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Executive Director's Letter of Transmittal



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

I am pleased to present you with the Texas Municipal Retirement System (TMRS) Annual Comprehensive Financial Report for the year ended December 31, 2023 (Report).

TMRS Background

Beginning in 1948 with eight participating cities, TMRS today is the retirement system of choice for 936 Texas cities, providing retirement and disability benefits to more than 225,000 active and retired city employees and their beneficiaries.

TMRS is a cash-balance retirement plan in which a Member's retirement benefit is calculated based on the sum of their contributions, with interest, city-financed monetary credits, the Member's age at retirement, and other actuarial factors. For 76 years, TMRS has provided billions of dollars in lifetime retirement benefits to thousands of Texans. In 2023, TMRS paid \$1.9 billion in benefits, an increase of \$123.1 million, or 6.9%, from \$1.8 billion in benefits paid in 2022.

Investments

TMRS' 2023 net investment return was 11.64%, and Trust Fund investments totaled \$39.3 billion as of December 31, 2023. TMRS' three-year, five-year, and ten-year net investment returns were 5.29%, 7.79% and 6.15%, respectively, for the same period. The Investment Section summarizes 2023 investment operations and asset class performance.

TMRS' Board of Trustees (Board) adopts an Investment Policy Statement (IPS) that establishes the Trust Fund's asset allocation, portfolio performance objectives, and benchmarks. The Board reviews the IPS and the Trust Fund's asset allocation annually and updates them to reflect prevailing investment and economic circumstances. Compliance with the IPS is monitored by Finance department staff.

Actuarial Valuation Report

In accordance with the TMRS Act, Gabriel, Roeder, Smith & Company (GRS), the Board's independent actuary, completes an annual actuarial valuation of the Trust Fund's assets and liabilities. GRS' Actuarial Valuation Report conforms with the Actuarial Standards of Practice issued by the Actuarial Standards Board and complies with the requirements of the TMRS Act, the Internal Revenue Code, and the Statements of the Governmental Accounting Standards Board. The assumptions and methods used in GRS' Valuation Report are summarized in the Actuarial Section.

Each participating city chooses its own plan benefit provisions from various statutory options. Whatever options it chooses, each city's funding objective is to provide benefits for the city's employees financed by an employer contribution rate. TMRS' actuarial funding policy requires any new unfunded liabilities to be amortized over a closed period of no more than 20 years.

TMRS provides each participating city with an annual actuarial valuation prepared by GRS that recognizes the differences in the past year between actuarial assumptions and actual experience and any benefit changes. Participating city valuations are available at [TMRS.com](https://www.tmrs.com).

While each participating city has its own funded ratio, TMRS' composite funded ratio was 89.7% as of December 31, 2023, the same as the prior year.

Executive Director's Letter of Transmittal

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2023 Operational Activities

TMRS' Senior Staff completed each item on its 2023 Action Plan, including:

- Added online refunds that allow Members to apply for and receive an account refund on MyTMRS without any staff involvement.
- Enhanced the user experience for Members and cities by creating training webinars, developing a survey program to measure Member and city satisfaction with TMRS' services, improving the website and its content, created a Member "Welcome to TMRS" video, improved the retirement application, incorporated DocuSign into our processes, published a new Member Benefits Guide, established a City Focus Group, improved the city plan design website page, and developed a new city welcome package.
- Submitted the Quality Texas Foundation's Pioneer Level application and substantially completed the Engagement Level application.
- Enhanced cybersecurity capabilities by adding experienced talent, aligned the cybersecurity program with the NIST Cybersecurity Framework, and improved internal security measures.
- Enhanced investment operations and compliance by improving reconciliations, automating data reviews, and adding industry-leading technology solutions for portfolio management.
- And celebrated TMRS' 75th Anniversary in style with year-long celebrations and commemorations.

Completing the Action Plan, in addition to the many other staff accomplishments during the year, improved Member and city service and made TMRS a stronger and more efficient organization.

Staff Update

TMRS' staff is experienced and talented, and we added impressive talent to the team: Anali Alanis (Chief Service Officer), Jac Greene (Chief Information Services Officer), Dana Brown (Director of Data Management), Kevin Cummings (Director of Software Development), Kyle Dearing (Director of Information Security), and Kristyn Scoggins (Director of Internal Audit).

In January, Yup Kim became our Chief Investment Officer, replacing my friend and colleague David Hunter, who retired in December.

In addition to the talent additions, I was pleased to promote the following Senior Staff colleagues:

- Debbie Muñoz to Deputy Executive Director. With 26 years of TMRS service, Debbie understands every aspect of TMRS. No one knows the Plan or its implementation better, has provided superior service to our Members longer, or has better relationships with TMRS stakeholders.
- Anali Alanis to Chief Service Officer. Anali, a former city manager and TMRS Trustee, joined the staff in 2023 with exceptional experience, and she has accomplished a great deal in a short time. She has submitted two excellent applications to the Quality Texas Foundation months ahead of schedule, driven a quality focus throughout the organization, added depth to the HR group, and established strong working relationships with her staff colleagues.
- Nick O'Keefe to Chief Financial Officer. To maximize Nick's talents (in addition to his law degree, Nick has a master's degree in finance), Nick will lead the operational and investment accounting teams, internal audit, and facilities.
- Andi Focht-Williams to Director of Quality Initiatives. Andi has utilized her audit and management experience to improve Benefit Administration and in her new role, Andi will lead all organization-wide quality initiatives and spearhead our efforts to become a Malcom Baldrige Award recipient.

Executive Director's Letter of Transmittal

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- Colin Davidson, our Director of City Services, added the additional responsibility of leading the Member Service Center. Colin is a great asset to TMRS, and he will be a great leader for City and Member services.
- April Hernandez to Director of Benefit Administration. April has done a great job leading the Member Service Center (MSC), improving every aspect of its operations. (The MSC's median call wait time is less than 10 seconds.) April will continue Benefit Administration's efforts to document processes, improve training, and prepare for the upcoming quality submissions to the Quality Texas Foundation.

TMRS Accountability, Transparency and Financial Integrity

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

TMRS' independent auditors, CliftonLarsonAllen LLP, performed an audit of the Report's 2023 financial statements. Information regarding the scope of their audit is included in the Independent Auditors' Report in the Financial Section.

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

Internal Controls. TMRS management is responsible for establishing and maintaining internal controls designed to ensure that Trust Fund assets are protected from theft or misuse. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Reasonable assurance recognizes the cost of a control relative to the benefits likely to be derived and that these judgments by management are based on estimates.

Achievements in Financial Reporting and System Administration

The Government Finance Officers Association of the United States and Canada (GFOA) awarded TMRS' Annual Comprehensive Financial Report for the year ended December 31, 2022 its Certificate of Achievement for Excellence in Financial Reporting. To receive this Certificate, a governmental entity must publish an easily readable and efficiently organized annual comprehensive financial report that satisfies both generally accepted accounting principles and applicable legal requirements. This was the 36th consecutive year that TMRS has achieved this recognition.

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

The GFOA also recognized TMRS' 2022 Popular Annual Financial Report for Outstanding Achievement in Popular Annual Financial Reporting.

TMRS received the Public Pension Coordinating Council's 2023 Public Pension Standards Award for Funding and Administration in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Executive Director's Letter of Transmittal

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Board Update

Bob Scott, Deputy Town Manager of the Town of Prosper, served as Board Chair in 2023, and Johnny Huizar, the City Manager of the City Pleasanton, served as Vice Chair.

On April 24, 2024, Governor Abbott appointed three new Trustees to the TMRS Board: Tommy Gonzalez, the City Manager of Midland, Tricia Mirabelle, a Commander with the Pflugerville Police Department, and Roy Rodriguez, the City Manager of McAllen. They fill a vacancy that was created when Trustee Anali Alanis joined the TMRS staff and replace holdover Trustees Johnny Huizar and Jesús Garza whose terms expired in February 2023.

With Governor Abbott's April appointments, Johnny Huizar's and Jesús Garza's terms on the Board came to an end. Mr. Huizar, the City Manager of Pleasanton, was appointed to the Board in February 2020 and served as 2024 Board Chair. He also served as Vice Chair of the Board, Chair and Vice Chair of the Budget and Compensation Committee, and Vice Chair of the Audit Committee.

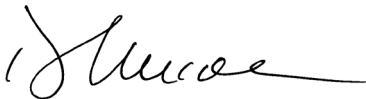
Mr. Garza, the City Manager of Victoria, was appointed to the Board in February 2018. He has served as Chair and Vice Chair of the Board, Vice Chair of the Audit Committee, Chair and Vice Chair of the Stakeholder Advisory Committee, Chair and Vice Chair of the former Advisory Committee on Benefit Design, Vice Chair of the former Legislative Committee, and Chair of the former Technology Committee.

On behalf of their Board colleagues, TMRS staff, Members, and stakeholders, I thank them for their service. They served TMRS with distinction and made many contributions to TMRS's successes.

Acknowledgements

TMRS had an exceptional 2023. I want to thank our Trustees for their leadership and support, and my staff colleagues for their passion in serving our Members and participating cities.

Sincerely,



David B. Wescoe
Executive Director
June 10, 2024

Board of Trustees

AS OF DECEMBER 31, 2023



Bob Scott, Chair
Deputy Town Manager
Town of Prosper
Term expires: February 1, 2025



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



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



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



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

There was one vacant Trustee position as of December 31, 2023.

Board Committees

AS OF DECEMBER 31, 2023

Audit Committee

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

Chair: David Landis

Vice Chair: Jesús Garza

Budget and Compensation Committee

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

Chair: Johnny Huizar

Vice Chair: Bill Philibert

Stakeholder Advisory Committee

The Stakeholder Advisory Committee is a conduit for communication between TMRS and its stakeholders. Two Trustees are the Committee's Chair and Vice Chair. Committee members include a representative from each of seven organizations, two TMRS active members and one TMRS retiree.

Chair: Bob Scott

Vice Chair: Jesús Garza

Committee Members:

Organizations

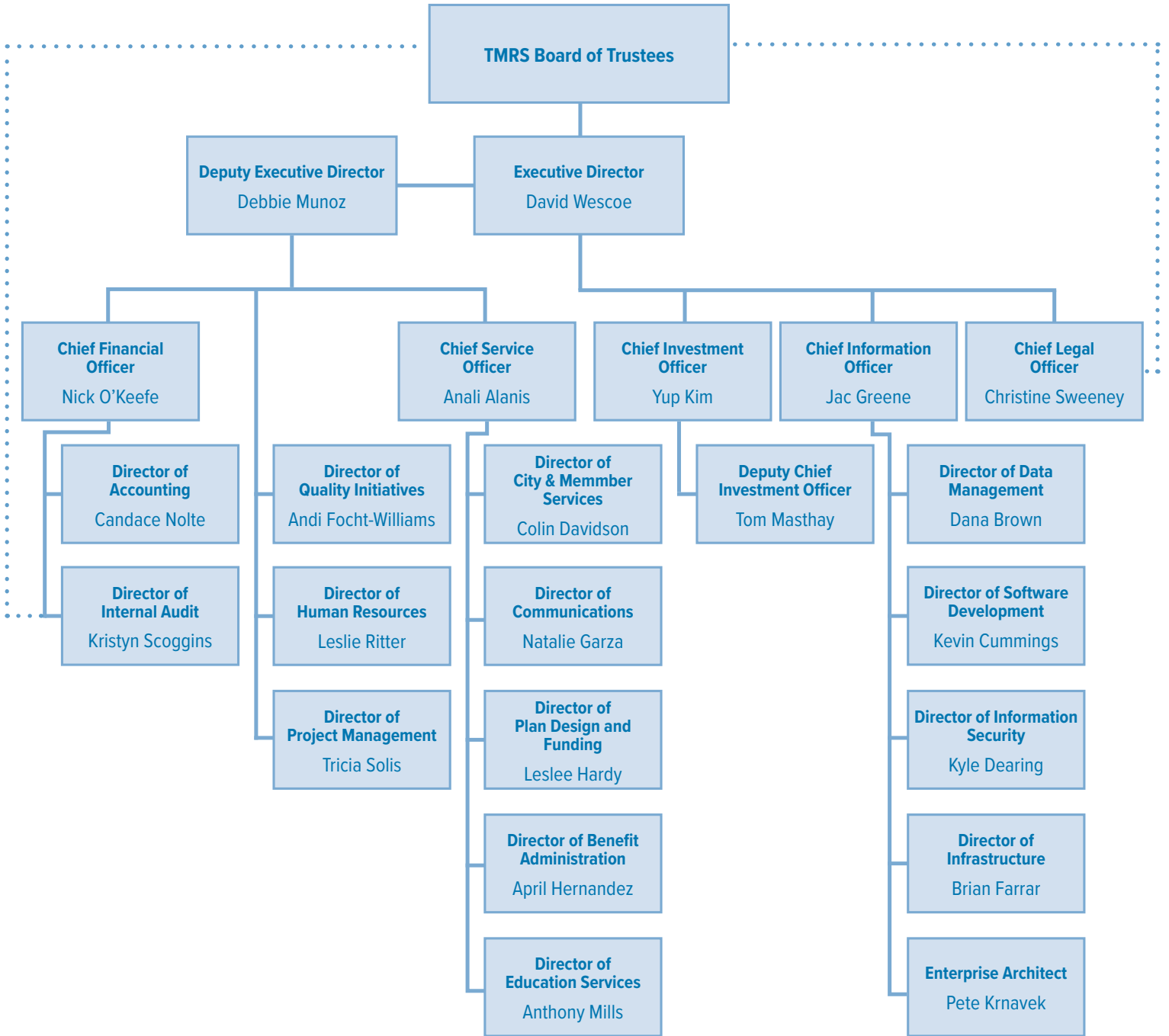
- Chereé Bontrager, Texas Municipal Human Resources Association
- Paulette Hartman, Texas City Management Association
- Mitch Landry, Texas Municipal Police Association
- Scott Leeton, Combined Law Enforcement Associations of Texas
- Jaime Reyes, Texas State Association of Fire Fighters
- Bennett Sandlin,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

Active and Retiree Members

- Roberto Reyna, City of San Antonio
- Jay Warren, City of Arlington
- Brenda Martin, TMRS Retiree

Organization Chart

JUNE 2023



Professional Advisors

AS OF DECEMBER 31, 2023

Actuary

Gabriel, Roeder, Smith & Company
Irving, TX

Custodian

State Street Bank and Trust Company
Boston, MA

Depository Bank

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

Fiduciary Counsel

Klausner, Kaufman, Jensen & Levinson
Plantation, FL

Independent Auditor

CliftonLarsonAllen LLP
Baltimore, MD

Investment Consultants

Albourne America LLC
San Francisco, CA

NEPC, LLC
Boston, MA

TMRS' investments are managed by TMRS staff and external investment managers. Investment expenses, external investment fees and investment managers are presented in Tables I-6, I-7 and I-8 in the Investment Section.

2023 Highlights

AS OF DECEMBER 31, 2023

Financial Highlights (dollars in millions)	
City Contributions	\$1,185.5
Member Contributions	\$582.8
Retirement Benefits Paid	\$1,904.6
Member Account Refunds	\$70.6
Fiduciary Net Position	\$39,486.3
System Funded Ratio	89.7 %

Investments (dollars in millions)	
Investments	\$39,271.0
Time-Weighted Net Investment Returns:	
1 Year	11.64 %
3 Years	5.29 %
5 Years	7.79 %
10 Years	6.15 %
Actuarial Investment Return Assumption	6.75 %

Membership Statistics	
Active Members	124,300
Retired Members	72,948
Inactive, Vested Members	31,985
Total Members	229,233

Highlights presented are for the Pension Trust Fund.

Participating Cities	
Total Participating Cities	934
New Participating Cities	15
Number of Cities with:	
1:1 Match	166
1.5:1 Match	106
2:1 Match	662
Member Contribution Rate – 3%	3
Member Contribution Rate – 5%	318
Member Contribution Rate – 6%	99
Member Contribution Rate – 7%	514
5-Year Vesting	894
10-Year Vesting	40



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Texas Municipal Retirement System

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2022

Christopher P. Morill

Executive Director/CEO

This Certificate of Achievement for Excellence in Financial Reporting was presented to TMRS by the Government Finance Officers Association (GFOA) for the year ended December 31, 2022. This is the 36th consecutive year that TMRS has received this prestigious award.



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2023***

Presented to

Texas Municipal Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

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

Alan H. Winkle
Program Administrator

This Public Pension Standards Award for Funding and Administration was presented to TMRS by the Public Pension Coordinating Council (PPCC) for 2023. This is the 18th consecutive year that TMRS has received the award for meeting these standards.