



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

March 28, 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 Chair Johnny Huizar, Bob Scott, and Jesus Garza present and David Landis attending by Zoom. Vice Chair Bill Philibert was absent.

Staff present included: David Wescoe, Debbie Muñoz, Christine Sweeney, Anali Alanis, Jac Greene, Yup Kim, Nick O’Keefe, Kristyn Scoggins, Colin Davidson, Leslee Hardy, Frank Atkins, Madison Jechow and Dan Wattles. Consultants present included Robert Klausner and Sam Austin.

Mr. Huizar called the meeting to order at 9:00 a.m.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Scott moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the December 14, 2023 meeting. Mr. Garza seconded the motion, which passed 4-0.

Executive Director Reports

2. Executive Director’s Report.

Mr. Wescoe discussed recent staff promotions, including Debbie Muñoz to Deputy Executive Director, Anali Alanis to Chief Service Officer, and Nick O’Keefe to Chief Financial Officer. He introduced Chief Investment Officer Yup Kim. TMRS received the Government Finance Officers Association award, for the 36th consecutive year, for excellence in financial reporting for TMRS’ 2022 Annual Comprehensive Financial Report. TMRS achieved the Pioneer Level for the Quality Texas Foundation Award and completed the Engagement Level application. TMRS published its new City Reference Guide. The City of China Grove became the 936th city participating in TMRS. Mr. Wescoe recognized Dan Wattles, Director of Government Relations, who is retiring.

3. Receive Senior Staff Reports.

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

Stakeholder Advisory Committee

4. Report on Stakeholder Advisory Committee Meeting.

Ms. Muñoz reported on the Stakeholder Advisory Committee meeting held on February 29. The Committee discussed four topics assigned by the Board regarding potential changes to the TMRS Act:

- making all city plan changes effective January 1; currently, the TMRS Act has various effective dates for different plan changes;
- removing the statutory maximum contribution rate limit (Stat Max) , which is a statutory relic from 1947 with limits set arbitrarily when TMRS was created and only one plan option (5% employee contribution rate, with 1-to-1 city match) was available to cities;
- decoupling Updated Service Credit (USC) from Cost-of-Living Adjustments (COLAs); today a city cannot provide a COLA to retirees unless it also provides USC to active employees; and
- possible changes to the existing COLA options.

Mr. Garza stated the Committee unanimously supported the first two proposals, and the Committee will meet again on April 25 to continue discussion on decoupling the USC and COLA benefits and various COLA options.

Internal Audit

5. Report on Audit Committee Meeting.

Ms. Scoggins said the Audit Committee met on March 7. Committee Chair Landis said the Committee received two confidential audit reports. For the investment compliance report, Ms. Scoggins said that TMRS has designed and implemented a compliance program that ensures that testable parameters of the Investment Policy Statement are adhered to and actions pertinent to the security of the Trust Fund are carried out. The Committee unanimously approved distribution of both audit reports to the Board. Ms. Scoggins also provided the Committee with an update on the 2023-24 Audit Plan. The remaining audits for this year include audits on cybersecurity, city contributions and calculations of benefit payments. Mr. Scott asked if the cybersecurity audit will be done in-house. Ms. Scoggins said yes, And Mr. Greene said IS does both internal and external tests and uses a third party for external testing.

Plan Design and Funding

6. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2024 (Received after the December 2023 Board Meeting).

Mr. Davidson presented the Updated Service Credit and/or Annuity Increase ordinances received by TMRS after the December 14, 2023 Board meeting but before the end of 2023.

Mr. Garza moved to ratify ordinances adopting Updated Service Credit and/or Annuity Increases received by TMRS after the December 14, 2023 Board meeting but before the January 1, 2024 effective date. Mr. Scott seconded the motion, which passed 4-0.

7. Consider and Act on 2023 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account.

Ms. Hardy asked the Board to consider interest allocations to four TMRS funds. For two funds, regarding supplemental death benefits and disability benefits, the interest allocations are set by the TMRS Act at 5%. The Board decides the allocations to the other two funds, an interest reserve account for TMRS operating funds and the Benefit Accumulation Fund (BAF). GRS and staff recommend an allocation of \$310 million to the interest reserve account and an interest credit of 11.92% to the BAF.

Mr. Scott moved that the Board allocate, effective as of December 31, 2023:

- (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and
- (ii) a credit of approximately 11.92% interest to the Benefit Accumulation Fund and \$310 million for the Interest Reserve Account,

and that the Board approve that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments, as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2023 and considered in the 2024 BAF interest credit determination. Mr. Garza seconded the motion, which passed 4-0.

Investments

8. Investment Reports.

Mr. Kim said he will focus on three strategic areas: (1) building a benchmark-aligned public sector portfolio with select active mandates seeking outperformance, (2) strengthening private market relationships and increasing co-investments, as private markets offer the greatest outperformance opportunities and co-investments can be made with reduced fees, and (3) attracting the best investment talent to TMRS and partnering with the best investment managers.

He presented a key performance indicator dashboard that showed that TMRS is on track to completing private market allocations for 2024 in compliance with trust fund asset allocations. Co-investments are 5% of private market holdings, and Mr. Kim sees that increasing with a long-term target of one-third in co-investments. Mr. Scott asked how co-investments can reduce fees, and Mr. Kim provided examples of how fees and carried interest are reduced with co-investments. He showed Dashboard indicators for returns against benchmarks, peers and the Board's assumed actuarial return. Mr. Scott asked Mr. Kim if he is comfortable with current benchmarks, after they were changed by the Board in 2021, and Mr. Kim said he is.

Mr. Kim said that the key takeaways from the fourth quarter 2023 Trust Fund Report were that net returns – 11.4% in 2023 – exceeded actual allocation benchmarks and strategic target allocation benchmarks over 1-, 3- and 5-year periods. Investments staff completed \$4.9 billion in new commitments in 2023.

Mr. Garza left the meeting at 9:45 a.m.

9. General Investment Consultant Quarterly Report.

Mr. Austin said the Federal Reserve raised rates in 2023 but doing so did not dampen market returns. Third quarter returns were reduced but fourth quarter returns outperformed. Mr. Scott has asked in the past whether TMRS investments will perform well in a strong market, and TMRS returned 11.37% for 2023. This ranked in the 38th percentile among peer plans. Real estate and non-core fixed income were the biggest contributors while private equity was the biggest detractor, although not all private equity returns for the year have yet been reported, and private equity was the biggest contributor over the 5-year period. While TMRS was in the 38th percentile for the 1-year period, it was lower for the 5-year period, so the Fund has benefitted from adding risk to its asset allocation in 2021. The Fund added more than \$4.6 billion in 2023.

After agenda item 9, the Board accepted public comment from Justin Flores with the Private Equity Stakeholder Project.

10. Board Education: Global Equities Asset Class.

Mr. Atkins provided an overview of the global equity program. Mr. Scott asked whether there is a percentage goal for active management. Mr. Atkins said the goal for next year is 20%, and an additional 5% per year after that, but with thoughtful monitoring of the portfolio. Mr. Scott asked what type of return is expected from actively managed investments given the higher cost. Mr. Atkins said staff looks at returns net of all fees, so the returns not only must cover all costs but add value on top of that. Historically, Investments has seen about 100 basis points of positive return net of fees.

11. Executive Session. None.

Mr. Garza returned to the meeting at 10:03 a.m.

Future Board Agenda Items

12. Call for Future Agenda Items.

Mr. Huizar asked for future agenda items, but there were none.

Mr. Huizar adjourned the meeting at 10:06 a.m.

A handwritten signature in blue ink, appearing to read "D. Wescoe", written over a horizontal line.

David B. Wescoe
Executive Director