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June 4, 2024

Board of Trustees

Texas Municipal System
P.O. Box 149153
Austin, Texas 78714-9153

Dear Trustees:

The following is a report on the performance of the plan for the fiscal year ended December 31, 2023, with background on the underlying capital market environment.

Market Review for the Year Ended December 31, 2023

Most asset classes (except broad based commodities) delivered positive performance in 2023. In the fiscal year ending December 31, 2023, U.S. stocks, as measured by the Russell 1000 Index returned 26.5%. International stocks returned 18.2% as measured by the MSCI EAFE Index. Emerging markets returned 9.8%, underperforming both U.S. and international-developed markets, however the significant weight to China was a drag on the index. U.S. high quality fixed income returns were also positive over the year, as the Bloomberg U.S. Aggregate Bond Index rose 5.5%.

The U.S. economy experienced a “no landing” as inflation pressures declined, while growth defied expectations to the upside as US real GDP rose 2.5% for the year. The Fed ended its current iteration of rate hikes in June. Consequently, risk assets rallied late in the year anchored on the expectations of lower inflation and pricing in a large number of rate cuts in 2024 by the Fed.

The TMRS Investment Portfolio

As of December 31, 2023, the fair value of the TMRS total investment portfolio was \$39.3 billion and its return, net-of-fees, was 11.6%. In the same period, the median fund in the InvMetrics peer group of Public Defined Benefit plans greater than \$10 billion in assets returned 11.3%. TMRS’s five-year annualized return net-of-fees for the period ended December 31, 2023, was 7.8%, outperforming the Actual Allocation Benchmark by 1.2%. and the Board’s Actuarial Return Assumption of 6.75%.

All asset class allocations remain in compliance with the targeted ranges as outlined by the Investment Policy Statement. With most global capital markets realizing strong positive returns in the fiscal year ended December 31, 2023, NEPC continues to be supportive of TMRS’s chosen asset allocation.

NEPC, LLC serves as TMRS’s independent investment consultant, providing TMRS with asset allocation guidance, quarterly economic and investment market updates, and performance reviews, together with investment manager monitoring and selection advice. In preparing our performance analysis for the plan, we rely on the accuracy of financial data and performance provided by TMRS’s custodian bank, State Street. Performance is calculated using a time-weighted rate of return methodology based upon fair values. The money-weighted rate of returns presented in the Financial Section of this Report is calculated using a different methodology. TMRS’s goals are measured against stated policy objectives, appropriate benchmarks, and comparative universes over multiple time periods. This review process allows TMRS to evaluate whether established goals are being achieved on an absolute, relative, and risk-adjusted basis.

Best Regards,

A handwritten signature in dark ink, appearing to read 'Samuel Austin, III'.

Samuel Austin, III, Partner, NEPC

Letter from the Chief Investment Officer



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

It is with humility and a deep sense of responsibility that I address you as Chief Investment Officer. First, I would like to extend my gratitude to David Hunter for his dedication and leadership of the Investment team. His commitment and vision have been instrumental in setting a strong foundation for the next chapter of TMRS' investment success and growth.

Since my arrival in January 2024, the team has aligned on three key strategic areas. First, the team will continue to build a benchmark-aligned global public markets portfolio with selective active mandates that generate long-term outperformance. Secondly, the team will focus on strengthening and upgrading our private markets relationships as the greatest dispersion of manager returns lies in private markets. In addition, increasing private market co-investments, which are investments TMRS makes alongside investment managers on a reduced or no-fee basis, will be a priority. Lastly, we will focus on attracting the nation's best investment talent and building a culture that attracts and partners with the world's best investment managers.

I am proud to announce that TMRS claims compliance with the Global Investment Performance Standards (GIPS®), and that the Trust Fund was examined, and the organization verified for 2023. All valuations are reported in USD. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote TMRS, nor does it warrant the accuracy or quality of the content contained herein. A copy of the 2023 GIPS Asset Owner report can be obtained by emailing invrisk@tmrs.com.

Trust Fund portfolio details and an investment market overview can be found in NEPC's letter in this section of the ACFR. Detailed asset allocation and performance reports prepared by NEPC are available at tmrs.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Yup Kim", is written over a light blue circular background.

Yup Kim
Chief Investment Officer
June 4, 2024

Outline of Investment Policies

The TMRS Board of Trustees (Board) adopts an Investment Policy Statement (IPS) that governs the management of Trust Fund investments. The IPS describes investment objectives, beliefs, benchmarks, asset allocation and responsibilities of the Board, staff, and investment managers and consultants. The Board reviews the IPS annually.

Investment Program Objective

TMRS' investment program objective is to ensure that Members receive the benefits they have accrued through their employment with participating cities at a reasonable and predictable cost to those cities. To achieve this objective, the Board, in consultation with its Consulting Actuary, adopts an Actuarial Return Assumption (ARA). Trust Fund assets will be invested to achieve a total return that meets or exceeds the current ARA of 6.75%.

Standards of Care

A. Standard of Care. As fiduciaries, the Board must:

1. Exercise the degree of judgment and care, under the circumstances that persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering the probable income and safety of their capital.
2. Evaluate investment decisions in the context of the entire Trust Fund portfolio and with appropriate risk and return objectives.

B. Conflict of Interest Prohibited. The Board, staff, and investment managers and consultants will refrain from any activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial recommendations and decisions. These parties are required to disclose, in writing, any known relationships that could create, or appear to create, a conflict of interest.

C. Decisions in the Best Interest of TMRS. The Board and staff are required to make all investment decisions in the best interest of TMRS and shall comply with applicable TMRS policies on personal investment activities.

Investment Management

The Board is responsible for the administration of TMRS and its investment program, and the Board must discharge its duties solely in the interest of providing benefits to members, retirees and beneficiaries.

The Board adopts investment beliefs based on capital market theories and other investment management principles generally accepted by long-term focused institutional investors.

Outline of Investment Policies

CONTINUED

Asset Allocation

One of the Board's investment beliefs is that the primary determinant of portfolio risk and return is TMRS' long-term asset allocation. The Board's Asset Allocation includes asset classes, strategic target allocations with minimum and maximum allocation ranges, and benchmarks to measure investment performance. The Asset Allocation is based on an Asset Allocation Study that includes expectations for long-term return and risk, and is intended to produce investment returns equal to or greater than the actuarial return assumption (ARA) at a level of risk acceptable to the Board. In adopting the Asset Allocation, the Board considers TMRS' assets and liabilities, risk and return trade-offs, the ability to deliver on promised benefit payments at a reasonable and predictable cost to participating cities, the risk of permanent loss of capital, Trust Fund liquidity, and the ability to maintain a long-term strategy during sustained periods of market volatility.

The Board has adopted the following Asset Allocation and respective benchmarks as of December 31, 2023:

Table I-1

Asset Allocation				
Asset Class	Minimum %	Target %	Maximum %	Benchmark
Global equity	25%	35%	45%	MSCI All Country World Investable Market Index, Net
Core fixed income	1%	6%	11%	Bloomberg U.S. Aggregate Bond Index
Non-core fixed income	15%	20%	25%	Bloomberg U.S. Aggregate Bond Index + 1.50%
Real estate	7%	12%	17%	NCREIF - ODCE Index, Net
Other public & private markets	7%	12%	17%	MSCI All Country World Investable Market Index, Net
Hedge funds	0%	5%	10%	HFRI Asset Weighted Composite Index
Private equity	5%	10%	15%	MSCI All Country World Investable Market Index, Net
Cash equivalents	0%	0%	3%	FTSE 1-Month U.S. T-Bill Index

The Asset Allocation is reviewed at least annually for reasonableness, taking into consideration current capital markets and economic conditions and the Board's views regarding long-term investment goals and objectives.

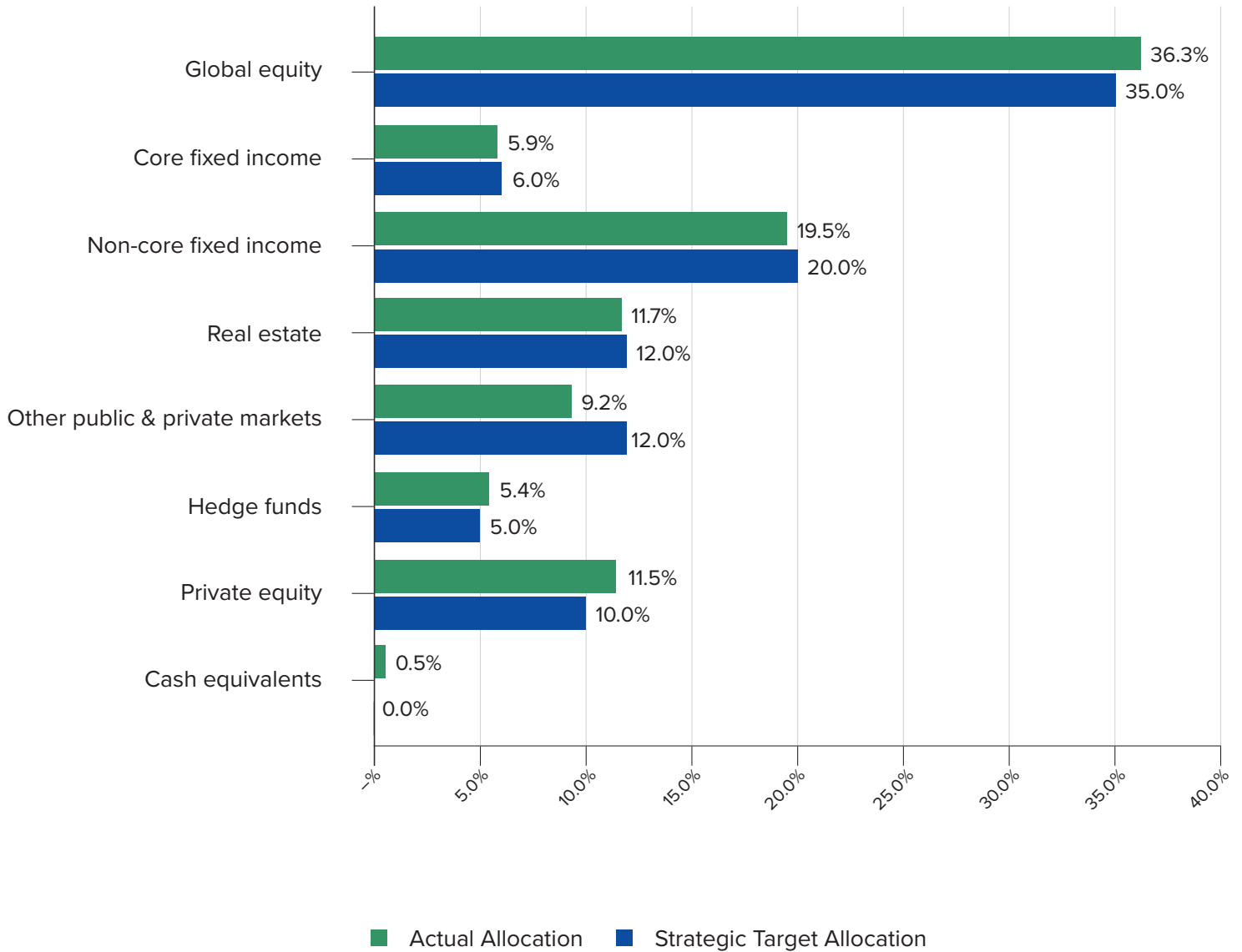
An Asset Allocation Study that comprehensively reviews the Asset Allocation is completed at least every four years. The Board verifies or amends its Asset Allocation upon review of an Asset Allocation Study.

An Asset-Liability Modeling Study is conducted at least every four years.

The Board assesses the Asset Allocation's performance over five-year rolling periods compared to the ARA and asset class benchmarks.

Asset Allocation

Actual Allocation compared to Strategic Target Allocation
As of December 31, 2023



Investment Summary

The following summary of investments presents the investment values categorized by asset class, and is therefore not consistent with the categorization on the Statement of Fiduciary Net Position

Table I-2

Investment Summary by Asset Class		
As of December 31, 2023		
	Fair Value	Percent of Total
Global equity		
Short term investments	\$ 37,237,901	0.1 %
Domestic public equity securities	1,639,622,126	4.2
International public equity securities	1,322,515,600	3.4
REITS	44,226,663	0.1
Commingled public equity funds	11,224,712,192	28.5
Total global equity	14,268,314,482	36.3
Core fixed income		
Short term investments	21,738,605	0.1
Fixed income securities	2,304,473,890	5.8
Total core fixed income	2,326,212,495	5.9
Non-core fixed income		
Short term investments	98,663,477	0.3
Fixed income securities	1,542,196,782	3.9
Non-core fixed income funds	5,996,376,806	15.3
Total non-core fixed income	7,637,237,065	19.5
Real estate		
Private real estate funds	4,611,353,404	11.7
Total real estate	4,611,353,404	11.7
Other public & private markets		
Other public & private markets funds	3,599,524,814	9.2
Total other public & private markets	3,599,524,814	9.2
Hedge funds		
Hedge funds	2,105,259,127	5.4
Total hedge funds	2,105,259,127	5.4
Private equity		
Private equity funds	4,508,388,458	11.5
Total private equity	4,508,388,458	11.5
Cash equivalents		
Short term investments	214,671,947	0.5
Total cash equivalents	214,671,947	0.5
Total Investments	\$ 39,270,961,792	100.0 %
Other investment-related items		
Custodial cash	44,018,072	
Interest and dividends receivable	40,298,174	
Unsettled trades receivable	10,372,935	
Management fees payable	(5,556,478)	
Unsettled trades payable	(29,010,791)	
Trust fund net assets value	\$ 39,331,083,704	

Largest Holdings

Table I-3

Largest Holdings – Public Equities		
As of December 31, 2023		
Description	Shares/Units	Fair Value
Apple Inc.	304,056	\$58,539,902
Microsoft Corporation	137,293	\$51,627,660
Samsung Electronics Co Ltd.	597,822	\$36,438,409
Tencent Holdings Ltd.	859,300	\$32,309,517
Taiwan Semiconductor Manufacturing Company	1,475,000	\$28,499,862
Amazon.com Inc.	180,770	\$27,466,194
Nvidia Corp.	48,042	\$23,791,359
Siemens Ag Reg	119,105	\$22,356,265
Taiwan Semiconductor SP ADR	206,236	\$21,448,544
Alibaba Group Holding Ltd	2,132,152	\$20,642,845

Table I-4

Largest Holdings – Fixed Income Securities				
As of December 31, 2023				
Description	Coupon	Maturity	Par Value	Fair Value
U.S. Treasury Note/Bond	3.875%	4/30/2025	\$69,105,000	\$68,500,331
U.S. Treasury Note/Bond	3.375%	5/15/2033	\$64,800,000	\$62,329,500
U.S. Treasury Note/Bond	4.750%	7/31/2025	\$60,000,000	\$60,289,453
U.S. Treasury Note/Bond	4.125%	7/31/2028	\$50,010,000	\$50,576,519
U.S. Treasury Note/Bond	4.000%	12/15/2025	\$45,338,000	\$45,112,195
U.S. Treasury Note/Bond	3.625%	5/15/2026	\$42,000,000	\$41,530,781
U.S. Treasury Note/Bond	3.125%	8/31/2027	\$41,995,000	\$40,848,340
U.S. Treasury Note/Bond	3.625%	5/15/2053	\$39,800,000	\$36,982,906
U.S. Treasury Note/Bond	3.500%	2/15/2033	\$28,156,000	\$27,362,463
U.S. Treasury Note/Bond	3.500%	4/30/2030	\$26,710,000	\$26,145,021

A complete portfolio listing will be provided upon request.

The tables above list the top ten direct holdings of public equity and fixed income securities, and do not include the individual securities held through investment in commingled funds.

Investment Results

Total Trust Fund and Asset Class returns for the year ended December 31, 2023 are provided in Table I-5.

Table I-5

Total Trust Fund and Asset Class Returns				
	1 Year	3 Years	5 Years	10 Years
Trust fund	11.64%	5.29%	7.79%	6.15%
Trust fund active weighted benchmark	11.99%	3.28%	6.55%	5.40%
Core fixed income	5.80%	-3.14%	1.46%	2.03%
Core fixed income Benchmark	5.53%	-3.31%	1.10%	1.81%
Non-core fixed income	11.39%	4.48%	5.61%	N/A
Non-core fixed income benchmark	7.11%	-0.43%	2.49%	N/A
Global equity	21.56%	5.06%	10.91%	7.80%
Global equity benchmark	21.58%	5.46%	11.49%	8.12%
Real estate	-7.71%	8.11%	6.07%	8.76%
Real estate benchmark	-12.73%	4.09%	3.75%	7.03%
Other public & private markets	14.50%	7.33%	8.11%	4.80%
Other public & private markets benchmark	21.58%	4.42%	5.56%	3.92%
Hedge funds	10.50%	3.90%	5.87%	N/A
Hedge funds benchmark	3.74%	3.29%	5.67%	N/A
Private equity	7.86%	16.51%	18.37%	N/A
Private equity benchmark	21.58%	7.19%	12.60%	N/A
Cash equivalents	5.55%	2.39%	1.97%	1.38%
Cash equivalents benchmark	5.13%	2.19%	1.84%	1.21%

N/A means TMRS was not invested in the asset class for 10 years.

Rates of return are calculated from December 31, 2023 values, net of external investment management fees through December 31, 2020, and net of external and internal investment management fees from January 1, 2021 to December 31, 2023, using time-weighted rate of return.

Benchmarks for each asset class as of December 31, 2023 are as follows:

Total fund active weighted benchmark return is the weighted-average of the asset class composite benchmarks associated with each fund.

Core fixed income benchmark return is calculated monthly using the Bloomberg U.S. Aggregate Bond Index.

Non-core fixed income benchmark return is calculated monthly using the Bloomberg U.S. Aggregate Bond Index + 1.5%.

Global equity benchmark return is calculated monthly using the MSCI All Country World Investable Market Index, Net.

Real estate benchmark return is calculated quarterly using the National Council of Real Estate Investment Fiduciaries — Open-End Diversified Core Equity Index, Net.

Other public and private markets (OPPM) benchmark return is calculated monthly using the MSCI All Country World Investable Market Index, Net.

Hedge funds benchmark return is calculated monthly using the HFRI Asset Weighted Composite Index.

Private equity benchmark return is calculated quarterly using the MSCI All Country World Investable Market Index, Net.

Cash equivalent benchmark return is the FTSE 1-Month U.S. Treasury Bill Index.

Investment Expenses

Table I-6

Schedule of Investment Expenses	
For the Year Ended December 31, 2023	
Staff salaries and payroll taxes	\$ 4,274,158
Employee benefits	851,418
Custodial services	1,515,000
Investment consulting	1,811,400
Legal	474,478
Information technology	1,580,902
Other administrative	180,966
Management fees paid from Trust Fund	18,425,546
Total investment expenses	\$ 29,113,868

Table I-7

Schedule of External Investment Fees						
For the Year Ended December 31, 2023						
Asset Class	Management Fees Paid From Trust Fund	Management Fees Netted from NAV	Total Investment Management Fees	Brokerage Fees / Commissions	Performance Fees / Carried Interest Netted from NAV	Total Direct / Indirect Fees and Commissions
	(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (3)+(4)+(5)
Global equity	\$ 12,718,003	\$ —	\$ 12,718,003	\$ 891,513	\$ —	\$ 13,609,516
Fixed income	5,707,543	43,207,283	48,914,826	—	64,824,044	113,738,870
Real assets	—	46,270,397	46,270,397	—	(18,410,850)	27,859,547
Alternative/other	—	166,052,852	166,052,852	—	160,380,536	326,433,388
Cash equivalents	—	265,148	265,148	—	—	265,148
Totals	\$ 18,425,546	\$ 255,795,680	\$ 274,221,226	\$ 891,513	\$ 206,793,730	\$ 481,906,469

Fees for private investments are not reflected as investment expenses in TMRS' financial statements but are included in the net appreciation/(depreciation) in fair value of investments as reported in the Statement of Changes in Fiduciary Net Position. The alternative/other asset class includes hedge funds, other public and private markets funds, and private equity funds.

Investment Managers

Pursuant to Texas Government Code 802.103, Table I-8 discloses all investment managers engaged by TMRS.

Table I-8

Investment Managers As of December 31, 2023
Acadian Asset Management
Arrowstreet Capital
Champlain Investment Partners
Columbia Management Investment Advisers
Ellington Management Group
Northern Trust Investments
Voya Investment Management
Wellington Management
William Blair Investment Management

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