transmittal

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TMRS provides each participating city with an annual actuarial valuation and a rate letter that reconciles the required contribution rates from their prior valuation and establishes the city's contribution rate for the upcoming rate cycle. Participating city valuations and rate letters are available on the TMRS website.

Each participating city chooses its own plan provisions from available options. Whatever plan options are chosen, each city's funding objective is to accumulate sufficient assets to pay benefits when they become due. TMRS' actuarial funding policy, which is posted on the TMRS website, requires any new unfunded liabilities to be amortized over a closed period of no more than 20 years.

2021 Operational Activities

TMRS' Senior Staff completed an ambitious 2021 Action Plan, which included:

Passing Return to Work Legislation. On May 28, 2021, Texas Governor Greg Abbott signed Senate Bill 1105 into law, which became effective September 1. The legislation, the first TMRS-sponsored benefit enhancement enacted in almost two decades, removed significant barriers for retirees who have been retired for more than one year to return to work for the same city without forfeiting their TMRS retirement benefit.

Moving Our Offices to The Grove. In October 2021, TMRS moved its Austin offices from 1200 North Interstate Highway 35, which had reached full capacity and presented many operational challenges, to The Grove at 2717 Perseverance Drive. The move keeps costs low, provides convenience for employees, Members and visitors, and creates an efficient and collaborative staff workspace.

Improving Communications with Members and Participating Cities. Staff enhanced communications by redesigning Member Account and Retiree Benefit Statements, improving the clarity and layout of the Annual Comprehensive Financial and Popular Annual Financial Reports, implementing comprehensive stakeholder communications and training plans, producing TMRS' first-ever virtual Annual City Conference and introducing TMRS' Mobile App.

Implementing Pension Administration System Improvements. Significant improvements included the rollout of an enhanced City Portal with a new look and feel and additional user functionality. City Portal users now can register online, and cities can assign multiple administrators who can make real-time updates to city contact information.

Completing TMRS' 2018-2022 Strategic Plan. All of the goals and objectives in the 2018-2022 Strategic Plan were completed, one year ahead of schedule.

Renewing State Street as our Custodian Bank. A nine-member staff evaluation committee unanimously recommended retaining State Street as TMRS' Custodian Bank, and the Board approved the committee's recommendation at its May 2021 meeting.

TMRS Accountability, Transparency and Financial Integrity

Financial Statements. TMRS management prepared this Report and is responsible for the accuracy of the data and the completeness and fairness of the presentation of the financial information in it. To the best of management's knowledge, the Report's data is accurate in all material respects and is reported in a manner designed to present transparently TMRS' operating results, financial position and Trust Fund assets.

TMRS is required to retain independent auditors to perform an annual audit of the financial statements contained in this Report. CliftonLarsonAllen LLP (CLA) performed the 2021 audit, and information regarding the scope of their audit is included in the Independent Auditors' Report in the Financial Section.

Condensed financial information is provided in Management's Discussion and Analysis (MD&A) in the Financial Section immediately following the Independent Auditors' Report. MD&A provides an analysis of financial information for the current and prior fiscal years and should be read in conjunction with this Letter of Transmittal and the financial statements.

Executive Director's Letter of Transmittal

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Internal Controls. TMRS management is responsible for establishing and maintaining internal controls designed to ensure that TMRS operates effectively and efficiently, reports reliable financial information and complies with applicable laws and regulations. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Reasonable assurance recognizes the cost of a control relative to the benefits likely to be derived and that these judgments by management are based on estimates.

Achievements in Financial Reporting and System Administration

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TMRS a Certificate of Achievement for Excellence in Financial Reporting for TMRS' Annual Comprehensive Financial Report for the year ended December 31, 2020. To be awarded the Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized annual comprehensive financial report that satisfies both generally accepted accounting principles and applicable legal requirements. This was the 34th consecutive year that TMRS has achieved this recognition.

A Certificate of Achievement is valid for one year. We believe that this Report meets the GFOA's Certificate of Achievement program's requirements, and we will submit it to the GFOA to determine its eligibility for another Certificate.

The GFOA also recognized TMRS' 2020 Popular Annual Financial Report for Outstanding Achievement in Popular Annual Financial Reporting.

TMRS received the Public Pension Coordinating Council's 2021 Public Pension Standards Award for Funding and Administration in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Board of Trustees Update

David Landis, the City Manager of the City of Perryton, served as Board Chair in 2021. Mr. Landis was the Board's Vice Chair in 2019 and 2020 and has served as Chair of the Audit Committee and the Advisory Committee on Benefit Design. Mr. Landis' leadership, experience and wisdom benefits us all.

Jesús Garza, the City Manager of the City of Victoria, was elected to serve as Board Chair in 2022. In 2021, Mr. Garza served as Board Vice Chair and Chair of the Advisory Committee on Benefit Design.

Trustee Appointments. In May 2021, the Texas Senate unanimously confirmed the appointments of Trustees Alanis, Huizar, Philibert and Scott to the Board. In May 2022, Governor Abbott reappointed Trustee Landis for a six-year term, which requires Senate confirmation in 2023.

Acknowledgements

2021 was a year of significant achievement. I want to thank Board Chair David Landis, Vice Chair Jesús Garza and their Board colleagues for their leadership and support. I also want to thank my staff colleagues for their unwavering commitment to serving our members, retirees, beneficiaries and participating cities.



David B. Wescoe
Executive Director

June 9, 2022

Board of Trustees

AS OF DECEMBER 31, 2021



David Landis, Chair
City Manager
City of Perryton
Term expires: February 1, 2027



Jesús Garza, Vice Chair
City Manager
City of Victoria
Term expires: February 1, 2023



Anali Alanis
Assistant City Manager
City of Pharr
Term expires: February 1, 2027



Johnny Huizar
City Manager
City of Pleasanton
Term expires: February 1, 2023



Bill Philibert
Director of Human Resources
and Risk Management
City of Deer Park
Term expires: February 1, 2025



Bob Scott
Assistant City Manager
and Chief Financial Officer
City of Carrollton
Term expires: February 1, 2025

Board Committees

AS OF DECEMBER 31, 2021

Advisory Committee on Benefit Design

The Advisory Committee on Benefit Design provides the Board with input on potential benefit changes. The Committee has 10 members, including three Individual Representatives consisting of TMRS members, retirees and elected officials; and seven Group Representatives representing stakeholder associations and groups with an interest in TMRS. Group Representatives are chosen by their respective associations and approved by the Board.

Chair • Jesús Garza

Vice Chair • Bill Philibert

Individual Representatives

- Allison Heyward, Councilmember, City of Schertz
- Paul Parker, Retiree
- Barry Sullivan, City Manager, City of Gainesville

Group Representatives

- Chereé Bontrager, Texas Municipal Human Resources Association
- Paulette Hartman, Texas City Management Association
- Mitch Landry, Texas Municipal Police Association
- Scott Leeton, Combined Law Enforcement Associations of Texas
- Evelyn Njuguna, Texas Municipal League
- David Riggs, Texas State Association of Fire Fighters
- Casey Srader, Government Finance Officers Association of Texas

Audit Committee

The Audit Committee provides oversight of the internal and external audit functions, risk management and internal controls.

Chair • Bob Scott

Vice Chair • Johnny Huizar

Budget and Compensation Committee

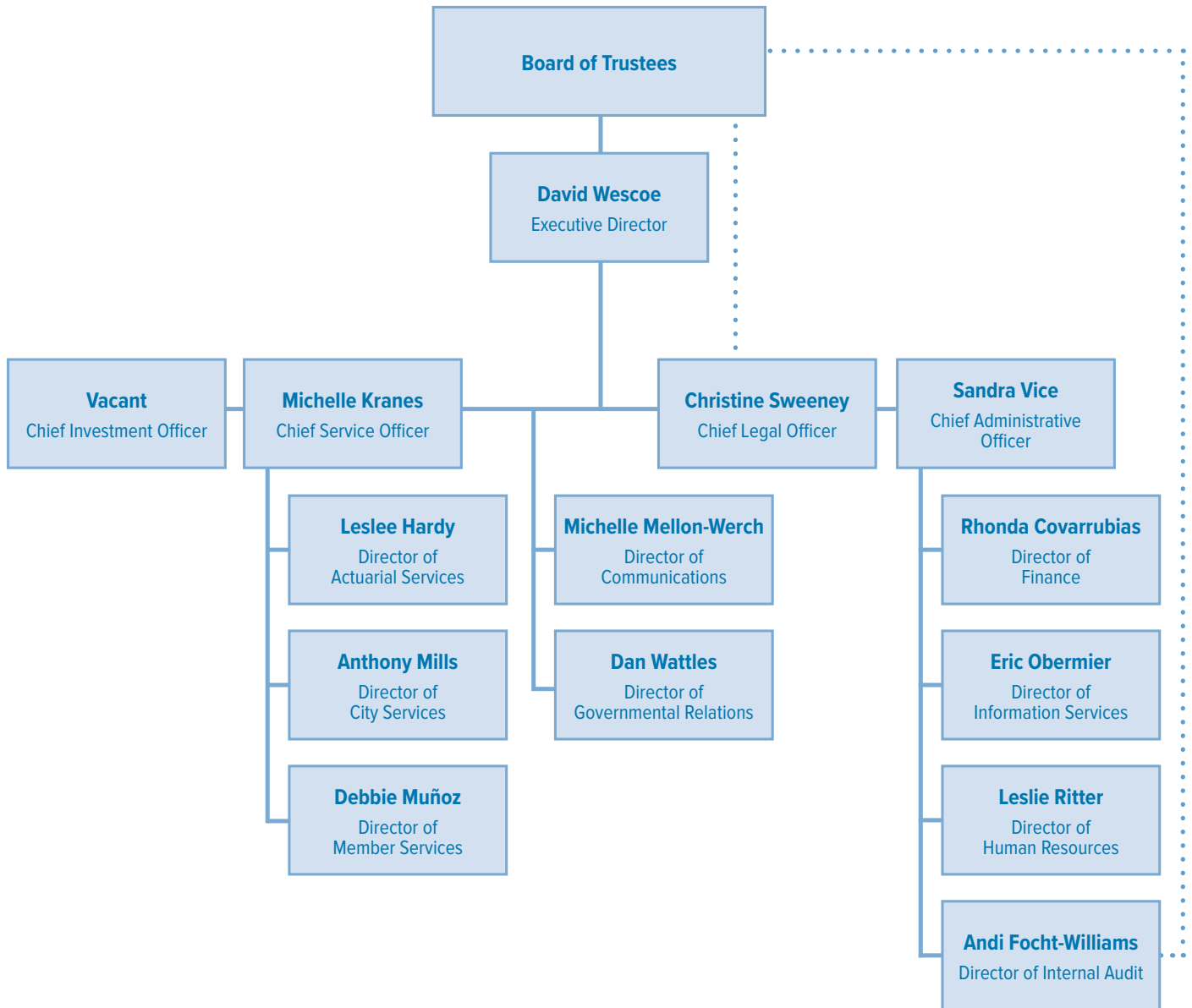
The Budget and Compensation Committee reviews the annual budget and compensation policies.

Chair • Anali Alanis

Vice Chair • Johnny Huizar

Organization Chart

AS OF DECEMBER 31, 2021



Professional Advisors

AS OF DECEMBER 31, 2021

Actuary

Gabriel, Roeder, Smith & Company (GRS)
Irving, TX

Custodian

State Street Bank and Trust Company
Boston, MA

Depository Bank

JPMorgan Chase Bank, N.A.
New York, NY

Fiduciary Counsel

Robert D. Klausner, Esq.
Klausner, Kaufman, Jensen & Levinson
Plantation, FL

Independent Auditor

CliftonLarsonAllen LLP (CLA)
Baltimore, MD

Investment Consultants

Albourne America LLC
San Francisco, CA

RVK, Inc.
Portland, OR

Investment expenses, external investment fees and investment managers are presented in Tables I-7, I-8 and I-9 in the Investment Section.

Highlights

AS OF DECEMBER 31, 2021

Financial Highlights (dollars in millions)	
City Contributions	\$1,076.9
Member Contributions	\$492.3
Retirement Benefits	\$1,645.3
Member Account Refunds	\$62.3
Administrative Expenses	\$20.7
Fiduciary Net Position	\$38,593.0
Composite Funded Ratio	90.5 %

Investments (dollars in millions)	
Investments	\$38,790.2
Time-Weighted Net Investment Returns:	
1 Year	12.86 %
3 Years	12.08 %
5 Years	9.28 %
10 Years	7.82 %
Actuarial Investment Return Assumption	6.75 %

Membership Statistics	
Active Members	115,831
Retired Members	68,092
Inactive, Vested Members	28,804
Total Members	212,727

Participating Cities	
Total Participating Cities	901
New Participating Cities	6
Number of Cities with:	
City Match – 1:1	178
City Match – 1.5:1	113
City Match – 2:1	610
Member Contribution Rate – 3%	3
Member Contribution Rate – 5%	332
Member Contribution Rate – 6%	100
Member Contribution Rate – 7%	466
5-Year Vesting	853
10-Year Vesting	48

Highlights are presented for the Pension Trust Fund only.

GFOA Certificate of Achievement for Excellence in Financial Reporting



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Texas Municipal Retirement System

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2020

Christopher P. Morill

Executive Director/CEO

This Certificate of Achievement for Excellence in Financial Reporting was presented to TMRS by the Government Finance Officers Association (GFOA) for the year ended December 31, 2020. This is the 34th consecutive year that TMRS has received this prestigious award.



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2021***

Presented to

Texas Municipal Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

This Public Pension Standards Award for Funding and Administration was presented to TMRS by the Public Pension Coordinating Council (PPCC) for 2021. This is the 16th consecutive year that TMRS has received the award for meeting these standards.

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