



AGENDA

Meeting of the Board of Trustees

Thursday, September 19, 2024 – 9:00 a.m.

TMRS Office
2717 Perseverance Drive, Suite 300
Austin, Texas

Zoom Link for Public:

<https://tmrs.zoom.us/j/86298596055?pwd=TEEk3hLozfoxW05u9OQpFERV6qYcqH.1>

The Board may discuss any item on the Agenda at any time during the meeting.

Call to Order

Invocation

Pledge of Allegiance

Consent Agenda

1. **Consider and Act on Consent Agenda.** *Bill Philibert*
 - a. Approve Minutes from the June 27, 2024 Board of Trustees meeting
 - b. Quarterly Confirmation of Member Retirements
 - c. Quarterly Confirmation of Supplemental Death Benefit Payments and Grants of Extended Supplemental Death Benefits Coverage
 - d. Receive Quarterly Financial Statements as of June 30, 2024

Executive Director Reports

2. **Executive Director's Report.** *David Wescoe*
3. **Receive Senior Staff Quarterly Reports.** Deputy Executive Director (*Debbie Munoz*), Chief Legal Officer (*Christine Sweeney*), Chief Service Officer (*Anali Alanis*), Chief Information Officer (*Jac Greene*), and Chief Financial Officer (*Nick O'Keefe*)

Board Committees

4. **Consider and Act on Appointment to Audit Committee.** *Bill Philibert*
5. **Consider and Act on Appointment to Stakeholder Advisory Committee.** *Debbie Munoz*

Audit

6. **Receive Update on External Quality Assessment and Internal Audit Activities.** *Kristyn Scoggins*

Finance Reports

7. **Report on September 12, 2024 Budget and Compensation Committee Meeting.** *Bill Philibert*
8. **Discuss 2025 Proposed Operating and Capital Budgets.** *Nick O'Keefe*

Legislative Agenda

9. **Discuss Potential Legislation Topics.** *Bill Philibert, Bob Scott and Christine Sweeney*

Investment Reports

10. **Investment Reports.** *Yup Kim*
 - a. **Chief Investment Officer's Report**
 - b. Trust Fund Report: Second Quarter 2024
 - c. Receive 2024 Completed Investments Report
 - d. **Receive Second Quarter 2024 Investment Compliance Report**
11. **General Investment Consultant Quarterly Report.** *Sam Austin, NEPC*
12. **Receive Annual Review and Consider and Act on Asset Allocation Amendments.** *Yup Kim*

13. **Board Education: Private Equity Asset Class.** *Tom Masthay*

Executive Session

14. **Executive Session.** *Bill Philibert*

- a. In accordance with Section 551.074, Texas Government Code, the Board of Trustees may meet in executive session to deliberate personnel matters, including the appointment, employment, evaluation, compensation, performance, reassignment, duties, discipline, selection or dismissal of one or more public officers or employees, including without limitation, the Executive Director, the Internal Auditor and Chief Legal Officer, and thereafter may consider appropriate action in open session; and
- b. In accordance with Section 551.071, Texas Government Code, the Board of Trustees will meet in executive session to seek and receive the advice of its attorney about pending or contemplated litigation, a settlement offer, or a matter in which the duty of the attorney to TMRS under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with the Open Meeting law.

Future Agenda Items

15. **Call for Future Agenda Items.** *Bill Philibert*

Adjournment

The Board may meet in Executive Session on any item listed above as authorized by the Texas Open Meetings Act or by the Texas Municipal Retirement System Act.

In accordance with Texas Government Code Section 855.007, the Board may conduct the open and/or closed portions of the meeting by telephone conference call and/or by videoconference. The location of the meeting at which at least one Trustee of the Board will be physically present is the Texas Municipal Retirement System office, 2717 Perseverance Drive, Suite 300, Austin, TX, which will be open and audible to the public during the open portions of the meeting.



September 10, 2024

To: Board of Trustees
From: Christine M. Sweeney, Chief Legal Officer *CS*
Re: Agenda Item 1: Consider and Act on Consent Agenda

The Consent Agenda includes Minutes from the June 27, 2024 Board meeting, quarterly Retirement and Supplemental Death Benefit Reports, and financial statements as of June 30, 2024. The Consent Agenda is adopted as one item.

RECOMMENDATION

Staff recommends that the Board adopt the Consent Agenda as presented.

ATTACHMENTS

- 1 - Minutes from the June 27, 2024 Board meeting
- 2 - Retirement and Supplemental Death Benefit Reports
(summary report attached; detailed report in Diligent Resource Center due to confidential information)
- 3 - Financial Statements (in Diligent Board Books)



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

June 27, 2024 – 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 the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with the following Trustees present: Chair Bill Philibert, Vice Chair David Landis, Tommy Gonzalez, and Tricia Mirabelle. Trustees Roy Rodriguez and Bob Scott were absent.

Staff present included: David Wescoe, Debbie Muñoz, Christine Sweeney, Anali Alanis, Jac Greene, Yup Kim, Nick O’Keefe, Kristyn Scoggins, Tom Masthay and Madison Jechow. Consultants present included: Christian McCormick and Brittany Smith.

1. Consider and Act on Consent Agenda.

Mr. Gonzalez moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the May 23, 2024 meeting. Ms. Mirabelle seconded the motion, which passed 4-0.

2. Executive Director’s Report.

Mr. Wescoe said Monica Huffer was selected the Rising Star in the State of Texas as awarded by Governor Abbott. TMRS received Pioneer Level and Engagement Level awards from the Quality Texas Foundation. The City of Weston became TMRS’ 938th city. TMRS’ Member Service Center had a median time of seven seconds in responding to phone calls last week. Mr. Gonzalez said the Quality Texas awards shows TMRS’ commitment to good service measured by benchmarks.

3. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the Senior Staff Quarterly Reports to the Board.

4. Report on Audit Committee Meeting.

Mr. Landis said the Audit Committee met on June 6, 2024, and received an update on the external assessment of TMRS’ Internal Auditor that is expected to be complete in August. The Committee also received Ms. Scoggins’ updates on internal audits regarding cybersecurity and city contributions expected later this year and an internal audit of benefit payments expected in 2025. Mr. O’Keefe provided the Committee with a performance review and salary adjustment recommendation for Ms. Scoggins. Mr. Landis moved that the Board approve the recommended 7.7% salary adjustment. Mr. Philibert seconded the motion, which passed 4-0.

5. Report on Stakeholder Advisory Committee Meeting.

Ms. Mirabelle said the Stakeholder Advisory Committee met on June 6, 2024. At prior meetings, the Committee reached consensus on making all city benefit changes effective January 1 after adoption and removing the statutory maximum contribution rate for cities. On June 6, the Committee continued discussions on decoupling Updated Service Credits (USC) from Cost of Living Adjustments (COLAs) and providing additional COLA options for cities. The additional COLA options discussed included making the non-retroactive COLA permanent and providing additional COLA percentage levels. All Committee members who voiced an opinion were in favor of the changes. The Committee also discussed an 80% non-retroactive repeating COLA option, but there was less enthusiasm for that. The proposed changes and Committee input will be further discussed with the Board at its September meeting.

6. Consider and Act on Renewal of Governmental Relations Consultant Contract.

Mr. Wescoe recommended renewing TMRS' agreement with governmental relations consultant Ron Lewis & Associates. Mr. Landis moved that the Board retain Ron Lewis & Associates for another two years, with the option to renew for an additional two-year term, at the rate of \$9,000 a month. Ms. Mirabelle seconded the motion, which passed 4-0.

7. Receive System and Organization Controls (SOC) Audit Results.

Brittany Smith, CliftonLarsonAllen LLP (CLA) Engagement Manager, reported that CLA provided a clean, unmodified opinion on the System and Organization Controls (SOC) Audit Report around the controls presented by TMRS, and that they were fairly presented, adequately designed and operating effectively during the period for May 1, 2022, through April 30, 2023. Ms. Smith said no exceptions were noted, which takes a lot of effort to achieve.

8. Receive 2023 Financial Statement and the Schedule of Changes in Fiduciary Net Position by Participating City Audit Results.

Ms. Smith presented the results of the 2023 Financial Statements and Schedule of Changes in Fiduciary Net Position audits. Ms. Smith informed the Board that CLA provided a clean, unmodified opinion on TMRS Financial Statements. CLA also completed its audit of the Schedule of Changes in Fiduciary Net Position (by Participating City) and gave a clean, unmodified opinion of the City information in relation to the TMRS financial statements as a whole.

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

Ms. Smith provided information to the Board required under AICPA auditing standards. She reminded the Board of CLA's responsibilities under U.S. Generally Accepted Auditing Standards. She stated that no new TMRS accounting policies were implemented, there were no adjustments to financial statements, no significant new transactions were observed, and TMRS management was very cooperative during the audit process. There were no disagreements with management, no difficulties encountered during the audit, management did not consult with other accountants, and a letter with management representations was provided.

10. Receive and Approve Distribution of 2023 Annual Comprehensive Financial Report.

Mr. O’Keefe recommended that the Board approve the distribution of the Annual Comprehensive Financial Report for the year ended December 31, 2023, and he reviewed its contents. Mr. Landis said that it was phenomenal that CLA found no adjustments in reviewing the financial statements, and he moved that the Board accept and approve the distribution of the 2023 Annual Comprehensive Financial Report. Mr. Gonzalez seconded the motion, which passed 4-0.

11. Investment Reports.

Mr. Kim announced the TMRS Booth Summer Fellowship, named in honor of David Booth, Founder and Chairman of Dimensional Fund Advisors of Austin, and he welcomed Kash Molwani, a former Vice President at Blackstone and an MBA candidate at Harvard Business School, as the inaugural Booth Summer Fellow. Mr. Kim said that private market portfolio pacing and construction are on target, and the Trust Fund asset allocation complies with its Board-approved ranges. TMRS is increasing its co-investments, currently 5.3% of private market assets, with a goal of 30% of the private markets allocation within five years. TMRS net returns exceeded benchmarks and the actuarial rate assumption of 6.75% and placed TMRS in the second quartile of peers in the last year while taking less risk than peers. In the first quarter, completed investments totaled \$445 million.

12. General Investment Consultant Quarterly Report.

Mr. McCormick said all the news is directionally positive. TMRS’ Trust Fund performance exceeded benchmarks in the one-year and five-year periods, and assets now exceed \$40 billion. Mr. Gonzalez asked for comparison of TMRS’ funded status to other funds. Mr. McCormick said TMRS is 90% funded, which is better than most other funds with \$10 billion or more in assets. TMRS was in the second quartile among peers last year though continuing to be in the fourth quartile for the five-year period. The direction of travel is positive since the Trust Fund further diversified and added strategies three years ago. Mr. Gonzalez asked where TMRS fell in terms of being fully funded, and Mr. McCormick said closer to the top although there was a wide variety of funding levels among peers. Mr. Wescoe said that while TMRS in whole is 90% funded, more than 30% of cities in TMRS are 100% funded.

13. Consider and Act on Amendments to the Investment Policy Statement.

Mr. Kim presented proposed amendments to the Investment Policy Statement (IPS) to align the IPS with the current investment strategy of pursuing a benchmark-aware global public markets portfolio and concentrating the private markets portfolio with world class managers while seeking co-investment opportunities. The proposed amendments also strengthen controls and clarify the IPS.

After Mr. Kim’s presentation, Mr. Philibert recognized Brynn Paiva with the Laborers’ International Union of North America to make a public comment on this Agenda item. Ms. Paiva said the higher standards proposed in the IPS amendments should integrate environmental, social

and governance factors consistent with IPS section III.B., investment belief number 11. Ms. Paiva said LIUNA was concerned about human capital risks related to a \$200 million residential project of Madison Realty Capital, an investment manager to TMRS, and its developer, Kushner Companies. Ms. Paiva encouraged use of qualified and responsible contractors at this project consistent with the IPS.

Mr. Gonzalez moved that the Board approve the amendments to the Investment Policy Statement. Mr. Landis seconded the motion, which passed 4-0.

14. Board Education: Real Assets.

Mr. Masthay presented an educational session on TMRS' Real Assets portfolio. The portfolio is designed to enhance return and provide diversification for the Trust Fund. Real estate and infrastructure have been among TMRS' highest performing asset classes. Mr. Masthay reviewed the various types of real estate, infrastructure and other private markets real assets. Mr. Gonzalez inquired about office real estateReal estate market difficulties. Mr. Masthay said TMRS holds about half of the weight in office real estate compared to the benchmark, and TMRS is in position to hold what assets TMRS owns until the market comes back. Real estate outperformed its benchmark and also outperformed public equities in the past decade although it was negative last year. Infrastructure has been TMRS' second highest performing asset class since 2017, and other private markets has produced about 11% since inception. Mr. Masthay said TMRS was on pace to achieve its investment goals for 2024 and expand its co-investment efforts.

15. Executive Session.

The Board did not go into Executive Session.

16. Call for Future Agenda Items.

There being no further business, Mr. Philibert adjourned the meeting at 10 a.m.

David B. Wescoe
Executive Director

Bill Philibert
Chair, Board of Trustees



September 10, 2024

To: Board of Trustees

From: April Hernandez, Director of Benefit Administration *AH*

Re: Agenda Item 1 - Consent Agenda – Retirements and Supplemental Death Benefit Payments

The attached Retirement Report and Supplemental Death Benefits Payments Report reflect processing activity by the Benefit Administration Department in accordance with the TMRS Act. Both have been reviewed and approved by Chief Service Officer Anali Alanis.

Board Retirement Report

Summary of Individual Member Retirements Processed from 04-2024 to 06-2024

Total Number of Retirements by Option	Service	Disability	Total
Retiree Life Only	338	1	339
Retiree Life -- 100% to Survivor	337	2	339
Retiree Life -- 75% to Survivor	97	1	98
Retiree Life -- 50% to Survivor	169	0	169
Retiree Life -- 5 Years Guaranteed	17	0	17
Retiree Life -- 10 Years Guaranteed	15	0	15
Retiree Life -- 15 Years Guaranteed	51	0	51
Cashout of Reserves	30	2	32
Total Number -- All Options	1,054	6	1,060

Total Monthly Benefits (Nearest Dollar)	\$2,219,173	\$5,332	\$2,224,505
Average Monthly Benefit (Nearest Dollar)	\$2,105	\$889	\$2,099
Average Age at Retirement	60	50	60
Average Years of Service at Retirement	20	12	19

Partial Lump Sum Distributions	
No. of Retirements Taking a PLSD	836
Total Amount Paid	\$58,187,963
% of PLSD Funds Rolled Over	62%
% of PLSD Funds Not Rolled Over	38%

**Texas Municipal Retirement System
Supplemental Death Benefits Report**

**Summary of Supplemental Death Benefit Payments and Applications for Supplemental
Death Benefits Extended Coverage from April 1, 2024 to June 30, 2024**


Supplemental Death Benefit Payments	
By Beneficiaries of Active Members	22 payments totaling \$1,126,721.05
By Beneficiaries of Retired Members	214 payments totaling \$1,496,166.66
Applications for Supplemental Death Benefits Extended Coverage	
None	

TEXAS MUNICIPAL RETIREMENT SYSTEM
EXPENSE FUND
Schedule of 2024 Operating Expenses
For the Six Months Ending June 30, 2024
PRELIMINARY UNAUDITED

	Budget	Actual	Budget (\$) Remaining	Budget (%) Remaining
Personnel services:				
Staff Salaries and payroll taxes	\$ 18,229,781	\$ 7,835,914	\$ 10,393,867	57.0
Employee benefits	4,373,874	1,995,548	2,378,326	54.4
Total personnel services	22,603,655	9,831,462	12,772,193	56.5
Professional services:				
Actuarial	774,900	342,450	432,450	55.8
Audit	217,300	169,222	48,078	22.1
Custodial and banking	1,577,000	757,319	819,681	52.0
Information services	563,500	717,423	(153,923)	-27.3
Investment	2,159,283	951,358	1,207,925	55.9
Legal	868,500	151,832	716,668	82.5
Other services	575,320	231,367	343,953	59.8
Total professional services	6,735,803	3,320,971	3,414,832	50.7
Facilities	2,965,773	1,387,969	1,577,804	53.2
City and member outreach	820,750	273,979	546,771	66.6
Information technology:				
Investment department technology	1,027,353	322,852	704,501	68.6
Software and support	2,189,290	847,484	1,341,806	61.3
Hardware / data center / other	294,272	72,622	221,650	75.3
Total information technology	3,510,915	1,242,958	2,267,957	64.6
Other administrative:				
Board of Trustees / Advisory Committee	143,640	36,459	107,181	74.6
Professional development	479,291	193,340	285,951	59.7
Supplies / document storage / misc.	520,482	305,708	214,774	41.3
Travel	585,160	161,953	423,207	72.3
Total other administrative	1,728,573	697,460	1,031,113	59.7
Total operating expenses	\$ 38,365,469	\$ 16,754,799	\$ 21,610,670	56.3



September 10, 2024

To: Board of Trustees
From: David Wescoe, Executive Director 
Re: Agenda Item 2: Executive Director's Report

It's been a productive quarter for TMRS staff.

Chief Service Officer Anali Alanis Was Accepted as a Member of the Governor's 2024 Executive Development Program, Class XLII. The Office of the Governor, in conjunction with the LBJ School of Public Affairs at the University of Texas at Austin, sponsors the Governor's Executive Development Program to train executive staff from around state government to lead the way towards a more responsible and accountable government. The three-week program is offered once each year to provide a forum for agency and university executives to receive leadership training from nationally recognized public and private sector experts. (Debbie Muñoz was selected to participate in last year's Program as a member of the Class of XLI.)

TCMA. Colin Davidson, Anthony Mills, and teammates traveled to South Padre Island to attend the Texas City Management Association's Annual Conference. They arrived at the conference along with tropical storm Alberto. A tornado warning soon followed. Lucky for us, all survived.

MSC Making History. A few weeks ago, Colin Davidson reported that, "the Member Service Center completed its most impressive week thus far in 2024, answering 100% of incoming calls with a mean wait time of 13 seconds with a median of 6 seconds!"

City Plan Change Calculator Available. The new City Plan Change Calculator is available in the City Portal. Cities were notified through email and a website announcement.

New Plan Comparison Tool Feature. Staff added city contribution rates to the City Plan Comparison Tool and communicated it to cities. Now, when a user hits the "Export All Plans" button, they also will see contribution rates for every TMRS city, a nice enhancement to the Tool.

Investment Department Adds Three. TMRS Chief Investment Officer Yup Kim will welcome Philip Hunter O'Brien, Amol Deshpande and Isidora Stankovic to the investment team:

- *Philip Hunter O'Brien* will join as Managing Director, Head of Private Equity, and serve as a member of the staff investment committee. Previously, he led technology and consumer direct private equity investments for Caisse de dépôt et placement du Québec. Prior to CDPQ, he led the North American direct Private Equity investment practice for the Abu Dhabi Investment Council. Before ADIC, O'Brien was an investor at LLCP and The Carlyle Group's U.S. Buyout Fund, after beginning his career as an investment banker at Deutsche Bank. O'Brien earned MBA from Columbia Business School and graduated *magna cum laude* from Princeton University. He is an Associate Member of the Economic Club of New York and a Chartered Financial Analyst.
- *Amol Deshpande* will join as Managing Director, Head of Direct Investments, and serve as a member of the staff investment committee. Prior to joining TMRS, he served as a Managing Director and management committee member of Redesign Health, where he made investments with a mission to accelerate healthcare innovation. He previously held roles at Soros Fund Management, Luminus Management and JLL Partners, where he invested in private and public businesses across multiple sectors, including healthcare, industrials and technology. Deshpande began his career advising leading technology companies on M&A and capital markets activities at Morgan Stanley in Menlo Park, CA, and received his B.A. with concentrations in applied mathematics, economics and finance from Northwestern University.
- *Isidora Stankovic* will join as Director of Private Equity. Prior to joining TMRS, she was on the Private Equity team in London at Searchlight Capital Partners, a transatlantic private equity firm with \$15 billion in assets under management, where she was responsible for the evaluation, due diligence, execution and monitoring of investments. Before joining Searchlight, Stankovic held positions on the Private Equity team at BC Partners in London and in the Financial Services and Natural Resources Groups of Goldman Sachs' investment banking division in London and Houston. Stankovic earned a B.A. in Economics and History from Yale University, graduating *magna cum laude* and Phi Beta Kappa. She is fluent in three languages.

In announcing the news, Yup said, "I am incredibly excited to partner with Philip, Amol and Isidora to strengthen our global partner relationships, amplify our direct investment capabilities and take the private markets program to new heights on behalf of TMRS' many members, retirees, and beneficiaries."

I, too, am thrilled to welcome these three accomplished investment professionals to TMRS' team of award-winning portfolio managers. TMRS and our Members will be well served by their efforts.

Investment Department Accolades. Philip, Amol, and Isidora will be joining a talented investment team. In the past few months, the following investment staff have received impressive national recognition:

- *CIO Yup Kim* was recognized by Markets Group as an “Elite 100 CIO” that recognizes a CIO’s “leadership, vision, and significant contributions to the investment industry.”
- *Portfolio Director Ngoc Can* received two prestigious investment industry awards: Private Equity International named Ngoc one of the “40 under 40: Future Leaders of Private Equity” (one of three individuals selected from more than 5,000 U.S. public plans) and Institutional Investor recognized her with their “2024 AlphaEdge: Alpha Generation - Private Equity Investing” award.
- *Portfolio Manager Joel Palmer* was selected from a nationwide search of plan sponsor professionals with under 10-years of experience to be included as a NextGen Leader by Pensions & Investments.
- *Senior Director and Head of Credit Darren Schlissel* was named a member of Chief Investment Officer magazine’s “Class of 2024 NextGens.”
- *Portfolio Director Monica Huffer* was selected as the Texas 2024 Outstanding Rising Star by the Governor’s Commission on Women from nominations from all Texas state agencies. Monica is the first TMRS recipient of any Commission on Women award.

New Director of Accounting. Cynthia Demers has joined TMRS as Director of Accounting. Cindy has two decades of government finance experience, including serving as a CFO, Finance Director, Controller and Treasurer of public entities. She is a CPA, has an MBA, knows GASB, and is a TMRS Member (she served as the Assistant City Manager of Round Rock).

Quality Texas Foundation (QTF) Commitment Level Application. Our quality initiatives momentum continues. Director of Quality Initiatives Andi Focht-Williams submitted TMRS’ third level application to the QTF, which responded, “Congratulations, TMRS has fulfilled the requirements to receive the Commitment Level Recognition at the next conference.” Andi and staff are now working on the level four application submission.

Great Member Service. Director of City and Member Service Colin Davidson joined a call with 100 HR employees from cities in the Dallas Metroplex. Colin explained the different COLA options, highlighted the new Plan Change Calculator, and answered questions. The meeting’s host, a retiree with more than 26 years of TMRS city service, told the group that, “ the TMRS call center and staff are amazing. I don’t think I have ever had a single question in my entire career that they couldn’t answer. They are as good as it gets.”

Even Better Member Service. The MSC has begun calling back Members who hang up before staff could answer their call. With a median wait time of less than 10 seconds, this isn't a big issue, but the staff wanted to reach out to these Members and make sure their questions are answered.

Member Service Center Feedback. After MSC analyst Amanda Martinez assisted a city, they emailed to say, "I wish everyone that I had to talk to each day was as nice and accommodating as TMRS."

And a Kudo for Colin Davidson. Colin Davidson received his Lean Six Sigma Green Belt certification. The project Colin used for his certification is TMRS' new plan change calculator that was released to cities in July.

Independent External Quality Assessment Review. This required (every five years) independent external quality assessment review of TMRS' Internal Audit department was recently completed. The independent report states that, "It is our overall opinion that TMRS Internal Audit conforms with the highest rating of the Institute Internal Auditors *Internal Standards for the Professional Practice of Internal Auditing and Code of Ethics.*" This is a great tribute to our Internal Audit function and its Director Kristyn Scoggins.

All GASB Reporting Packages Are Available. Staff has posted all city GASB report packages to the website.

Employee Referral. When a recent job was posted, a current Benefit Administration employee reached out to HR, "to let you know that my youngest daughter applied for this position. She has heard me boast so much about TMRS that she wants to be a part of this work family." It's always nice to know that current employees enjoy working here so much they want their family members here, too.



September 10, 2024

To: Board of Trustees

From: Debbie Muñoz, Deputy Executive Director 

Re: Agenda Item 3: Deputy Executive Director Third Quarter Report

I am pleased to report on the third quarter activities of the Human Resources, Project Management and Quality Initiatives departments. Each had a great quarter.

Human Resources

Personnel. HR onboarded our new HR Manager, Kara Call along with six additional staff during the quarter, for a total of 14 new hires in 2024.

Project Management

Death reporting process improvement. Since July, all death notifications provided by third-party services have been automatically routed to Benefit Administration's work queues for processing. This automation reduced staff processing time by 32 hours for the deaths reported in July and August.

City Plan Change Calculator. The City Plan Change Calculator was launched on July 22 and can be accessed through the City Portal. This self-serve calculator allows cities to immediately view the cost of any potential changes to their city's TMRS plan.

Print/Mail Outsourcing. Beginning in September, TMRS will outsource the Benefit Administration and Member Service Center mailing process. This will significantly reduce staff time spent on preparing letters, forms and envelopes for mailing and reduces paper, printing, and mailing costs.

TMRS Help Center. A new ticketing system released in September will improve the management and efficiency of staff requests for help processed by Information Services.

Quality Initiatives

Quality Texas Foundation (QTF). The Commitment Level Application was submitted to QTF on August 8. TMRS successfully met the requirements and will receive the Commitment Level recognition at the next QTF conference in 2025. The application is available in the Diligent Resource Center.

Work has started on the Progress Level Application for submission by December 2024.



September 10, 2024

To: Board of Trustees
From: Christine M. Sweeney, Chief Legal Officer *CS*
Re: Agenda Item 3: Third Quarter Legal Report

TMRS Legal Work on Investment Matters, Public Information Requests, and Other Matters.

- **Investment Matters.** Below is a summary of the investment allocations and other investment related agreements that staff attorneys have reviewed and approved during the period noted.
 - From June 14, 2024 → September 6, 2024
 - 3 investment allocation transactions (not including any additional allocations made through rebalancing)
 - 23 other investment related items
- **General Contracting and Benefits Matters.** Since June, Legal has handled and submitted the following items for signature or approval. Many non-investment matters handled by Legal staff do not require a signature or approval by the Executive Director and those are not included in the numbers below:
 - From June 14, 2024 → September 6, 2024
 - 27 contracts (non-investment related) submitted for signature
 - 1 other benefits administration and non-investment related items submitted for signature or approval
 - 45 city ordinances reviewed or generated for City Services
- **Public Information Requests.** Since June 14, 2024, Legal staff have worked on 11 information requests under the Texas Public Information Act.

TMRS Administrative Cases. None pending.

Legal Supplement. The Legal Supplement in the Diligent Resource Center includes confidential legal updates and background information.



September 10, 2024

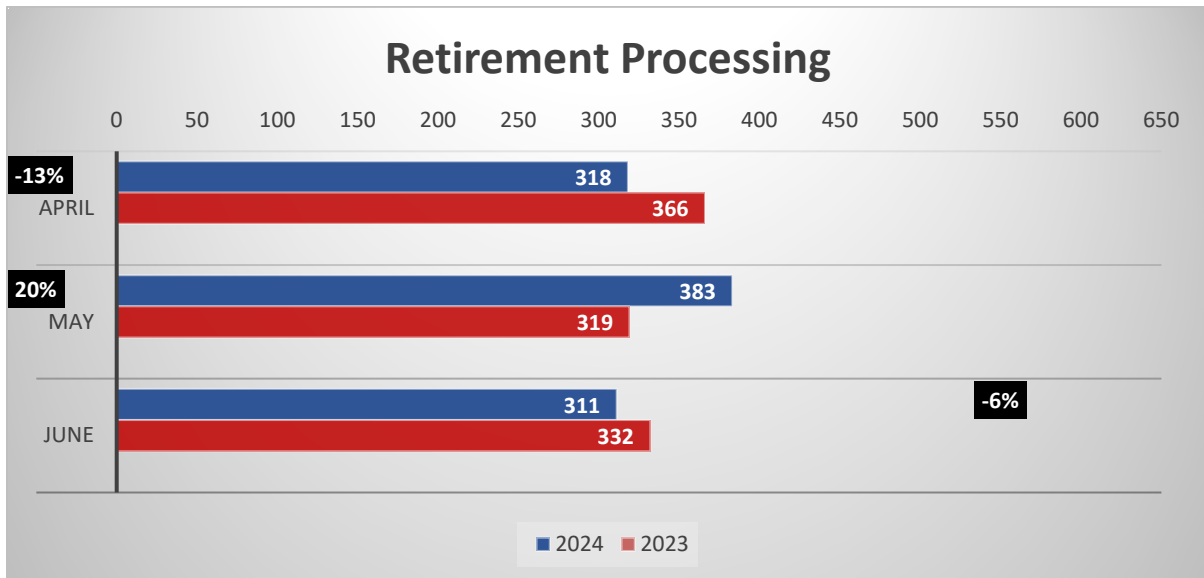
To: Board of Trustees
From: Anali Alanis, Chief Service Officer *AA*
Re: Agenda Item 3: Third Quarter Services Report

I'm pleased to report on the third quarter activities of the Benefit Administration, City Services, Communications, Education Services, Member Service Center, and Plan Design and Funding departments.

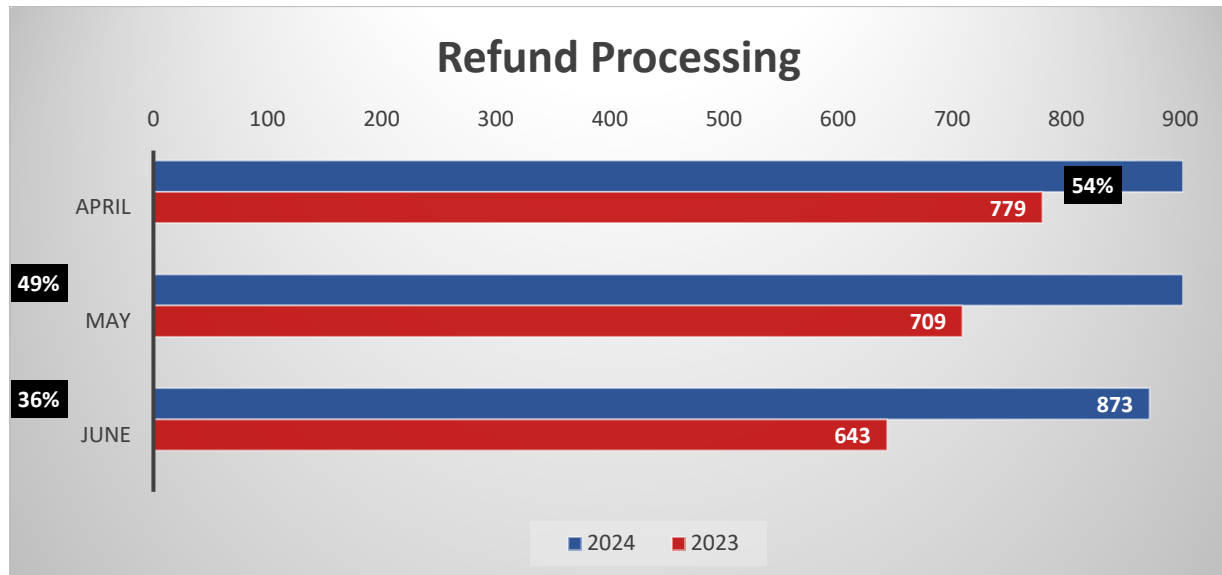
Benefit Administration

Service Enhancements. In the past quarter, the Benefit Administration department has continued to reach 100% completion on all key processing queues and maintained excellent, uninterrupted service to our members. The team continues streamlining processes and enhancing their expertise through cross-training.

Retirements. In the second quarter of 2024, TMRS processed 1012 retirements, a 0.5% decrease from the same quarter in 2023 and a 24% decrease from the 1336 retirements processed in the previous quarter of 2024.



Refunds. TMRS issued 3,130 refunds in the second quarter of 2024, which was a 47% increase from the same quarter in 2023, and a 25% increase from the 2,495 refunds processed in the previous quarter of 2024.



City Services

Plan Changes. Year-to-date, 239 plan change studies have been prepared by staff, 34 cities have made changes to their TMRS plan, and 81 cities have requested model ordinances. 21 cities have requested a model ordinance for the non-retroactive COLA option, with three already adopting it for 2025.

City Plan Change Calculator. The new self-service plan change calculator launched on July 22 and can be accessed through the TMRS City Portal. To date, 269 cities have used the Calculator to run more than 440 plan change studies. All feedback has been nothing but positive.

City Consultations. City Services, Education Services, and the Plan Design and Funding teams have met with and provided consultation for 97 cities.

New Cities. So far in 2024, four cities have joined TMRS. Point Comfort (February 1), China Grove (April 1), San Elizario (June 1) and Weston (July 1). This brings the total number of participating cities in TMRS to 938, with more to come.

Communications

Organizational Support. The Communications department continues to collaborate with other departments to complete various projects. This quarter, Communications assisted with the following:

- Produced and distributed the *TMRS Times* and *RetirementWise* newsletters to all members and retirees in both printed and digital copies

- Assisted Plan Design and Funding with the annual GASB 75 and GASB 68 projects by uploading letters to the website, creating 2024 GASB 75 and 68 webpages, posting website announcements and notifying the cities via email
- Worked with vendor to design, build and launch a new webpage microsite for Investments plus Integrated content for the microsite
- Produced and distributed the Q3 MainStreet for City Services
- Updated the City Reference Guide with Plan Change Calculator and advertised calculator to cities for City Services
- Assisted Education Services with a Pre-Retirement Seminar by creating the registration pages and distributing invitations and reminders
- Assisted Education Services with a reception for the annual TMPA conference
- Sourced and produced new promotional items for Education Services
- Completed the revision of nine letters for daily mailings for Benefit Administration
- Continued campaign to improve online social media presence
- Increased the TMRS Google ranking to 4.5 stars and 71 reviews, the highest of any Texas public pension plan
- Compiled and distributed new city welcome packets for City Services
- Provided more than 30 website changes across departments
- Printed QTF applications for Quality Initiatives and ACFR, PAFR for Finance
- Created new form and redesigned existing forms for Benefit Administration
- Assisted HR with office signage plus an onboarding fact sheet and event flyer needs
- Began the search for a Communications Specialist

Communication Numbers. Since January 1, Communications has sent 54 mass emails to 725,250 recipients, hosted 532,000 website views, increased mobile app downloads to a total of 38,704, and received 45,015 LinkedIn views.

Education Services

Member Counseling/Education. Education Services' Regional Managers have counseled/educated more than 14,470 Members through Q3 2024. The Education team has represented TMRS at 253 city events this year and has conducted 1,418 counseling sessions.

Webinars. The Education Team has hosted 35 webinars this year for more than 2,295 attendees. Members and cities can register to attend these educational webinars on tmrs.com.

Direct City Contacts Initiative. The Education Team is making direct calls to TMRS authorized contacts at each of the 938 participating cities this year. During these individualized calls, city contacts are introduced or re-introduced to their TMRS Education Services Regional Manager,

informed about available education services and resources, and assisted with validating the city's designated TMRS City Portal authorized contacts. To date, the team has contacted all 938 cities.

Member Service Center

Call Volume. Through September 6, the Member Service Center has answered more than 63,800 calls with a median wait time of less than nine seconds and an average handle time below five minutes.

Call Topics. The most common call topics that the MSC receives are related to Retirement (16%), Refunds (15%), and MyTMRS (8%).

DocuSign. The team incorporated DocuSign as a new tool to assist Members, this technology has reduced paper print, postage and the total transaction time from days to minutes.

Plan Design and Funding (PDF)

City Dashboard. The city dashboard was updated to reflect the results of the 2023 valuation on June 18. The dashboard provides 10 years of historical funding data for each participating city and allows each city to compare their funding metrics to all other TMRS cities.

GASB Financial Reporting Packages. The 2024 GASB 68 & GASB 75 financial reporting packages for each participating city were uploaded to the TMRS website on July 11 and July 18, respectively. An announcement was posted on the TMRS website and emailed to the city contacts.

City Auditor Requests. PDF assists individual cities and/or their auditors with any necessary reconciliations of the census data, contribution information or other related requests. To date, we have responded to 89 audit requests.

Plan Comparison Tool. The Tool was upgraded on July 16 to include each city's contribution rate. Cities can now compare their benefit options and costs with other cities in TMRS.



September 10, 2024

To: Board of Trustees

From: Jac Greene, Chief Information Officer 

Re: Agenda Item 3: Third Quarter Information Services Report

Data Management. The team onboarded a Data Architect to support the action plan initiative for improving data access and analytics. A network security assessment was conducted to ensure secure data access. Data privacy and ownership processes were streamlined with TMRS leadership. Prototypes for four key self-service reports were designed and are on track for delivery by year end.

Enterprise Architecture. The team documented the technical elements of MyTMRS and online retirement application; conducted assessments of fraud prevention needs; and recommended web application firewall improvements.

Infrastructure & Customer Support. The Enterprise Service Management project is underway and will go live in September, replacing the current ticketing system. The infrastructure and customer support teams processed helpdesk tickets, expanded Microsoft Azure and AWS cloud services and mitigated security vulnerabilities through the timely application of patches to servers, computers, and network devices.

Information Security. The Enterprise Risk Management (ERM) program has been communicated to all stakeholders and a risk management tool has been successfully implemented. The team has successfully closed all penetration test findings.

Software Development. The team has partnered with a third-party vendor to rebuild NextGen, the pension administration system, and MyTMRS, the Member portal. An online retirement application is being designed, as well as a new look and additional features for MyTMRS. The team continues to improve internal systems, services and processes in preparation for the release of the modernized applications.

Records Management. Staff processed 7,938 documents received by mail, fax, City Portal or DocuSign resulting in 30,569 pages being scanned and loaded into the electronic document management system. 5,702 pieces of correspondence were prepared for mailing. A proposed TMRS Records Retention Schedule was submitted to the Texas State Library and Archives Commission in August.



September 19, 2024

To: Board of Trustees

From: Nick O’Keefe, Chief Financial Officer

A handwritten signature in black ink, appearing to be "Nick O'Keefe", is written over the name in the "From:" field.

Re: Agenda Item 3: Third Quarter Report

- **Accounting.**
 - **New Director of Accounting.** TMRS welcomed Cindy Demers as our new Director of Accounting. Cindy brings more than eighteen years of accounting and finance experience, most recently serving as the Vice President, Treasury Management for the DFW Airport. In addition to her being a CPA and having earned her MBA, Cindy also has a great appreciation as a Member, having served as the Assistant City Manager for the City of Round Rock.
 - **2025 Budget.** The Accounting team worked with each department to compile the proposed 2025 Operating Budget.
 - **New General Ledger System.** The Accounting team continues the onboarding process of NetSuite and it will be fully implemented in the fourth quarter.
- **Internal Audit**
 - **External Quality Assessment.** Internal Audit received an external assessment to evaluate its conformance with internal audit standards. The evaluators concluded: “It is our overall opinion that TMRS Internal Audit conforms with the highest rating of the Institute of Internal Auditors’ Internal Standards for the Professional Practice of Internal Auditing and Code of Ethics.”
 - **New Internal Audit Standards.** Internal audit is developing processes and updating audit charters that are required under the recently revised standards of the Institute of Internal Auditors.
 - **Audit Activities In Progress.** Current audits include cybersecurity event response capabilities and the city contribution portal. Internal Audit is also working with Staff to complete the 2025-2026 risk assessment and audit plan.



September 10, 2024

To: Board of Trustees

From: Kristyn Scoggins, Director of Internal Audit *Kristyn Scoggins*

Re: Agenda Item No. 4: Consider and Act on Appointment to Audit Committee

In accordance with the Audit Committee Charter, the Board Chair appoints, and the Board approves, two Audit Committee members.

The current Audit Committee members are David Landis, Chair and Roy Rodriguez, Vice Chair. With Mr. Rodriguez's retirement there is a vacancy on the Audit Committee.


RECOMMENDATION:

Staff recommends that the Chair recommend, and the Board approve, a new appointment to the Audit Committee.



September 10, 2024

To: Board of Trustees

From: Debbie Muñoz, Deputy Executive Director 

Re: Agenda Item 5: Consider and Act on Appointment to the Stakeholder Advisory Committee.

There have been two changes to the Stakeholder Advisory Committee.

1. **Roberto Reyna**, an active member on the Committee, is no longer employed by a TMRS city and is therefore no longer eligible to serve on the Committee.

The Committee Charter requires that the Board Chair appoint, subject to Board approval, the active and retiree Committee members.

Staff recommends that the Board appoint David Garza, McAllen's Director of Wastewater Systems to serve as an active Committee member. Mr. Garza has over 26 years' experience in the water and wastewater profession and currently serves on the TCEQ Water Utility Operator Licensing Advisory Committee and on the Water Environment Association of Texas Executive Board. He is also a member of the Texas Water Utility Association, the America Water Work Association, the Water Environment Federation, and the Texas Municipal Water Association.

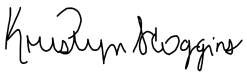
2. **Chereè Bontrager**, who represents the Texas Municipal Human Resources Association (TMHRA) on the Committee, will be replaced by Christi Klyn effective October 1, 2024.

Ms. Klyn has been the Director of Human Resources/Civil Service Director for the City of Wichita Falls since 2013. She served as a TMHRA Trustee from 2017 – 2023, and currently serves as TMHRA's TMRS representative. The Committee Charter does not require Board approval for this change.



September 10, 2024

To: Board of Trustees

From: Kristyn Scoggins, Director of Internal Audit 

Re: Agenda Item No. 6: Receive Update on External Quality Assessment and Internal Audit Activities

Receive External Quality Assessment Report. International internal audit standards require an external, independent assessment every five years to evaluate the Internal Audit department's compliance with the Institute of Internal Auditors Standards and Code of Ethics. This summer, independent reviewers Larry Jensen and Marci Sundbeck performed the assessment of the Internal Audit department and stated in their final report: "It is our overall opinion that TMRS Internal Audit conforms with the highest rating of the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing and Code of Ethics.*"

"Generally conforms" is the top rating and means an internal audit activity has a charter, policies, and processes judged to be in conformance with Internal Auditing Standards. The final report for the assessment, which is available in the Audit Committee section in Diligent, summarizes the results of the review and is the Internal Audit department's quality assurance and improvement program (QAIP) report for this year. I will coordinate with the Audit Committee and Management to implement suggested improvements discussed in the report.

Mr. Jensen and Ms. Sundbeck also provided recommendations for conformance with the updated audit standards that will be in effect beginning January 2025. This includes the following updates:

- Develop Internal Audit department performance objectives, key performance indicators and action plans
- Updated Audit Committee Charter and Internal Audit Charter

An Update on the 2023-2024 Audit Plan. This is an informational item to assist the Committee with oversight of internal audit activities.

All items are available in the Audit Committee section in Diligent.



September 19, 2024

To: Board of Trustees

From: Nick O'Keefe, Chief Financial Officer

A handwritten signature in black ink, appearing to be "Nick O'Keefe", is written over the name in the "From:" field.

Re: Agenda Item 7: Report on Budget and Compensation Committee Meeting

The Budget and Compensation Committee met on September 12, 2024 via Zoom.

The meeting had two agenda items:

- **Agenda Item 1:** Review the Budget and Compensation Committee Charter.
- **Agenda Item 2:** Discuss the Proposed 2025 TMRS Capital and Operating Budgets.



September 19, 2024

To: Board of Trustees

From: Nick O'Keefe, Chief Financial Officer 

Re: Agenda Item 8: Discuss Proposed 2025 Draft Operating and Capital Budget

Staff is proposing a 2025 Total Budget of \$42,215,419, which reflects an increase of \$2.1 million, or 5%, from the 2024 Total Budget.

- **Operating Budget:** Staff is recommending a \$3.85 million, or 10% increase, in TMRS' Operating Budget.
- **Capital Budget:** Staff is not requesting any Capital Budget expenditures for 2025.

ATTACHMENTS:

1 – Draft 2025 Operating and Capital Budget



Agenda Item 8 – Discuss 2025 Proposed Operating and Capital Budgets

Nick O’Keefe, Chief Financial Officer

September 19, 2024

Summary of 2025 Operating and Capital Budgets

The proposed 2025 Operating Budget is \$42,215,419, an increase of \$3.85 million, or 10%, from the 2024 Operating Budget. There is no proposed 2025 Capital Budget.

2025 Operating Budget Summary

The proposed 2025 Operating Budget is \$42,215,419, an increase of \$3.85 million, or 10%, from the 2024 Operating Budget. There is no proposed 2025 Capital Budget.

	2025	2024	Increase / (Decrease)	% Change
Personnel Services	\$26,379,738	\$22,603,654	\$3,776,084	16.7%
Professional Services	\$6,503,099	\$6,735,803	(\$232,704)	-3.5%
Facilities	\$3,030,411	\$2,965,773	\$64,638	2.2%
Technology and Other Expenses	\$6,302,170	\$6,060,238	\$241,932	4.0%
Total Operating Budget	\$42,215,419	\$38,365,468	\$3,849,951	10.0%

PERSONNEL SERVICES

Personnel Services is the largest budget category representing 63% of the 2025 operating budget, and reflects an increase of \$3.8 million, or 16.7%, from 2024. Almost all of this increase is attributable to two items: (i) the addition of four senior investment professionals, and (ii) establishing a discretionary investment team bonus pool to attract and retain investment professionals.

	2025	2024	Increase / Decrease	
Personnel Services:				
Salaries & Payroll Taxes	\$ 18,845,171	\$17,506,778	\$1,338,393	7.6%
Additional Compensation - Staff	\$876,607	\$712,501	\$164,106	23.0%
Additional Compensation - Investments	\$1,876,240	\$10,500	\$1,865,740	-
Benefits	\$4,781,721	\$4,373,875	\$407,846	9.3%
Total Personnel Services	\$ 26,379,738	\$22,603,654	\$3,776,084	16.7%

PROFESSIONAL SERVICES

Professional Services represents 15% of the 2025 operating budget and is 3.5% less than the 2024 operating budget.

Professional Services

Investment Professional Services	\$3,070,429	\$3,265,566	(\$195,137)	-6.0%
Custody & Banking	\$1,515,000	\$1,577,000	(\$62,000)	-3.9%
Actuarial	\$824,500	\$774,900	\$49,600	6.4%
Legal	\$308,500	\$303,500	\$5,000	1.6%
Consulting	\$233,000	\$225,000	\$8,000	3.6%
Audit	\$227,250	\$217,300	\$9,950	4.6%
Other Professional Services	\$324,420	\$372,537	(\$48,117)	-12.9%
Total Professional Services	<u>\$6,503,099</u>	<u>\$6,735,803</u>	<u>(\$232,704)</u>	<u>-3.5%</u>

FACILITIES

Facilities is the Grove office lease, which will increase 2.2%.

The \$36 million TMRS received from the sale of its office building in September 2022 was invested in the Trust Fund. It now totals more than \$43 million. Investment earnings on the sale proceeds exceeded TMRS' rent costs by more than \$1.5 million in 2023 and will exceed rent costs again in 2024.

	2025	2024	Increase / (Decrease)	% Change
Rent	3,030,411.45	\$2,965,773	\$64,638	2.2%

TECHNOLOGY & OTHER EXPENSES

Technology and Other Expenses represent 15% of the 2025 operating budget and reflects an increase of 4% from the 2024 budget.

Technology and Other Expenses

Technology, Data Services, Hardware	\$2,745,370	\$2,622,135	\$123,235	4.7%
Technology - Investments	\$918,340	\$892,821	\$25,519	2.9%
Printing, Postage	\$664,865	\$645,500	\$19,365	3.0%
Travel / Meals / Conferences	\$840,640	\$816,155	\$24,485	3.0%
Board Meetings	\$121,004	\$117,480	\$3,524	3.0%
Professional Development	\$387,574	\$376,285	\$11,289	3.0%
Commercial Insurance	\$201,407	\$180,142	\$21,265	11.8%
Miscellaneous	\$422,971	\$409,720	\$13,251	3.2%
Total Technology and Other	\$6,302,170	\$6,060,238	\$241,932	4.0%



September 10, 2024

To: Board of Trustees

From: Debbie Muñoz, Deputy Executive Director

A handwritten signature in blue ink that reads "Debbie J. Muñoz".

Re: Agenda Item 9: Discuss Potential Legislation Topics

In 2023, the Board charged the Stakeholder Advisory Committee with providing input on the following topics:

- Make all city plan changes effective January 1.
- Remove the Statutory Maximum (Stat Max) Contribution Rate Limit.
- Decouple the Updated Service Credit (USC) and COLA benefits.
- Review COLA options.

The Committee met on November 16, 2023, and February 29, April 25, and June 6 this year, to carefully consider each topic. The Committee quickly reached consensus on making all city plan changes effective January 1 and removing the Stat Max for all cities.

Due to the complexity of the USC and COLA benefits, the Committee took additional time to further examine “decoupling” and various COLA options. The Committee thoroughly sought to understand each topic and held robust discussions before reaching consensus.

Committee members who voiced an opinion (TMPA and CLEAT did not express an opinion) all supported decoupling and the following COLA options:

- Making HB 2464’s non-retro COLA option permanent, without the current restrictions (i.e., allow cities to maintain, increase, or decrease COLA percentage, adopt ad hoc or repeating COLAs), and
- Adding 40% and 60% COLA percentage options.

Taking the Committee’s input into consideration, and consistent with TMRS’ fiduciary duty to provide benefit options to participating cities, Staff supports bringing all four proposed topics to the Board for consideration and direction on a potential legislative agenda.



September 10, 2024

To: Board of Trustees
From: Christine M. Sweeney, Chief Legal Officer *CS*
Re: Agenda Item 9: Discuss Potential Legislation Topics

In addition to any other legislation that the Board decides to pursue, staff recommends the following amendments to the TMRS Act.

1. Updating Small Estates Affidavit Provision.

If a TMRS Member dies without a valid beneficiary designation on file and there is no surviving spouse and no formal estate has been established through legal proceedings, the deceased Member's heirs can provide TMRS with a small estate Affidavit. Staff recommends amending two Affidavit requirements.

Amend Asset Size Limit. To use an Affidavit, the TMRS Act requires that the assets of the Member's estate (excluding home and exempt assets) do not exceed \$50,000. TMRS' dollar limit was designed to mirror the limit set out in the Texas Estates Code relating to small estates. While the Estates Code has been amended to increase the asset size limit, the TMRS Act has not been. The current Estates Code limit is \$75,000. Staff recommends amending the TMRS Act to replace the specific dollar amount with a reference to the applicable Estates Code provision. This would allow TMRS' Affidavit limit to automatically remain the same as the Estates Code limit going forward.

Remove Limit on Number of Heirs. The TMRS Act also requires that "there are not more than three heirs" to be able to use an Affidavit. The Estates Code does not contain a similar restriction on the number of heirs when using a small estate affidavit.

Staff does not know why the limit was originally added to the TMRS Act, but there is no need for it today. Therefore, we recommend amending the TMRS Act to remove it. (TMRS previously had a Board rule that limited the payment of TMRS death benefits to not more than three beneficiaries, and the Board approved staff's recommendation to repeal the rule in 2023.)

2. Establish Venue in Travis County for All TMRS Actions

TMRS can initiate an action in either Travis County or in the city's county to compel a participating city to withhold the required employee contributions or to compel an accounting of the amounts due from the city or their employees. Other situations can occur where TMRS may want to initiate an action, or where TMRS might be sued.

Staff recommends amending the TMRS Act to establish that:

(i) venue of any action brought *against TMRS* in a state court or before the State Office of Administrative Hearings (SOAH) is in Travis County, and

(ii) venue of any action brought in a state court *by TMRS* is in Travis County or in the county in which the defendant is located or does business.

A similar provision is contained in the Texas County and District Retirement System's Act.

3. Add Qualified Domestic Relations Order (QDRO) Distribution Flexibility for Alternate Payees

When a Member's TMRS benefits are divided by divorce, a court issues a Qualified Domestic Relations Order (QDRO). Under current law, a Member's former spouse cannot receive their QDRO portion of a Member's benefits before the Member retires or refunds their account balance. If the former spouse dies before the Member retires or refunds their account, the Member will keep the entire benefit.

TMRS is the only statewide retirement system that has this provision. ERS, TRS, and TCDRS give the former spouse the ability to access their QDRO benefits if their former spouse can retire but does not. Staff recommends legislation to allow former spouses to receive their awarded benefit prior to their former spouse's retirement from TMRS and designate a beneficiary in the event they die prior to distribution.



September 10, 2024

To: Board of Trustees
From: Yup Kim, Chief Investment Officer *YK*
Re: Agenda Item 10a: Chief Investment Officer Report

Chief Investment Officer Key Performance Indicator (“CIO KPI”) Dashboard. The CIO KPI Dashboard aims to highlight important investment metrics on a consistent basis.

Sustainable performance: Net returns for the one- and five-year periods were 10.46% and 7.01%, respectively, exceeding the Trust Fund benchmark for the same periods by 194 basis points and 165 basis points. Trust Fund returns sit above peer median at 2nd quartile for the one-year period but 4th quartile for the five-year period. Trust Fund net returns exceeded the actuarial rate assumption of 6.75% for the one and five-year period by 371 basis points and 26 basis points, respectively. Trust Fund risk was lower than the peer median for both the one- and five-year periods.

Investment activity and portfolio construction: Since January, the Staff Investment Committee has approved \$1.3 billion of new investments across five funds and five co-investment vehicles. Private market investment activity is tracking consistently with plan as \$1.1 billion of the \$1.9 billion commitment target minimum has been approved year-to-date with an additional \$1.1 billion of prospective investments actively in process. The Trust Fund asset class allocations remain within Board-approved ranges.

Reduce costs: Co-investments are investments made with investment managers that have the benefit of having reduced to no management or carried interest fees. Because of these benefits, it is a priority to continue growing co-investment share of total investment. Today, co-investments represent 6.1% of total private market net asset value, up from 5% at the beginning of the year. As a percentage of private market investments approved year-to-date, co-investments have represented half of that activity.

Staff Recruitment.

- **Amol Deshpande** joined the team August 27 as Managing Director, Head of Direct Investments. Amol received a BA with honors from Northwestern University/Kellogg School of Management and was most recently Managing Director of Growth and Mature Investments, and Head of Corporate Development at Redesign Health, a \$750M healthcare VC/PE investment firm. His career has prior spanned many facets of the financial industry including experience at private equity, hedge fund, family office, and investment banking firms.

- **Philip O'Brien** joined the team August 19 as Managing Director, Head of Private Equity. Philip received an Economics degree, magna cum laude, from Princeton University and an MBA from Columbia Business School. He was most recently Senior Director & Head of U.S. Technology and Consumer Direct Private Equity at Caisse de dépôt et placement du Québec (CDPQ), a C\$420B Pension plan. O'Brien has prior experience at Abu Dhabi Investment Counsel, private equity firms Carlyle and LLCPC, in addition to investment banking.
- **Isidora Stankovic** will be joining the team in November as Director, Private Equity/Direct Investments. She received economics and history degrees from Yale University, magna cum laude and Phi Beta Kappa. She was most recently a Senior Associate with private equity manager Searchlight Capital Partners in London, with prior experience at private equity firm BC Partners and Goldman Sachs.
- **Hester Cai** joined the Investment team on July 29 as Portfolio Manager, Private Credit. Hester graduated with high distinction from The University of Iowa and received her Master of Business Administration with honors from the University of Chicago Booth School of Business. Most recently, she was Portfolio Manager at Massachusetts Mutual Life Insurance Company. Cai has prior experience with PIMCO and other insurance companies.

Asset Allocation. Modest updates to the asset allocation are being recommended to simplify the structure by reducing the number of asset classes from nine to five, and calibrate asset class targets to capitalize on market opportunities.

Strategic Co-Investment Partnership. The investment team is pursuing a strategic co-investment partnership designed to hold multiple investments. The partnership will aid in accelerating the scaling the co-investment program by adding to TMRS' execution and administrative resources. Individual investments within the structure will abide by the Investment Policy Statement delegated limit of 0.50% of Trust Fund value. The partnership will constitute a substantial majority of the co-investment program in time.

Board Education. Tom Masthay will present the annual review of the Private Equity asset class.

Chief Investment Officer's Report

Yup Kim, Chief Investment Officer

Board of Trustees Meeting

September 19, 2024

CIO Key Performance Indicator Dashboard

	Key Performance Indicator (KPI) description	Grade	Progress	
Portfolio pacing and construction	Fully commit private market target allocation	On-track	~115% of commitment target minimum complete/in process	
	Trust fund asset allocation in compliance	On-track	In compliance	
Reduce cost	Increase co-investment share of private markets for improved returns and cost savings	Transitioning	6.1% of total net asset value	
			<i>One-year</i>	<i>Five-year</i>
Sustainable performance	Net returns exceed benchmark	On-track	+194 bps	+165 bps
	Trust fund returns above peer median	Transitioning	2nd	4th
	Trust fund risk lower than peer median	On-track	1st	1st
	Trust fund net returns exceeds the actuarial rate assumption of 6.75%	On-track	+371 bps	+26 bps

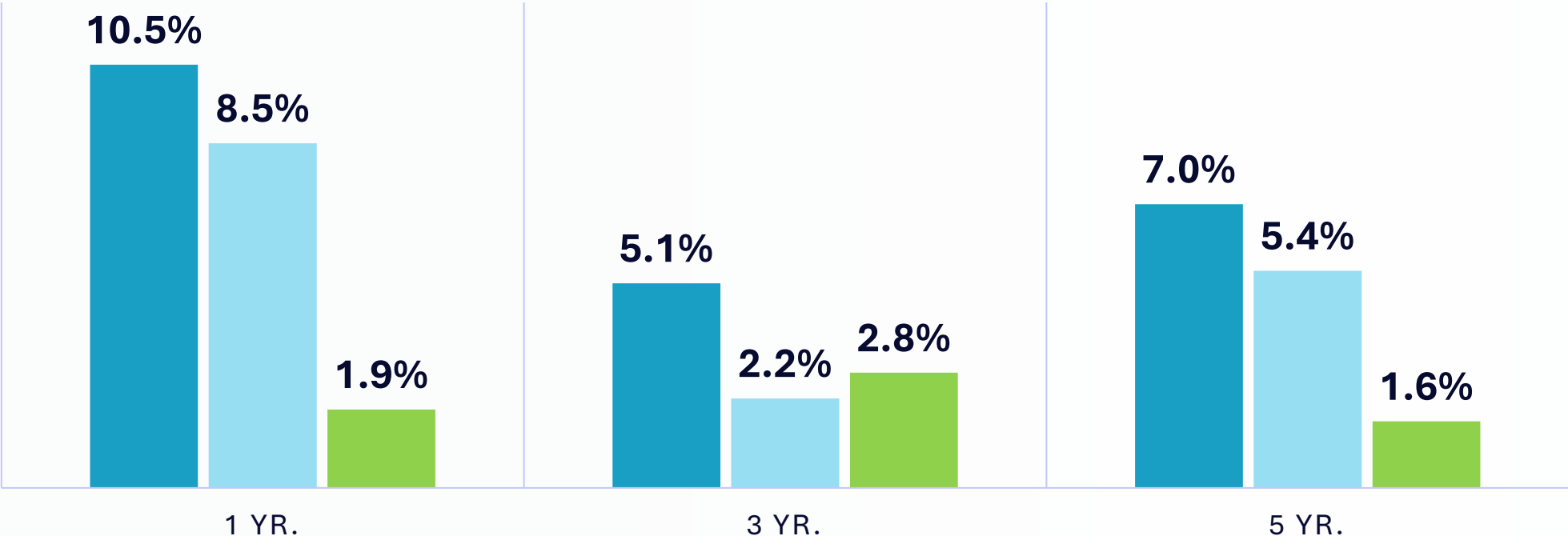
| Trust Fund Report

Trust Fund Net Returns Exceed Benchmarks

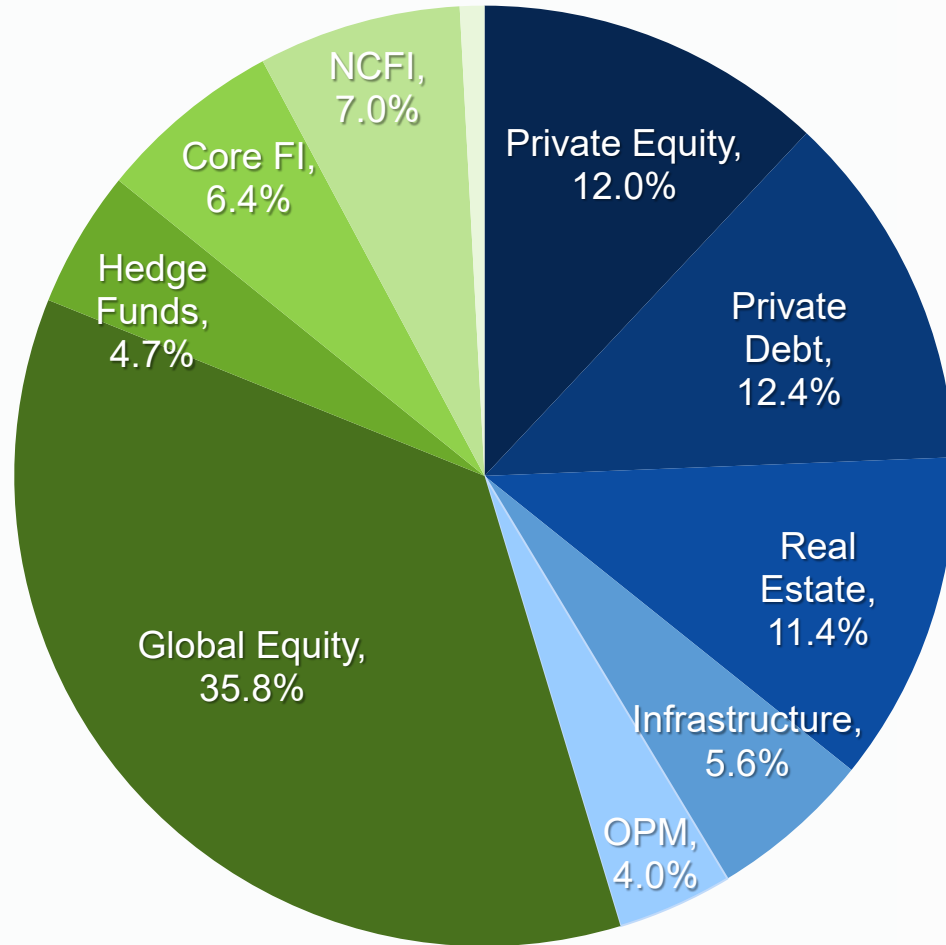
Net Returns exceed Trust Fund Benchmark over the 1, 3 and 5 year periods

NET PERFORMANCE AS OF JUNE 30, 2024

Trust Fund Benchmark Excess Return

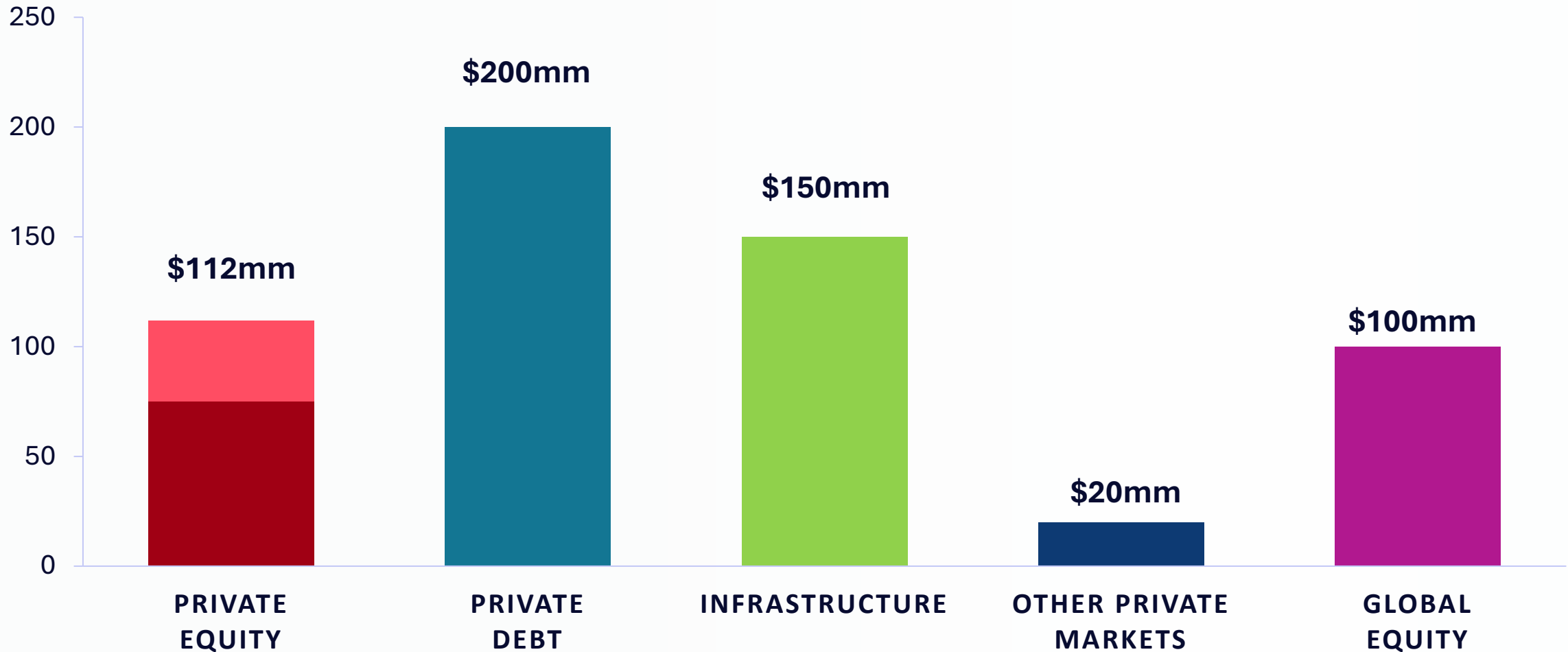


Trust Fund Asset Allocation Aligns with Targets



	Strategic Target	Actual as of Jun. 30, 2024	Policy Range
■ Private Equity	13%	12.0%	8 – 18%
■ Private Debt	13%	12.4%	8 – 18%
■ Real Estate	12%	11.4%	7 – 17%
■ Infrastructure	6%	5.6%	1 – 11%
■ OPM	4%	4.0%	0 – 9%
■ Public Equity	35%	35.8%	25 – 45%
■ Hedge Funds	5%	4.7%	0 – 10%
■ Core FI	6%	6.4%	1 – 11%
■ NCFI	6%	7.0%	1 – 11%
■ Cash	0%	0.8%	0 – 3%

2024 Completed Investments Totaled \$582 Million



2024 Completed Investments Report

As of 06/30/2024

<u>Completed Date</u>	<u>Manager or Fund Name</u>	<u>New/Existing Manager</u>	<u>Amount Committed</u>	<u>Asset Class</u>
January 11, 2024	SDC Digital Infrastructure Opportunity Fund IV, L.P.	Existing	\$150,000,000	Infrastructure
February 24, 2024	Flagship Pioneering Fund VIII, L.P.	Existing	\$75,000,000	Private Equity
March 25, 2024	BCIS El Dorado Investors, L.P.	Existing	\$20,000,000	Other Private Markets
March 28, 2024	Chorus Capital Credit Fund V USD SCSp	New	\$200,000,000	Private Debt
April 26, 2024	HarbourVest TMRS Polaris SMA L.P.	Existing	\$36,750,000	Private Equity
May 1, 2024	MW TOPS World Equities (US) Fund	Existing	\$100,000,000	Global Equity
May 6, 2024	Bandera Strategic Credit Partners I, L.P.	Existing	\$150,000,000	Private Debt
		Total	\$731,750,000	



September 19, 2024

To: Board of Trustees

From: Nick O'Keefe, Chief Financial Officer

A handwritten signature in black ink, appearing to be "Nick O'Keefe", is written over the name in the "From:" field.

Re: Agenda Item No. 10d: Second Quarter 2024 Investment Compliance Report

Investment Policy Statement (IPS) Compliance. TMRS was in compliance with all testable IPS parameters.

Investment Manager Compliance. State Street and staff testing confirmed that TMRS' investment managers were in compliance with all relevant Investment Guidelines.



September 10, 2024

To: Board of Trustees
From: Yup S. Kim, Chief Investment Officer YIK
Re: Agenda Item 11: General Investment Consultant Quarterly Report

Sam Austin will discuss NEPC's Q2 2024 Quarterly Performance Report.

ATTACHMENT:

1 - NEPC 2Q 2024 Executive Summary



2Q 2024 QUARTERLY PERFORMANCE REPORT EXECUTIVE SUMMARY

SEPTEMBER 19, 2024

Samuel Austin, Partner

Christian McCormick, CFA, Senior Consultant



TOTAL FUND PERFORMANCE SUMMARY – NET RETURNS AS OF JUNE 30, 2024

COMPARED TO TRUST FUND BENCHMARK

	Market Value (\$)	1 Yr (%)	5 Yrs (%)
Total Fund, Net of Fees	41,158,074,178	10.46	7.02
Trust Fund Benchmark		8.52	5.37
Over/Under		1.94	1.65

- **For the one-year period ended June 30, 2024, the Trust Fund returned 10.46%, exceeding the Trust Fund Benchmark by 1.94%.**
 - Global Equity, Core Fixed Income, Non-Core Fixed Income (Public), Hedge Funds, Cash, Private Equity, Private Debt, Real Estate, and Infrastructure exceeded their respective benchmarks, while Other Private Markets trailed.
- **For the five-year period ended June 30, 2024, the Trust Fund returned 7.02%, exceeding the Trust Fund Benchmark by 1.65%.**
 - Core Fixed Income, Non-Core Fixed Income (Public), Hedge Funds, Cash, Private Equity, Private Debt, Real Estate, and Infrastructure exceeded their respective benchmarks, while Global Equity and Other Private Markets trailed.



TOTAL FUND PERFORMANCE SUMMARY – NET RETURNS AS OF JUNE 30, 2024

COMPARED TO OTHER PUBLIC PENSION PLANS GREATER THAN \$10
BILLION IN ASSETS

	1 Yr (%)	Quartile Rank	5 Yrs (%)	Quartile Rank
Total Fund, Net of Fees	10.46	2nd	7.02	4th
Trust Fund Benchmark	8.52	4 th	5.37	4 th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>10.25</i>		<i>8.07</i>	

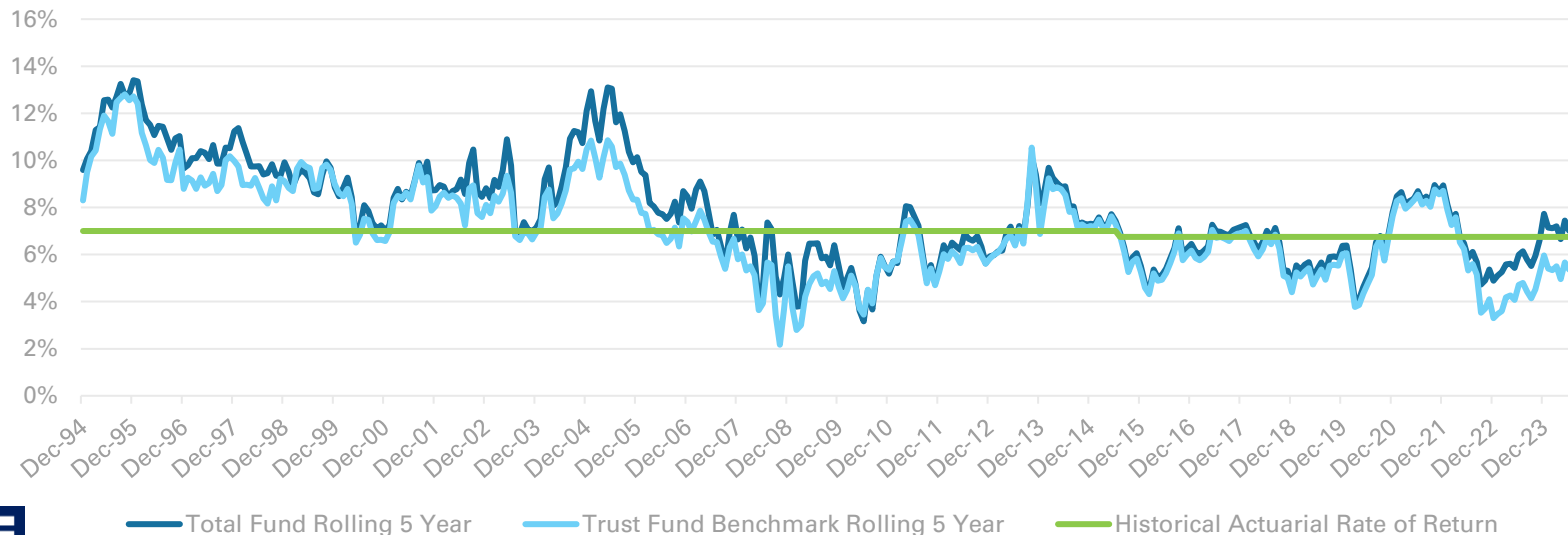
- **For the one-year period ended June 30, 2024, the Trust Fund returned 10.46% and ranked in the second quartile among other Public Defined Benefit Plans greater than \$10 billion in assets.**
- **For the five-year period ended June 30, 2024, the Trust Fund returned 7.02% and ranked in the fourth quartile among other Public Defined Benefit Plans greater than \$10 billion in assets.**

TOTAL FUND PERFORMANCE AS OF JUNE 30, 2024

VERSUS TRUST FUND BENCHMARK AND ASSUMED RATE OF RETURN

- The Trust Fund performance expectation is to exceed the Trust Fund Benchmark over rolling five-year periods.
- In the five-year period ended June 30, 2024, the Trust Fund's net return of 7.02% outperformed the Trust Fund Benchmark by 1.65%. It also exceeded the Board's Assumed Long-Term Rate of Return of 6.75%.

Rolling 5-Year Total Fund Performance vs. Trust Fund Benchmark vs. Historical Actuarial Rate of Return



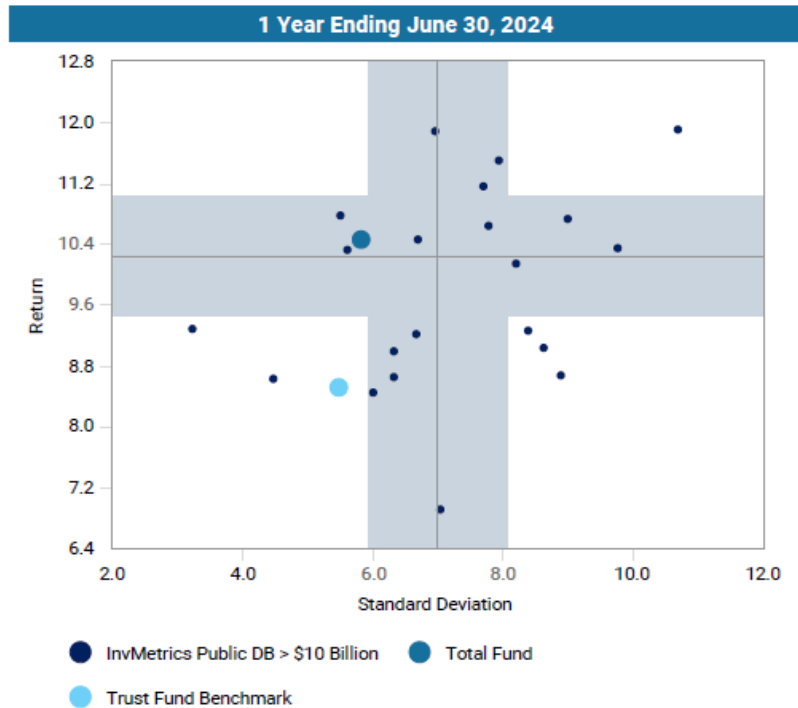
ASSET ALLOCATION COMPLIANCE AS OF JUNE 30, 2024

ACTUAL ASSET ALLOCATION VS. INVESTMENT POLICY ALLOCATION

	Current (\$)	Current (%)	Policy (%)	Differences* (%)	Policy Range (%)	Within Range
■ Global Equity	14,721,490,331	35.8	35.0	0.8	25.0 - 45.0	Yes
■ Core Fixed Income	2,621,016,093	6.4	6.0	0.4	1.0 - 11.0	Yes
■ Non-Core Fixed Income	2,870,029,705	7.0	6.0	1.0	1.0 - 11.0	Yes
■ Hedge Funds	1,941,176,945	4.7	5.0	-0.3	0.0 - 10.0	Yes
■ Cash Composite	347,034,314	0.8	0.0	0.8	0.0 - 3.0	Yes
■ Private Equity	4,941,262,002	12.0	13.0	-1.0	8.0 - 18.0	Yes
■ Private Debt	5,088,914,719	12.4	13.0	-0.6	8.0 - 18.0	Yes
■ Real Estate	4,683,640,079	11.4	12.0	-0.6	7.0 - 17.0	Yes
■ Infrastructure	2,309,311,680	5.6	6.0	-0.4	1.0 - 11.0	Yes
■ Other Private Markets	1,634,198,309	4.0	4.0	0.0	0.0 - 9.0	Yes
Total Fund	41,158,074,178	100.0	100.0	0.0		

- Actual asset class allocations are in compliance with Investment Policy ranges as of June 30, 2024.

TOTAL FUND RISK VS. NET RETURN: ONE YEAR AS OF JUNE 30, 2024



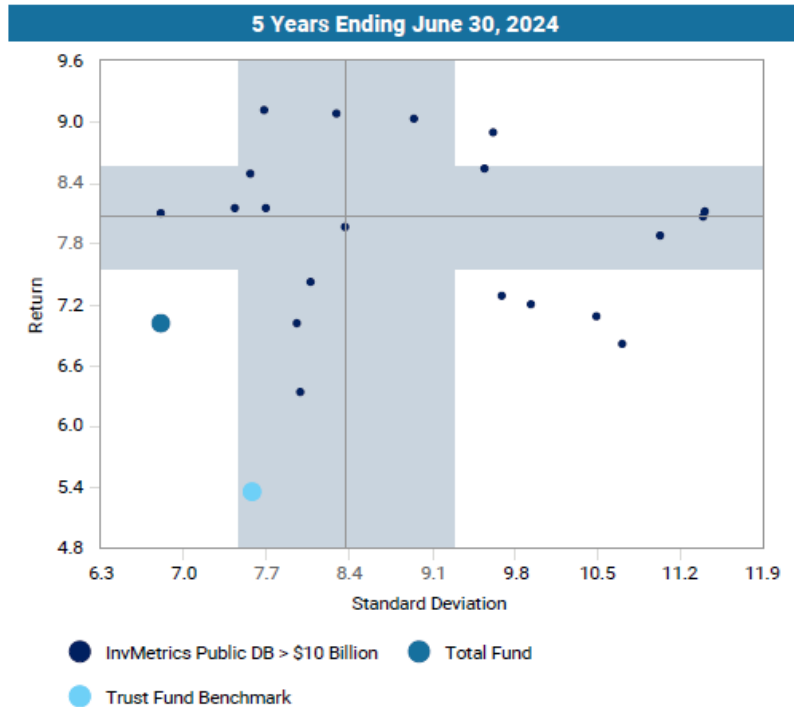
The Trust Fund generated a second quartile net investment return with lower risk, as measured by standard deviation, among other Public Defined Benefit Plans with more than \$10 billion in assets for the 1-year period ended June 30, 2024.

1 Year Ending June 30, 2024						
	Risk	Quartile Rank	Return	Quartile Rank	Sharpe Ratio	Quartile Rank
Total Fund	5.82	1st	10.46	2nd	0.84	1st
Trust Fund Benchmark	5.48	1 st	8.52	4 th	0.56	3 rd
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>7.00</i>		<i>10.25</i>		<i>0.60</i>	

- The Standard Deviation interquartile range is defined as the lowest Standard Deviation measuring in the first quartile.
- InvMetrics Public DB > \$10B Median includes 22 observations.



TOTAL FUND RISK VS. NET RETURN: FIVE YEARS AS OF JUNE 30, 2024



The Trust Fund underperformed in its peer universe due to having the least amount of risk as measured by standard deviation in the 5-year period, among other Public Defined Benefit Plans with more than \$10 billion in assets.

5 Year Ending June 30, 2024						
	Risk	Quartile Rank	Return	Quartile Rank	Sharpe Ratio	Quartile Rank
Total Fund	6.80	1st	7.02	4th	0.71	2nd
Trust Fund Benchmark	7.58	1 st	5.37	4 th	0.44	4 th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>8.37</i>		<i>8.07</i>		<i>0.68</i>	

- The Standard Deviation interquartile range is defined as the lowest Standard Deviation measuring in the first quartile.
- InvMetrics Public DB > \$10B Median includes 21 observations.

Texas Municipal Retirement System

PERFORMANCE DETAIL AS OF JUNE 30, 2024

	Allocation		Performance (%)									
	Market Value (\$)	% of Portfolio	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date	
Total Fund (Peer Comparison*)	41,158,074,178	100.0	1.73 (24)	5.46 (34)	10.46 (39)	5.06 (26)	7.02 (91)	6.83 (90)	6.19 (90)	8.22	Jan-89	
Trust Fund Benchmark			<u>1.83</u>	<u>5.67</u>	<u>8.52</u>	<u>2.21</u>	<u>5.37</u>	<u>5.57</u>	<u>5.22</u>	<u>7.52</u>		
Over/Under			-0.10	-0.21	1.94	2.85	1.65	1.26	0.97	0.70		
Global Equity	14,721,490,331	35.8	2.48	10.62	18.91	4.54	9.77	9.24	8.19	6.65	Jan-08	
Total Equity Index			<u>2.38</u>	<u>10.28</u>	<u>18.40</u>	<u>4.70</u>	<u>10.36</u>	<u>9.70</u>	<u>8.51</u>	<u>6.80</u>		
Over/Under			0.10	0.34	0.51	-0.16	-0.59	-0.46	-0.32	-0.15		
Core Fixed Income	2,621,016,093	6.4	0.21	-0.58	2.90	-2.92	0.04	1.13	1.56	6.42	Jan-89	
Core Fixed Income Benchmark			<u>0.07</u>	<u>-0.71</u>	<u>2.63</u>	<u>-3.02</u>	<u>-0.23</u>	<u>0.86</u>	<u>1.35</u>	<u>5.94</u>		
Over/Under			0.14	0.13	0.27	0.10	0.27	0.27	0.21	0.48		
Non-Core Fixed Income	2,870,029,705	7.0	2.08	5.11	11.38	1.77	3.19	3.42	3.70	Jan-15		
Non-Core Fixed Income (Public) Index			<u>1.65</u>	<u>4.39</u>	<u>3.87</u>	<u>-1.22</u>	<u>1.44</u>	<u>2.29</u>	<u>2.48</u>			
Over/Under			0.43	0.72	7.51	2.99	1.75	1.13	1.22			
Hedge Funds	1,941,176,945	4.7	1.08	7.32	12.16	5.47	6.04	5.72	5.09	Aug-14		
Hedge Funds Benchmark			<u>2.68</u>	<u>6.63</u>	<u>9.60</u>	<u>3.94</u>	<u>5.97</u>	<u>5.01</u>	<u>3.94</u>			
Over/Under			-1.60	0.69	2.56	1.53	0.07	0.71	1.15			
Cash Composite	347,034,314	0.8	1.55	2.91	5.82	3.39	2.33	2.15	1.68	1.13	Jun-08	
FTSE 1 Month US T-Bill index			<u>1.35</u>	<u>2.73</u>	<u>5.56</u>	<u>3.11</u>	<u>2.15</u>	<u>2.04</u>	<u>1.48</u>	<u>0.98</u>		
Over/Under			0.20	0.18	0.26	0.28	0.18	0.11	0.20	0.15		

* Peer comparison is expressed as a percentile. The lower the number, the better (e.g., "1" is the top percentile).



Texas Municipal Retirement System

PERFORMANCE DETAIL AS OF JUNE 30, 2024

	Allocation		Performance (%)								Inception Date
	Market Value (\$)	% of Portfolio	3 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	
Private Equity	4,941,262,002	12.0	2.29	4.93	7.50	12.13	17.10	17.72		15.10	Dec-15
<i>Private Equity Index</i>			<u>1.87</u>	<u>4.29</u>	<u>6.68</u>	<u>1.54</u>	<u>10.33</u>	<u>12.81</u>		<u>11.17</u>	
Over/Under			0.42	0.64	0.82	10.59	6.77	4.91		3.93	
Private Debt	5,088,914,719	12.4	1.79	3.72	10.49	7.21	7.17	7.03		6.90	Apr-16
<i>Private Debt Index</i>			<u>2.74</u>	<u>6.07</u>	<u>5.54</u>	<u>-0.69</u>	<u>1.76</u>	<u>2.53</u>		<u>3.22</u>	
Over/Under			-0.95	-2.35	4.95	7.90	5.41	4.50		3.68	
Real Estate	4,683,640,079	11.4	-0.50	-4.70	-7.00	6.70	5.60	6.84	8.47	8.76	Nov-11
<i>Real Estate Benchmark</i>			<u>-2.58</u>	<u>-7.45</u>	<u>-12.00</u>	<u>2.47</u>	<u>2.92</u>	<u>4.29</u>	<u>6.48</u>	<u>7.80</u>	
Over/Under			2.08	2.75	5.00	4.23	2.68	2.55	1.99	0.96	
Infrastructure	2,309,311,680	5.6	2.15	7.82	11.73	10.39	10.71	9.79		9.30	Feb-16
<i>Infrastructure Index</i>			<u>2.13</u>	<u>5.69</u>	<u>8.11</u>	<u>1.17</u>	<u>3.40</u>	<u>3.74</u>		<u>4.39</u>	
Over/Under			0.02	2.13	3.62	9.22	7.31	6.05		4.91	
Other Private Markets	1,634,198,309	4.0	2.33	2.15	9.75	4.43	5.28	5.13	3.83	4.18	Mar-11
<i>Other Private Markets Index</i>			<u>7.71</u>	<u>19.71</u>	<u>22.45</u>	<u>5.45</u>	<u>6.01</u>	<u>5.60</u>	<u>4.34</u>	<u>4.46</u>	
Over/Under			-5.38	-17.56	-12.70	-1.02	-0.73	-0.47	-0.51	-0.28	

COMPOSITE BENCHMARK DEFINITIONS AS OF JUNE 30, 2024

The Trust Fund Benchmark represents the Actual Allocation Benchmark through 12/31/2023, and is based on the Strategic Target Allocation weights as of 1/1/2024, which is currently as follows:

- 35.0% Total Equity Benchmark
- 6.0% Core Fixed Income Benchmark
- 6.0% Non-Core Fixed Income Benchmark
- 5.0% Hedge Funds Benchmark
- 13.0% Private Equity Benchmark
- 12.0% Real Estate Benchmark
- 6.0% Infrastructure Benchmark
- 4.0% Other Private Markets Benchmark
- 13.0% Private Debt Benchmark

The Actual Allocation Benchmark was calculated monthly using the beginning of the month asset class weights applied to each corresponding benchmark return.

Asset Class Composite Benchmarks:

The Total Equity Benchmark is calculated monthly and consists of 50% Russell 3000 Index and 50% MSCI EAFE Index (USD) (Net) through 07/31/2010; a blend of the Russell 3000 Index, MSCI ACW Ex US IM Index (USD) (Net) and MSCI EAFE Index (USD) (Net) at beginning of month investment weights through 11/30/2012; and a blend of the Russell 3000 Index and MSCI ACW Ex US IM Index (USD) (Net) at beginning of the month weights through 12/31/2018; and MSCI ACW IM Index (USD) (Net) thereafter.

The Core Fixed Income Benchmark is calculated monthly and consists of the Bloomberg US Gov't Crdt Lng Trm Bond Index through 06/30/2009; Bloomberg US Agg Bond Index thereafter.

The Non-Core Fixed Income Benchmark is calculated using the beginning of the month sub-asset class weights within the Non-Core Fixed Income Composite applied to each sub-asset class primary benchmark return through 6/30/2021, the Bloomberg US Agg Bond Index + 1.5% on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis through 12/31/2023, and consists of 50% CS Leveraged Loan Index and 50% ICE BofA U.S. High Yield Constrained Index on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis thereafter.

The Hedge Funds Benchmark is calculated monthly and consists of the HFRI FOF: Dv'd Index (1 Mo Lag) through 6/30/2021, and HFRI Asset Weighted Composite Index (1 Mo Lag) thereafter.

The Private Equity Benchmark is set equal to the Composite return through 6/30/2021, the MSCI ACW IM Index (USD) (Net), one quarter lag through 12/31/2023, and the Cambridge US PE and Venture Capital, one quarter lag thereafter.

The Real Estate Benchmark is the NCREIF ODCE Index (Gross), one quarter lag through 06/30/2021, and NCREIF ODCE Index (Net), one quarter lag thereafter.

The Infrastructure Benchmark consists of the Cambridge Infrastructure Fund Index on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis thereafter.

The Other Private Markets Benchmark consists of the MSCI ACW IM Index (USD)(Net) on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis thereafter.

The Private Debt Benchmark consists of the Credit Suisse Leveraged Loan Index + 100bps on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis thereafter.



September 10, 2024

To: Board of Trustees

From: Yup S. Kim, Chief Investment Officer *YK*

Re: Agenda Item 12: Receive Annual Review and Consider and Act on Asset Allocation Amendments

The Investment Policy Statement requires that TMRS' Asset Allocation "will be reviewed at least annually for reasonableness, taking into consideration current capital markets and economic conditions and the Board's views regarding long-term financial goals and objectives."

I am recommending some modest changes to the Asset Allocation to take effect January 1, 2025 to achieve three main objectives:

Simplicity. Maximize focus and team accountability by reducing the number of asset classes from nine to five. This reduction will be accomplished by combining related asset classes across credit (Private Credit, Non-Core Fixed Income, Core Fixed Income) and real assets (Real Estate, Infrastructure) and transitioning Hedge Funds and Other Private Markets into Tactical Opportunities.

Harness TMRS' Competitive Advantages. Leverage TMRS' unique competitive advantages of healthy liquidity profile, strong plan design, and world-class personnel and resources.

Align Asset Allocation with Go-forward Strategy. Position TMRS to strengthen its private market relationships and increase the share of co-investments.

Proposed Asset Allocation			
Return-Seeking Asset Classes	Target Allocation	Diversifying Asset Classes	Target Allocation
Public Equity	35%	Credit Investments	21%
Private Equity	20%	Real Assets	18%
Tactical Opportunities	6%		
Total Return-Seeking	61%	Total Diversifying	39%

ATTACHMENTS:

- 1 – Asset Allocation Presentation
- 2 – NEPC Support Letter

Asset Allocation Review

Yup Kim, Chief Investment Officer

Board of Trustees Meeting

September 19, 2024

Executive Summary

1

Simplicity: Maximize focus and team accountability by reducing asset class count from nine to five

2

Harness the Fund's competitive advantages: Leverage TMRS' unique competitive advantages of healthy liquidity profile, strong plan design, world-class personnel and resources

3

Align asset allocation to go-forward TMRS strategy: Position TMRS to strengthen its private market relationships and **increase the share of co-investments**

Proposal Summary

Maximize focus and team accountability by reducing asset class count from 9 to 5. Combining related asset classes and transforming hedge funds and OPM into tactical opportunities minimizes complexity.

Public Equity	35%
Private Equity	13%
Hedge Funds	5%
Other Private Markets	4%
Private Debt	13%
Core Fixed Income	6%
Non-Core Fixed Income	6%
Real Estate	12%
Infrastructure	6%

Public Equity	35%	
Private Equity	20%	▲
Tactical Opportunities	6%	▼
<hr/>		
Total Return-Seeking	61%	
Credit	21%	▼
Real Assets	18%	
<hr/>		
Total Diversifying	39%	

1 Simplified Framework

Return-Seeking

Return-seeking asset classes provide broad exposure to the economy, emphasizing growth as a key return driver.

Public Equity (35%)

Public equity will continue to deliver benchmark-aware broad market exposure for the Trust Fund.

Private Equity (20%)

Private equity will continue to provide exposure to high returning opportunities, increasing emphasis on the pursuit of fee-reducing co-investment.

Tactical Opportunities (5%)

Tactical opportunities will have a public equity cost of capital. Attractive public and private opportunities not neatly fitting other buckets fall here.

Diversifying

Diversifying asset classes provide returns driven by factors other than market growth.

Credit (21%)

Fixed income will continue to focus on rates and credit opportunities across public and private markets, emphasizing providing income.

Real Assets (18%)

Real assets will continue to focus on tangible assets such as real estate, infrastructure, and natural resources. Real assets provide diversifying benefits of inflation protection and income.

2 Harness TMRS' competitive advantages

Leverage TMRS' unique competitive advantages of healthy liquidity, strong plan design, and world-class personnel and resources

1

Healthy Liquidity
Profile and Plan
Design

- The average 2023 net benefit outflow among **public funds** was **2.3% of trust fund assets. For TMRS it was just 0.3%**

2

World class
private equity
team

- Adopting a 20% private equity target would move TMRS from **median to first quartile target exposure**
- New hires bring an additional **52 years of direct investment experience** which will add to co-investment efforts

3

Align alternatives
with peers

- The proposed allocation of ~50% alternative investments **aligns with that of TMRS' most successful and respected peers**

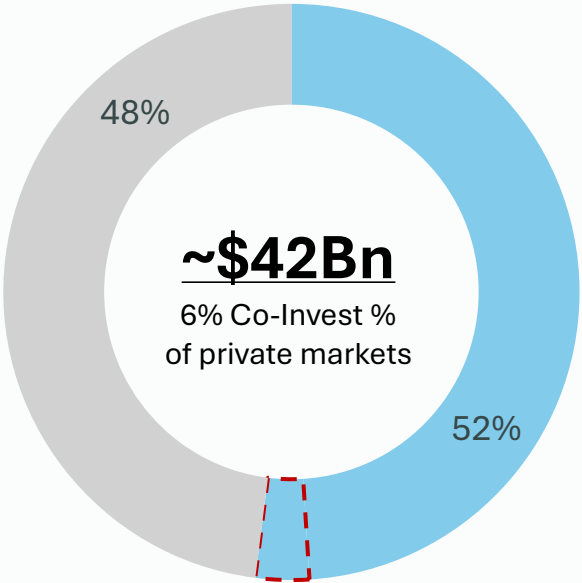
3

Align with TMRS' go-forward investment strategy

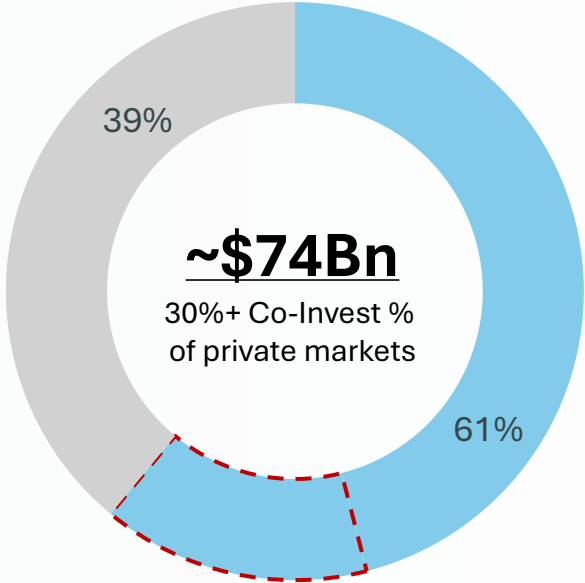
Position TMRS to strengthen its private market relationships and **increase the share of co-investments** across the portfolio's most expensive asset classes, notably private markets

Portfolio Evolution

2024E Portfolio



2034E Portfolio



Up to \$25B of potential value-add

■ Diversifying ■ Return-Seeking ■ Co-Invest

Recommendation

Recommendation: Investment Staff, with NEPC’s support, recommends the adoption of the proposed asset allocation.

Further target allocation recommendations will not be made between now and the next Asset-Liability model study required by the IPS to next take place in 2027.

Expectations	Current	Proposed	Change
10-yr Return	6.85%	7.04%	▲
30-yr Return	7.96%	8.21%	▲
Risk	14.2%	15.2%	▲
Outperformance	Less	More	▲

Proposed Asset Allocation:

Public Equity	35%
Private Equity	20%
Tactical Opportunities	6%
Total Return-Seeking	61%
Credit	21%
Real Assets	18%
Total Diversifying	39%



Sam Austin
Partner

Christian McCormick, CFA
Senior Consultant

September 10, 2024

Board of Trustees
Texas Municipal Retirement System
2717 Perseverance Drive
Austin, TX 78731

Dear Trustees,

Executive Summary

For the Board of Trustees' consideration, TMRS investment staff has proposed changes to the strategic asset allocation (SAA). Changes include:

- 1) Simplifying the SAA to include two groups of asset classes. Return-Seeking asset classes (Public Equity, Private Equity, Tactical Opportunities) are targeted to represent 60% of the Trust Fund. Diversifying asset classes (Credit Investments, Real Assets) are targeted to represent 40% of the Trust Fund.
- 2) Decreasing target allocations to:
 - a. Hedge Funds **-5%** (5% to 0%)
 - b. Real Assets **-4%** (22% to 18%)
 - c. Credit investments **-4%** (25% to 21%)
- 3) Increasing target allocations to:
 - a. Private Equity **+7%** (13% to 20%)
 - b. Tactical Opportunities **+6%** (0% to 6%)

NEPC has independently conducted analysis on capital market assumptions (CMAs), evaluated risk, return, and alternative SAA formulations, compared the proposed SAA to various large pension plan peers, assessed TMRS' historical private equity performance, and reviewed staff's implementation plans. Results of analysis are provided as exhibits to this memo.

Conclusion: NEPC supports the proposed strategic asset allocation changes. The foundation of our conclusion is built upon the solid funding status, net cash flow position, and strong liquidity position of the overall Trust. NEPC believes TMRS investment staff leadership have the knowledge, experience, and expertise to effectively implement the proposed SAA.

EXHIBIT A – Summary of Key Conclusions

NEPC’s support of the proposed asset allocation changes was the result of thorough quantitative analysis. Summaries of each key component of analysis is provided for below:

- **Risk-Return Expectations.** The risk-return analysis showed that the proposed asset allocation is expected to deliver a meaningful increase in annualized expected returns over the next 10-year period with a proportional increase in expected risk, when compared to the current SAA. Furthermore, various other asset allocation scenarios did not result in any compelling or practical alternatives. Analysis is provided for in [Exhibit B](#).
- **Public Pension Peers.** In comparing the proposed allocations to large public pensions, and select other sophisticated institutional investors, it is important to note that the goal of comparative analysis is not to suggest that hugging peer medians is the desired outcome. Investors who blindly choose to match median allocations are likely to produce average returns. Allocation choices should be grounded in the Trust’s investment beliefs, strength of funded status, liquidity needs, and investment staff capabilities and we believe the motivation behind staff’s proposed asset allocation meet these criteria. The conclusion from our peer analysis is that the proposed allocations are all within reasonable ranges relative to other large public sector pension funds. Analysis is provided for in [Exhibit C](#).
- **Private Equity.** Since inception, the private equity portfolio for TMRS has been a significant contributor to the superior level of returns generated by the Trust. NEPC wants to emphasize that TMRS investment staff has historically produced meaningful levels of alpha in the private equity portfolio through effective implementation and manager selection. Although not a performance guarantee, we are supportive of and positive on the staffing additions and investment process CIO Kim is putting in place. In addition to the expansion of the co-investments program, we are optimistic that meaningful levels alpha generation in the private equity portfolio and the new Tactical Opportunities bucket may be achieved over the long-term. Analysis is provided for in [Exhibit D](#).
- **Comparing to 2023 Approved Asset Allocation.** NEPC was hired by the Board of Trustees as TMRS’ General Investment Consultant in 2022. NEPC was then engaged to perform an Asset Liability Study and full asset allocation review during 2023 which culminated with Board approval of target allocations (June 2023) and benchmarks (September 2023) which went into effect January 1, 2024. Recognizing further asset allocation changes so near prior review may need additional context, it is worth noting that NEPC’s assessment is that the currently proposed asset allocation keeps in place the key features adopted last year and refines the allocation positively toward a more return seeking stance while taking on reasonable amounts of marginal risk and recognizing staffing enhancements. Analysis is provided for in [Exhibit E](#).
- **Implementation Timeline.** NEPC is constructive that the proposed asset allocation can be implemented in a reasonable period, with significant progress, if not full implementation, by the next Asset Liability Study and full Asset Allocation Review scheduled for 2027.

As a concluding note, the intention is that new asset allocation targets would go into effect January 1, 2025. If the proposed asset allocation is adopted, a subsequent review of benchmarks to align with the new asset allocation will be presented to the Board prior to year-end 2024.

EXHIBIT B – Risk-Return Expectations Analysis

As part of our analysis NEPC ran expected long-term return and risk assessments of the Trust’s current asset allocation, the proposed asset allocation from staff, and several alternate scenarios. Importantly, the Capital Market Assumptions (CMAs) used represent beta (i.e., market) return expectations and, conservatively, do not include any measurement of potential alpha. NEPC acknowledges, however, that TMRS investment staff has historically generated meaningful levels of alpha in its private markets portfolio, especially in private equity, through effective implementation and manager selection. Although not a performance guarantee, we are supportive of and positive on the staffing additions and governance framework CIO Kim is putting in place, and in addition to expansion of the co-investments program, we are optimistic that meaningful levels alpha generation in the private equity portfolio and the new Tactical Opportunities bucket may be achieved over the long-term.

Asset Allocation Mixes Assessed (using June 30, 2024 CMAs)

	Current Policy	TMRS Staff Proposal	Mix A	Mix B	Mix C
Cash	0.00%	0.00%	0.00%	0.00%	0.00%
Total Cash	0.00%	0.00%	0.00%	0.00%	0.00%
Global Equity	35.00%	35.00%	35.00%	35.00%	35.00%
Private Equity	13.00%	20.00%	20.00%	16.00%	18.00%
Tactical Opportunities	0.00%	6.00%	6.00%	6.00%	6.00%
Total Equity	48.00%	61.00%	61.00%	57.00%	59.00%
US Aggregate Bond	6.00%	3.50%	3.50%	3.50%	7.50%
US High Yield Corporate Bond	3.00%	2.25%	2.25%	2.25%	2.25%
US Leveraged Loan	3.00%	2.25%	2.25%	2.25%	2.25%
Other Private Markets	4.00%	0.00%	0.00%	0.00%	0.00%
Private Debt	13.00%	13.00%	17.00%	13.00%	13.00%
Total Fixed Income	29.00%	21.00%	25.00%	21.00%	25.00%
Real Estate - Core	6.00%	4.00%	2.00%	6.00%	3.00%
Real Estate - Value-Add	6.00%	4.00%	2.00%	6.00%	3.00%
Private Real Assets - Natural Resources	0.00%	2.00%	2.00%	2.00%	2.00%
Private Real Assets - Infrastructure	6.00%	8.00%	8.00%	8.00%	8.00%
Total Real Assets	18.00%	18.00%	14.00%	22.00%	16.00%
Hedge Fund	5.00%	0.00%	0.00%	0.00%	0.00%
Total Multi Asset	5.00%	0.00%	0.00%	0.00%	0.00%
Expected Return 10 yrs	6.85%	6.97%	7.03%	6.90%	6.88%
Expected Return 30 yrs	7.96%	8.25%	8.31%	8.14%	8.13%
Standard Dev	14.22%	15.96%	15.77%	15.54%	15.21%
Sharpe Ratio (10 years)	0.189	0.176	0.182	0.176	0.179
Sharpe Ratio (30 years)	0.313	0.297	0.304	0.298	0.304

The new asset allocation proposal by investment staff meaningfully increases the 10- and 30-year expected returns, by annualized rates of 12 bps and 29 bps, respectively. The expected risk level of the Trust portfolio would increase, mainly due to the decrease in the public fixed income and hedge fund allocations, and the Sharpe ratio slightly decreases.

EXHIBIT C – Public Pension Peer Analysis

It is important to note that the goal of comparative analysis is not to suggest that hugging peer medians is the desired outcome. Investors who blindly choose to match median allocations are likely to produce average returns. Allocation choices should be grounded in each the Trust’s investment beliefs, strength of funded status, liquidity needs, and investment staff capabilities. While the motivation behind staff’s proposed asset allocation changes is grounded in TMRS’ relatively strong funding, cash flow position, and expansion of staff expertise, it is helpful to evaluate the changes relative to the range of allocations among other large public funds.

Among the most notable changes in the proposed 2024 asset allocation recommendation are the increases to Private Equity and reduction in Hedge Funds. Increasing the private equity allocation to 20% places TMRS in the first quartile but would not make TMRS an outlier. The elimination of the hedge fund allocation would make TMRS a bit of an outlier as most plans have some allocation to the space, however, the Tactical Opportunities bucket targets diversifying opportunities capable of beating a public equity benchmark among which some hedge fund strategies are contemplated to be included.

Asset Allocation Comparison to Peers (as of June 30, 2024)

	Public Equity	Private Equity	Fixed Income	Real Estate	Real Assets (ex-RE)	Hedge Funds
TMRS Current	35.8%	12.0%	25.7%	11.3%	9.6%	4.7%
1st Quartile	49-58%	17-22%	26-32%	9-12%	7-10%	10-13%
2nd Quartile	44-49%	12%-17%	23-26%	8-9%	4%-7%	5%-10%
Median	44%	12%	23%	8%	4%	5%
3rd Quartile	35-44%	10%-12%	20-23%	7-8%	3%-4%	2%-5%
4th Quartile	26-35%	8-10%	17-20%	5-7%	2-3%	0-2%
Current Allocation	Note 1: Fixed Income include Private Debt					
Proposed Higher	Note 2: Tactical Opportunities allocation is not formally tracked within peer universe.					
Proposed Lower	Note 3: 1st and 4th quartiles represent 25th to 5th and 75th to 95th percentile, respectively.					

The summary take-away from the comparison is that the proposed allocations are all within reasonable ranges relative to other large public sector pension funds. Benefits of reducing the hedge fund portfolio is that it will enhance the liquidity position (counterbalancing in the increase in private equity) and reduces complexity of the portfolio.

EXHIBIT D – Private Equity

Implementation within private markets is key to a successful program. Having an experienced and qualified staff in place, access to top tier external managers, and specialized programs such as the larger co-investment program led by CIO Kim, NEPC would expect potentially greater benefits over time.

The following performance table (as of June 30, 2024) provides evidence as to the positive contribution the private equity allocation has made over the long term. Over 3-, 5-, and 7-year trailing periods, the private equity portfolio has significantly outperformed the Total Fund return, the domestic equity index, the Trust Fund benchmark, and most importantly the actuarial rate of assumption. Longer time periods of assessment are not yet possible as the TMRS investment program began investing capital in late 2015.

Asset Allocation as of 6/30/2024

	3 Yrs	5 Yrs	7 Yrs
Trust Fund	5.06%	7.02%	6.83%
Private Equity	12.13%	17.10%	17.72%
TMRS Domestic Equity Index	7.74%	13.80%	13.20%
TMRS Private Equity Index	1.54%	10.33%	12.81%
<i>Trust Fund Benchmark</i>	<i>2.18%</i>	<i>5.34%</i>	<i>5.55%</i>
<i>Actuarial Return Assumption</i>	<i>6.75%</i>	<i>6.75%</i>	<i>6.75%</i>

*as of 06/30/2024

NEPC believes that the increase in the co-investment program and the meaningful expansion of alternative market staffing and expertise should further enhance implementation and increase the potential for higher returns relative to the asset class. We are strong supporters of CIO Kim's desired order of operations by putting in place the framework, governance, and people first, before recommending significantly increasing the private equity allocation.

EXHIBIT E – Comparison to 2023 Asset Allocation

The Board of Trustees approved the most recent SAA in June 2023. The June 2023 SAA was the first involvement in an asset allocation approval as TMRS’ General Investment Consultant. Notable changes adopted in the 2023 asset allocation included:

- 1) Dividing the Non-Core Fixed Income (NCFI) Allocation. In 2023, NCFI was formally divided into NCFI (6% target) and Private Debt (13%). Proposed 2024 changes retain similar targets for each sub-asset class under an umbrella Credit Investments asset class. It is intended Private Debt will retain a 13% target allocation, while NCFI would be reduced from 6% to 4%.

- 2) Refining the Other Public and Private Markets (OPPM) Allocation. In 2023, OPPM was formally divided into Infrastructure (6% target) and Other Private Markets (OPM; 4%). Proposed 2024 changes retain and increase the allocation to an infrastructure sub-asset class (8%) and eliminates Other Private Markets. The 4% of investments prior assigned to OPM will be reassigned to asset classes Real Assets (~3%) and Private Equity (~1%).

Due to strong oversight by the Board of Trustees and effective implementation by investment staff, as of June 30, 2024 the current asset allocation is well within policy ranges and close to the policy targets for each asset class.

Asset Allocation as of 6/30/2024

	Current (\$)	Current (%)	Policy (%)	Differences* (%)	Policy Range (%)	Within Range
■ Global Equity	14,721,490,331	35.8	35.0	0.8	25.0 - 45.0	Yes
■ Core Fixed Income	2,621,016,093	6.4	6.0	0.4	1.0 - 11.0	Yes
■ Non-Core Fixed Income	2,870,029,692	7.0	6.0	1.0	1.0 - 11.0	Yes
■ Hedge Funds	1,941,176,945	4.7	5.0	-0.3	0.0 - 10.0	Yes
■ Cash Composite	347,034,314	0.8	0.0	0.8	0.0 - 3.0	Yes
■ Private Equity	4,941,262,002	12.0	13.0	-1.0	8.0 - 18.0	Yes
■ Private Debt	5,088,914,719	12.4	13.0	-0.6	8.0 - 18.0	Yes
■ Real Estate	4,655,255,877	11.3	12.0	-0.7	7.0 - 17.0	Yes
■ Infrastructure	2,309,311,680	5.6	6.0	-0.4	1.0 - 11.0	Yes
■ Other Private Markets	1,634,198,309	4.0	4.0	0.0	0.0 - 9.0	Yes
Total Fund	41,129,689,963	100.0	100.0	0.0		

It is NEPC’s assessment that the key attributes of the asset allocation adopted in 2023 remain in place in the currently proposed asset allocation.



September 10, 2024

To: Board of Trustees

From: Yup S. Kim, Chief Investment Officer *YK*

Re: Agenda Item 13: Board Education: Private Equity Asset Class

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted annually. At the September Board meeting, Deputy Chief Investment Officer Tom Masthay will present the Private Equity asset class review.

Board Education: Private Equity

Tom Masthay, Deputy Chief Investment Officer

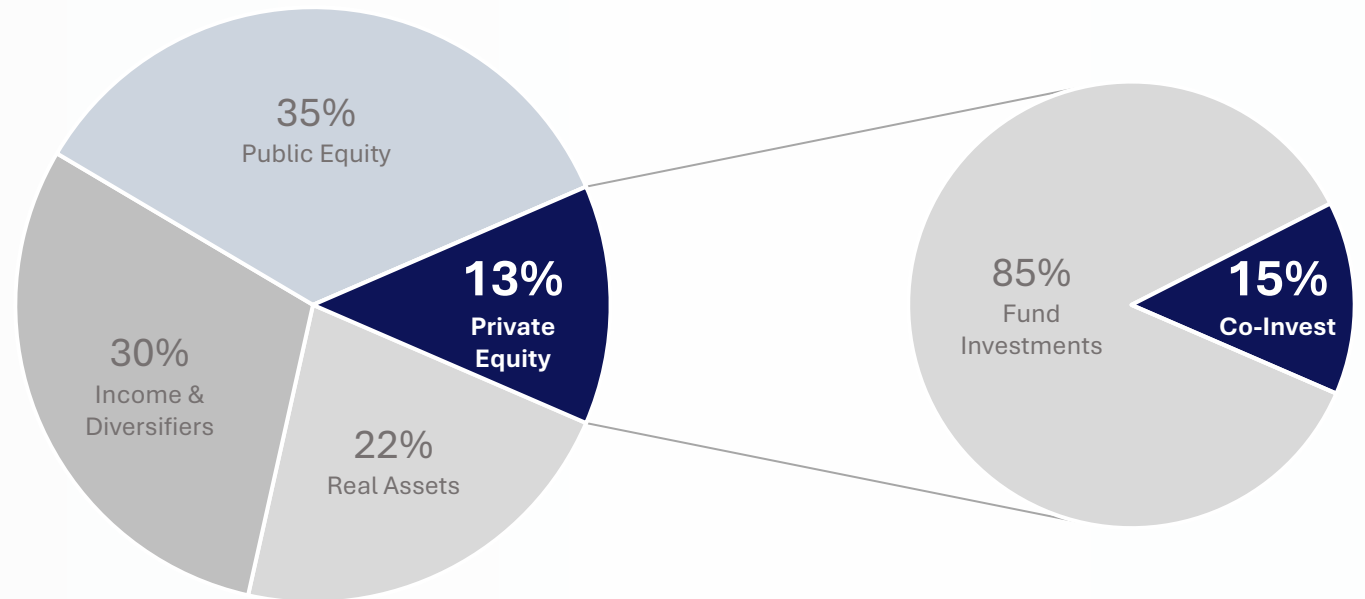
Board of Trustees Meeting

September 19, 2024

Private Equity's Portfolio Role

Institutional portfolios include private equity primarily to **enhance return**. The asset class additionally provides **diversification**.

Private Equity's desirable features are that it is the highest expected returning asset class, provides the best opportunity for outperformance, and offers the greatest amount of co-investment deal flow. In exchange for these features, private equity is **illiquid and long-term** in nature.



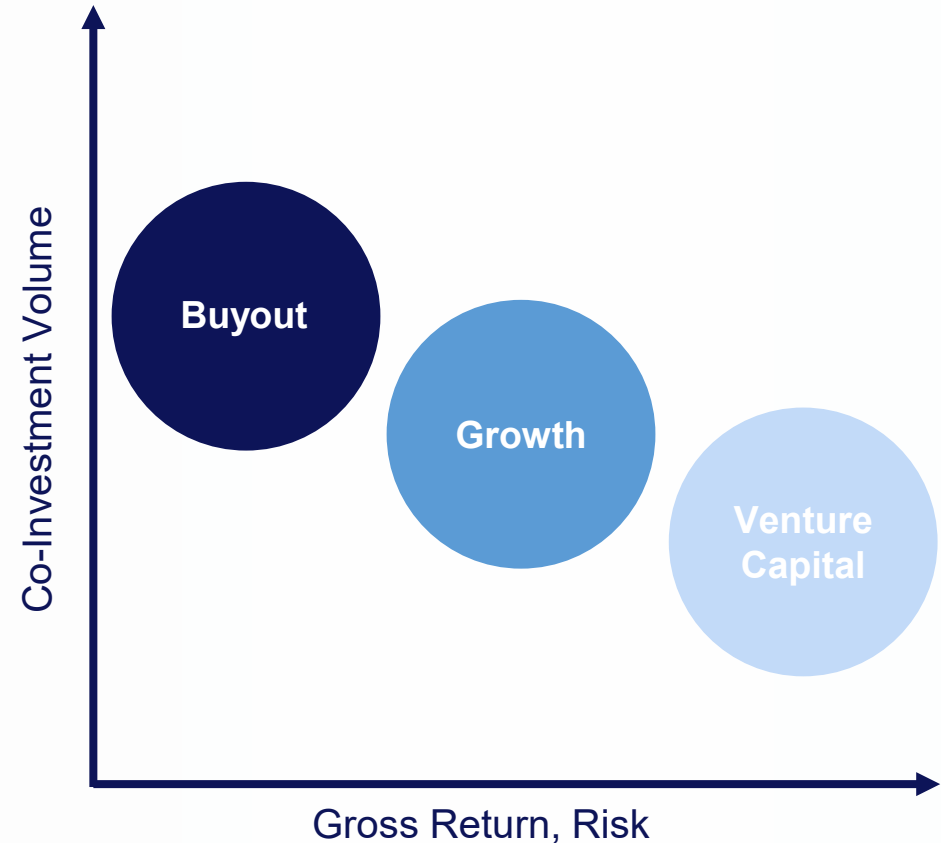
Private Equity Strategies

Private Equity pursues three strategies:

Buyout – Control or influence positions in profitable companies. Operational improvements and margin enhancements are frequently the focus of business plans.

Growth Equity – Influence or minority positions in profitable or near-profitable businesses. Growing revenue is typically the focus of business plans.

Venture Capital – Minority positions in companies pursuing new technologies, products and markets. Growing a customer base is typically the focus of business plans.



Private Equity Portfolio Performance

Private Equity has consistently delivered the highest returns of any asset class while also exceeding benchmark and actuarial return assumptions.

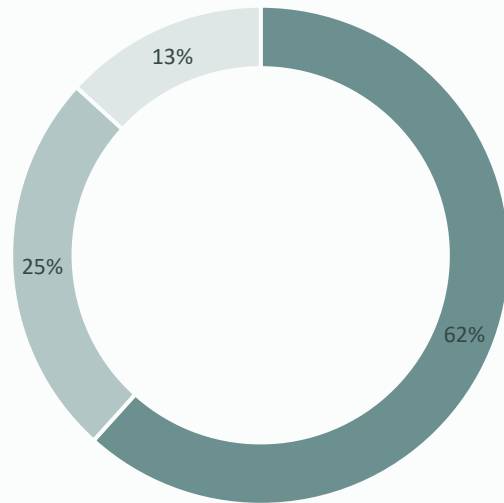
TMRS' experience with Private Equity aligns with long-term expectations for the asset class.

While Private Equity may not outperform in any given year, its ability to add value to investments has generally driven outperformance over multi-year periods.

Performance as of June 30, 2024

1 Yr.	3 Yr.	5 Yr.	7 Yr.	10 Yr.	Expectation
Pub Eq. 18.91%	PE 12.12%	PE 14.51%	PE 16.54%	Pub Eq. 8.17%	PE 9.20%
HF 12.16%	Infra 10.39%	Infra 10.71%	Infra 9.79%	RE 8.11%	Priv. Debt 8.30%
Infra 11.73%	Priv. Debt 7.21%	Pub Eq. 9.80%	Pub Eq. 9.22%	OPM 3.83%	Infra 7.00%
NCFI 11.38%	RE 6.70%	Priv. Debt 7.17%	Priv. Debt 7.03%	Cash 1.67%	OPM 6.80%
Priv. Debt 10.49%	HF 5.47%	HF 6.02%	RE 6.76%	Core FI 1.56%	NCFI 6.65%
OPM 9.75%	Pub Eq. 4.54%	RE 5.60%	HF 5.69%	No Data for: PE Infra HF Priv. Debt NCFI	HF 6.10%
PE 7.50%	OPM 4.43%	OPM 5.28%	OPM 5.13%		RE 5.40%
Cash 5.82%	Cash 3.39%	NCFI 3.19%	NCFI 3.42%		Pub Eq. 5.40%
Core FI 2.90%	NCFI 1.77%	Cash 2.31%	Cash 2.13%		Core FI 4.60%
RE -7.00%	Core FI -2.92%	Core FI 0.04%	Core FI 1.13%		Cash 4.20%

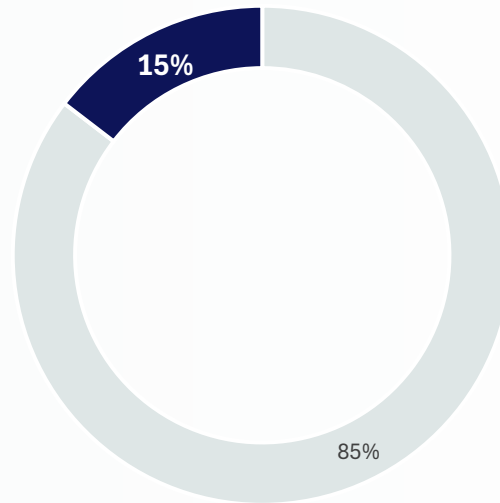
Current Private Equity Portfolio Construction



■ Buyout ■ Growth ■ Venture

\$4.8B

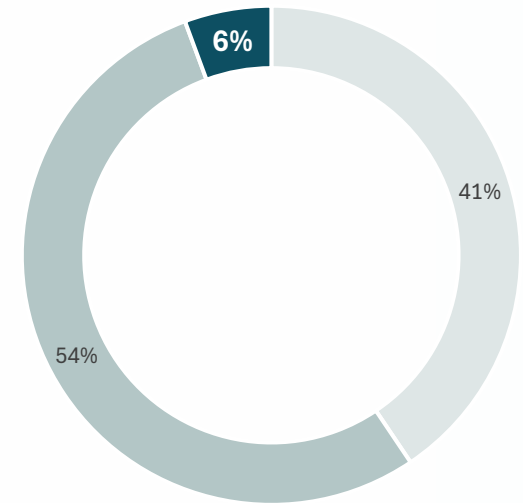
Net Asset Value



■ Fund ■ Co-Invest

\$700M

Co-Invest



■ Mgt. Fee, Incentive ■ Incentive ■ 0/0

6%

of Co-invest is Fee/Carry Free

A key TMRS objective is increasing the number of no fee and no carry co-investments.

Current Co-Investment Program

The co-investment program reduces costs by removing costly intermediaries.

\$269M

Approved
Co-Investments YTD

5

Single Asset
Co-investments Approved YoY

Progress vs. Plan

The investment team has been deliberate in capital deployment in 2024 as shifting the private markets model to be more co-investment centric and team building around the new model have taken priority.

Investment activity is on-pace to meet the lower end of 2024 target commitment ranges, co-investments have been majority of activity, and the program's best relationships have been prioritized.

2024 Goals

Communicated at the Dec. 2023 Board Meeting

- ✓ Commit \$600M to \$1.0B of capital.
- ✓ Reduce costs/scale co-investment program.
- ✓ Focus on high performance relationships.

Looking Forward

1

Resource Utilization. Integrate knowledge and networks of new TMRS investment professionals into the investment process. Build team cohesion.

2

Co-Investment Scaling. Establish a strategic co-investment partnership. Widen the investment opportunity funnel. Process and execute high-caliber deal flow.

3

Portfolio Optimization. Develop enhanced portfolio analysis frameworks. Consider opportunistic secondary transactions. Focus on highest quality relationships.