

Texas County & District Retirement System
Minutes of the Board of Trustees' Meeting
March 11, 2021

Agenda Number	Description
1	Call meeting to order
2	Receive report of fiduciary counsel
3	Executive session in accordance with Texas Government Code Section 551.071 for the purpose of seeking advice of legal counsel on a matter subject to attorney-client confidentiality and relating to a current agenda item
4	Public comment
5	Receive report of executive director
6	Consider consent agenda items
a	December 2020 regular meeting minutes
b	Quarterly financial statements
c	Participation of new districts
d	Employers' flat-rate COLA limit for 2022
e	Small annuity payoffs
7	Consider executive director's monitoring report
8	Consider chief investment officer's monitoring report
9	Receive investment performance measurement and investment consultant reports
10	Consider hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments
11	Adopt 2021 capital market assumptions and asset allocation plan
12	Consider amendment(s) and update(s) to investment policy
13	Consider allocation of 2020 investment results
14	Receive report of consulting actuary
15	Consider adoption of assumptions and methods for Dec. 31, 2020 valuation
16	Consider arrangements and contracts for services from providers hired by the board
17	Consider means to be used by board to ensure linkage between board and member counties and districts
18	Receive report of legal counsel
19	Receive report on educational opportunities for 2021
20	Receive report of deputy executive director
21	Receive report of chair
22	Review governance policy and consider amendment(s) to board's governance policies
23	Consider compliance at this meeting with board's governance policies
24	Adjournment

The Board of Trustees of the Texas County & District Retirement System met on March 11, 2021 by telephone conference call, with the physical location of the meeting at the TCDRS offices located at 901 S MoPac Expy, Bldg. 4 in Austin, TX. In accordance with Section 845.007(f)(2) of the TCDRS Act that at least one trustee be present at stated location, Chair Nicholson, Vice-chair Hunt, Trustee Biggar, Trustee Davis, Trustee Hill, Trustee Sands, Trustee Taylor and Trustee Williamson attended the meeting at the TCDRS offices.

Attendees

Trustees:

1. Mary Louise Nicholson, Chair
2. Deborah M. Hunt, Vice-chair
3. Tammy Biggar
4. Chris Davis
5. Susan Fletcher
6. Chris Hill
7. Kara Sands
8. Chris Taylor
9. Holly Williamson

Staff:

Amy Bishop, Executive Director
Tom Harrison, Deputy Executive Director
Casey Wolf, Chief Investment Officer
Sandra Bragg, Deputy Investment Officer
Ann McGeehan, General Counsel
Chris Bucknall, Director, Actuarial Services
Karen Correa, Chief Administrative Officer
Kathy Thrift, Chief Customer Officer
John Hawes, Director, Finance
Julie Dwigins, Executive Assistant
Tina Silguero, Records Management Analyst
Chad Estes, Business Analyst

Consultants:

Mark Olleman, Milliman, Inc.
Matt Larrabee, Milliman, Inc.
Nick Collier, Milliman, Inc.
Craig Glyde, Milliman, Inc.
Kathy Barchick, Cliffwater, LLC
Chuck Campbell, Jackson Walker L.L.P.

Other:

Jason McElvaney, McElvaney Public Affairs

Shain Carrizal, Harris County, Sr. Director, Human Resources & Risk Management

Note: The following minutes are listed chronologically and referenced by permanent item and agenda numbers.

4814 (agenda no. 1) Call meeting to order

Chair Nicholson called the meeting to order at 8:36 a.m.

4815 (agenda no. 2) Consider report of fiduciary counsel

Chuck Campbell, with Jackson Walker L.L.P., had no report for this meeting.

4816 (agenda no. 3) Executive session in accordance with Texas Government Code Section 551.071 for the purpose of seeking advice of legal counsel on a matter subject to attorney-client confidentiality and relating to a current agenda item

At 8:37 a.m., the open meeting of the board was recessed. An executive session convened in accordance with Texas Government Code Section 551.071, to consult with the board's fiduciary attorney about pending litigation. The open meeting reconvened at 8:58 a.m. No action, decision or vote was taken by the board while in executive session.

4817 (agenda no. 4) Public comment

No members of the public were present at this meeting.

4818 (agenda no. 5) Receive report of executive director

Amy Bishop, Executive Director, delivered a report on business operations during the first quarter of 2021 including TCDRS' response to Storm Uri, update on TCDRS' building re-opening, the 2021 Annual Conference and progress on the planned implementation of a customer relationship management (CRM) system for the call center in April.

4819 (agenda no. 6) Consider consent agenda items

Amy Bishop presented five consent agenda items.

6a. Approval of December 2020 regular meeting minutes

6b. Approval of quarterly financial statements as of Dec. 31, 2020

6c. Approval of participation of seven new districts to join the system (Bee County Appraisal District, Childress Housing Authority, Goliad County Appraisal District, Gulf Coast Transit District, Harris County Emergency Services District No. 11, McAllen Housing Authority and Travis County Emergency Services District No. 9).

6d. Adoption of a 1% maximum limit for flat-rate COLAs for plan year 2022.

6e. Approval of small annuity payoffs

Motion: Trustee Hill made a motion to approve the consent agenda items. Trustee Davis seconded. Motion carried.

4820 (agenda no. 7) Consider executive director's monitoring report

Amy Bishop presented the executive director's monitoring report, which included the annual *ELI – Global Executive Constraints*, *EL4 – Operational Budgets*, *EL8 – Plan Funding* and *EL10 – Pension Plan Financial Planning* and the quarterly *EL5 - Financial Activities*. Ms. Bishop discussed compliance with each monitoring report and reported an exception to EL5 Policy #3 regarding payment of invoices.

Motion: After discussion, Vice-chair Hunt made a motion to approve the executive director's monitoring report. Trustee Sands seconded. Motion carried.

4821 (agenda no. 8) Consider chief investment officer's monitoring report

Casey Wolf, Chief Investment Officer, presented the chief investment officer's monitoring report, which included the annual *ELI – Global Executive Constraints*, *EL4 – Operational Budgets* and *EL10 – Pension Plan Financial Planning* and the quarterly *EL5 – Financial Activities* and *ELI I – Investment Policies*. Mr. Wolf reported compliance with the executive limitations.

Motion: After discussion, Trustee Davis made a motion to approve the chief investment officer's monitoring report. Trustee Hill seconded. Motion carried.

4822 (agenda no. 9) Receive investment performance measurement and investment consultant reports

Kathy Barchick, with Cliffwater, and Casey Wolf presented the investment performance measurement and investment consultant reports for the period which ended Dec. 31, 2020.

Kathy Barchick and Casey Wolf presented a report on hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments as of Dec. 31, 2020, and proposed a forward calendar of investments which would authorize possible investment in listed funds subject to completion of investment and legal due diligence.

4823 (agenda no. 10) Consider hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments

The report on hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments was combined with agenda item 4822 above.

Motion: After discussion, Trustee Williamson made a motion to accept the *Board of Resolution for Approval of Investments*. Trustee Biggar seconded.

After further discussion, Trustee Sands proposed an amendment to the motion to accept the *Board's Resolution for Approval of Investments* except for non-U.S. funds listed on Schedule I. No second was entered and the amendment failed.

Original motion by Trustee Williamson and seconded by Trustee Biggar to approve the *Board Resolution for Approval of Investments* was back on the table. Motion carried with 8 yes votes with Trustee Sands voting no.

Board Resolution for Approval of Investments

WHEREAS, the Board has reviewed the Investment Officer’s Investment Recommendations to use TCDRS assets to acquire equity interests (collectively, the “Investments”) in those certain private equity, distressed debt, direct lending, strategic credit, real estate, and hedge funds (each, a “Fund” and collectively, the “Funds”) named on Schedule 1 attached hereto; and

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed Investments as described in those certain Investment Recommendations dated March 11, 2021, for the Funds be approved; and be it further

RESOLVED, that the Investment Officer be, and he hereby is, authorized to make such further revisions to the terms and provisions of each of the proposed Investments as may be necessary or in the best interests of TCDRS; and be it further

RESOLVED, that for private equity, distressed debt, and real estate funds approved in this and prior Board resolutions, the Investment Officer is authorized to invest an amount in each such approved fund equal to the maximum amount listed below that corresponds to such fund’s category of investment:

Buyout	\$300 million	Distressed Debt commingled funds	\$200 million or equivalent in € or £
Venture Capital	\$150 million	Real Estate	\$175 million or equivalent in € or £
Real Assets	\$200 million	Direct Lending commingled funds	\$300 million or equivalent in € or £
Non-U.S.	\$250 million or equivalent in € or £		

RESOLVED, that for hedge funds approved in this and prior Board resolutions, the Investment Officer is authorized to invest amounts in such approved funds consistent with the investment objectives, guidelines, and style targets described in Section 14 of the TCDRS Investment Policy and the allocation bands in Table 1 of the TCDRS Investment Policy.

RESOLVED, that for all strategic credit funds, distressed debt funds-of-one, and direct lending funds-of-one approved in this and prior Board resolutions, the Investment Officer is authorized to invest amounts in such approved funds consistent with the investment objectives and guidelines described in Section 13 of the TCDRS Investment Policy and the allocation bands in Table 1 of the TCDRS Investment Policy.

RESOLVED, that, from the date the Board adopts this resolution until the date of the next regularly scheduled Board meeting (the “Interim Period”), the Investment Officer be, and he hereby is, authorized to use TCDRS assets to acquire (or commit to acquire) an equity interest in a Fund that is not named on Schedule 1 attached hereto or in a prior Board resolution (a “Non-Scheduled Fund”), provided that (A) no more than \$500 million may be used during the Interim Period to acquire (or commit to acquire) Non-Scheduled Funds, (B) such acquisition or commitment is otherwise in compliance with the TCDRS Investment Policy and applicable law, and (C) the Investment Officer promptly notifies the Board of any acquisition of (or commitment to acquire) a Non-Scheduled Fund that occurs during the Interim Period, and be it further

RESOLVED, that during the Interim Period, the Investment Officer be, and he hereby is, authorized to use TCDRS assets to acquire (or commit to acquire) a direct interest in companies or other entities through co-investments with an existing general partner in a private markets fund, even though such investments are not named on Schedule 1 attached hereto or in a prior Board resolution, provided that (A) no more than \$100 million may be used during the Interim Period for co-investments (or commitments for co-investments), (B) such co-investments are otherwise in compliance with the TCDRS Investment Policy and applicable law, and (C) the Investment Officer notifies the Board of co-investments that occur during the Interim Period prior to or at the next regularly scheduled meeting of the Board, and be it further

RESOLVED, that the Investment Officer be, and he hereby is, authorized and empowered to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Investments), in the name and on behalf of TCDRS, or otherwise, as the Investment Officer may deem necessary, advisable, or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of TCDRS under the Investments and the instruments referred to therein.

SCHEDULE I

Direct Lending

- AG Essential Housing II
- * Annaly Credit Opportunities
- * Apollo Navigator Aviation Fund I
- Atalaya A4
- * BioPharma Credit V (Pharmakon)
- Blackstone Tactical Opportunities
- * Christofferson Robb & Company fund of one
- * Crestline Portfolio Financing II
- * Hercules Pvt Global Venture Growth I
- ICG Europe VIII
- * Linden Structured Capital Fund
- * MGG Fund 3
- * VSS Fund IV
- * Western Technology X

Distressed Debt

- Atalaya Special Opps VIII
- * Sandton Capital Solutions V

Private Real Estate

- Carlyle Realty IX – Opportunistic
- * Federal Capital Partners V – Opportunistic
- * Henderson Park RE II – Opportunistic
- * MCR II & Sidecar Fund – Opportunistic

Private Equity & Co-Investments

- * Gallatin Point II– Buyout
- Nautic Partners X – Buyout
- Odyssey Co-Invest 1 – Buyout
- RMCF VI (Riverside) – Buyout
- * Tritium III – Buyout
- * Vistria IV – Buyout
- Khosla Ventures Opportunity Fund – Venture
- * Lux Ventures VII – Venture
- * Lux Ventures Opportunity Fund III – Venture
- OrbiMed Genesis – Venture
- * Vida Ventures III – Venture
- * CBC Capital V – Non-US
- * Gaocheng II – Non-US
- Hillhouse Venture V – Healthcare Overflow – Non-US
- IDG Breyer – Non-US
- * Inflexion Fund VI – Non-US
- * Lyfe Capital IV – Non-US
- * Monterro M4 – Non-US
- * Source Code V – Non-US
- * Source Code Growth Fund II – Non-US
- * Standout Capital II – Non-US
- * Xiang He III – Non-US

* potential new manager relationship

Note: The Resolution for Approval of Investments is essentially a forward calendar of possible investments that may be made by the investment officer following successful due diligence. There is no assurance that any of the authorized investments will ultimately result in commitments by TCDRS. Actual commitments are reported as they close on the Investments page on the TCDRS website.

4823 (agenda no. 11) Adopt 2021 capital market assumptions and asset allocation plan

Kathy Barchick presented Cliffwater's January 2021 capital market assumptions and asset allocation recommendation. Ms. Barchick reviewed historical market returns, methodology for developing forecasts and the 10-year forecasted returns by asset class.

Based on the updated forecasts, the following recommendations to the asset allocation were presented: U.S. equity (14.5% to 11.5%), international equity-developed markets (7.0% to 5%), international equity-emerging markets (7% to 6%), cash (0% to 2%), strategic credit (12% to 9%), direct lending (11% to 16%), REITs (3.0% to 2.0%), private equity (20.0% to 25%), and hedge funds (8.0% to 6%). The asset allocation is projected to earn 7.6%.

Motion: After discussion, Trustee Williamson made a motion to adopt proposed 2021 capital market assumptions and asset allocation plan as presented by the Chief Investment Officer and the Investment Consultant. Trustee Sands seconded. Motion carried.

4824 (agenda no. 12) Consider amendment(s) and update(s) to investment policy

Casey Wolf discussed proposed amendments to the TCDRS investment policy to reflect the changes made to the asset allocation plan in agenda item 4823. See [Investment Policy](#).

Motion: After discussion, Trustee Taylor made a motion to amend the investment policy as recommended by the Chief Investment Officer. Trustee Davis seconded. Motion carried.

4825 (agenda no. 13) Consider allocation of 2020 investment results

Casey Wolf gave a brief update on TCDRS' estimated investment results as of Dec. 31, 2020. The estimated investment return for 2020 was 9.7%, net of fees.

Amy Bishop presented a report on staff's recommendation for the allocation of 2020 investment results. Based on the investment earnings as of Dec. 31, 2020, staff recommended an allocation of 8.0% of employers' total plan assets. The impact on employer contribution rates was neutral on average and the reserves balance increased to approximately \$1.6 billion.

Motion: After discussion, Trustee Hunt made a motion to approve the *Resolution for the Allocation of 2020 Investment Results*. Trustee Sands seconded. Motion carried.

Resolution for the Allocation of 2020 Investment Results

In accordance with Section 845.315 of the TCDRS Act, the board of trustees shall annually make allocations that in aggregate equal the net investment income or loss for the year.

Therefore, be it resolved and ordered by the Board of Trustees of the Texas County & District Retirement System:

- (1) Pursuant to Subsections 845.315(a)(1), (2), and (4) of the TCDRS Act, the required interest allocations will be made to the Employee Savings Fund, the Optional Group Term Life Fund, and the Closed Subdivision Annuity Reserve Fund.

- (2) For purposes of determining the allocation to the account of each subdivision under Section 845.315(a)(5), the total assets of the subdivision are equal to the sum of the Jan. 1, 2020 balance of each participating subdivision's Subdivision Accumulation Fund and the subdivision's respective Employee Savings Fund. The allocation to each participating subdivision shall be determined by multiplying the subdivision's total assets as described by 8.0%. If needed, amounts shall be transferred from the general reserves to complete this allocation.
- (3) Pursuant to Section 845.307 of the TCDRS Act, the allocation to each participating subdivision is credited to the Subdivision Accumulation Fund effective Dec. 31, 2020, and equals the amount described in (2) minus the required interest allocated to the respective subdivision's Employee Savings Fund for 2020.
- (4) After the above allocations, any remaining net investment income amounts will be transferred to the general reserves account of the endowment fund effective Dec. 31, 2020 pursuant to Section 845.315(a)(3).

4826 (agenda no. 14) Receive report of consulting actuary

Mark Olleman and Matt Larrabee, Consulting Actuaries with Milliman Inc., presented the report which included a discussion of economic outlook and the impact on forecasted returns. Milliman recommended adjustments to economic assumptions to synchronize with expectations. Milliman recommended lowering the investment return assumption to 7.5% from 8.0%, lowering price inflation to 2.5% from 2.75%, and adjusting wage and payroll growth assumptions accordingly.

Milliman discussed the impact of these adjustments on employer rates and tools the board could use to mitigate the impact including re-amortizing liabilities over twenty years and using reserves.

4827 (agenda no. 15) Consider adoption of assumptions and methods for Dec. 31, 2020 valuation

Amy Bishop summarized Milliman's and staff's recommendations to adjust the investment return assumption to 7.5%, the price inflation assumption to 2.5%, and to adjust the wage and payroll growth assumptions accordingly. To mitigate the impact of the adjustments, staff recommended re-amortization of unfunded liabilities over twenty years and the use of reserves in the amount of \$600 million.

Motion: After lengthy discussion, Vice-chair Hunt made a motion to approve the *Resolution Adopting Changes to the Actuarial Assumptions and Methods* for the Dec. 31, 2020 valuation as presented by the Executive Director and the Actuarial Consultant, Milliman, Inc. Trustee Hill seconded the motion, and then made a motion to amend the motion. Trustee Hill proposed to amend the motion to use \$800 million of reserves instead of \$600 million. Trustee Williamson seconded Trustee Hill's motion to amend. The amended motion carried with a vote of 7 yes votes and 2 no votes with Trustees Hunt and Davis voting against.

Resolution Regarding Changes to the Actuarial Assumptions and Methods

As authorized by Section 845.206(d) of the Texas Government Code, and consistent with the recommendations by Milliman, Inc., TCDRS' consulting actuarial firm, the Board of Trustees adopts the following changes to actuarial assumptions to be effective with the Dec. 31, 2020 valuation:

- The investment return assumption will be lowered from 8.0% to 7.5%.
- The price inflation assumption will be lowered from 2.75% to 2.5%; and correspondingly, wage and maximum payroll growth assumptions will be adjusted appropriately with the reduction in inflation.

To mitigate the impact of these assumption changes on the contribution rates of the system's participating employers, the Board takes the following actions:

- For the Dec. 31, 2020 actuarial funding valuation only, any Unfunded Actuarial Accrued Liability as of Dec. 31, 2020 will be funded over a new closed 20-year amortization period.
- Pursuant to Section 845.310(d) of the Texas Government Code, the Board authorizes a supplemental allocation to the account of each participating employer by making the appropriate transfer from the General Reserves Account of the Endowment Fund into the employer's Subdivision Accumulation Fund; and
- For purposes of calculating the supplemental allocation, the total assets of the employer are equal to the sum of the Jan. 1, 2020 balance of each participating employer's Subdivision Accumulation Fund and the employer's respective Employee Savings Fund; and
- The allocation to each participating employer shall be determined by dividing the employer's total assets as described above by the sum of the systemwide total of all participating employers' Subdivision Accumulation Funds and their respective Employee Savings Funds as of Jan. 1, 2020 and multiplying the resulting amount by \$800,000,000.
- In no event can a participating employer's contribution rate for 2022 be less than what their required rate would have been using the assumptions and methods in effect for the Dec. 31, 2019 valuation. To accomplish this, the funding period for the employer's Unfunded Actuarial Accrued Liability as of Dec. 31, 2020 may be adjusted to below 20 years.

4828 (agenda no. 16) Consider arrangements and contracts for services from providers hired by the board

Amy Bishop presented a report in accordance with governance policy GP5-Agenda Planning concerning the review of contracts for services hired by the board. There were two contracts up for review, the Outside Auditor and the Consulting Actuary.

Ms. Bishop explained the primary functions of the Outside Auditor are to perform an independent financial audit and a Service Organization Controls I (SOC I) audit for GASB reporting standards. An RFP was conducted in 2016 and KPMG was rehired based on the Board Audit Committee recommendation after completing interviews. The current contract covers both financial and SOC I audits and expires in June 2022. KPMG has rotated partners to ensure best practices.

Motion: After discussion, Trustee Sands made a motion to approve the renewal of the Outside Auditor contract with KPMG for an additional 5-year term. Trustee Davis seconded. Motion carried.

Ms. Bishop also explained the primary functions of the Consulting Actuary which includes conducting the annual actuarial valuation, producing GASB reports, providing information for audit purposes and conducting the experience study. Milliman's services and partnership are integral to other business processes such as the annual employer plan decision process. Switching firms during the experience study and assumption method changes would create unnecessary risk. Staff recommended a two-year extension which would shift the review of the actuarial services contract to a year outside of the experience study.

Motion: After discussion, Vice-chair Hunt made a motion to authorize the Executive Director to negotiate a two-year extension of the actuarial contract with Milliman, Inc. Trustee Williamson seconded. Motion carried.

4829 (agenda no. 17) Consider means to be used by board to ensure linkage between board and member counties and districts

Amy Bishop discussed methods to help ensure the appropriate linkage between the board and participating counties and districts as required by governance policy GP5-Agenda Planning. Staff recommended that input from employers be gathered through an electronic survey.

Motion: After discussion, Trustee Davis made a motion to adopt the linkage plan recommended by staff. Trustee Biggar seconded. Motion carried.

4830 (agenda no. 18) Receive report of legal counsel

Ann McGeehan, General Counsel, had no report for this meeting.

4831 (agenda no. 19) Receive report on educational opportunities for 2021

Ann McGeehan presented a report on the board's governance policy *GP4 - Trustee Education* concerning trustee education requirements and guidelines.

Ms. McGeehan reviewed the trustee education program components required by the Texas Pension Review Board (PRB) and by TCDRS Governance Policy — GP4 and reported that all trustees were in compliance with the educational requirements.

4832 (agenda no. 20) Receive report of deputy executive director

Tom Harrison, Deputy Executive Director, presented the report of deputy executive director, which included reports on TCDRS building leasing, building repairs and legislative session.

The building summary covered current vacancies in the building and the impact of Storm Uri. Two of the three vacancies have proposals for the space and the third space has no proposal at this time but is being marketed. Minor repairs were required due to Storm Uri. Those repairs were to the generator and water pipes in the building garage.

The legislative update included basic session statistics and a discussion of bills tracked and highlighted testimony delivered to the Pensions, Investments and Finance Committee.

4833 (agenda no. 21) Receive report of chair

Chair Nicholson emphasized the importance of today's meeting and thanked the trustees for their participation, great discussion and decision-making at the meeting.

4834 (agenda no. 22) Review governance policy and consider amendment(s) to boards governance policies

Amy Bishop presented the governance policies that were up for review in the first quarter according to the board's governance policy monitoring schedule. The policies up for review were *GP1 – Global Governance Commitment*, *GP – 2 Governing Style*, *GP3 – Board Job Description*, *BSR1 – Global Board-Staff Relationship* and *BSR2 – Unity of Control*. The board did not have revisions to the governance policies due for review. Ms. Bishop presented an amendment to *GP-5 Agenda Planning* that updates the future review dates for the consulting actuary to 2023.

Motion: After discussion, Vice-chair Hunt made a motion to approve proposed changes to *GP5 – Agenda Planning*. Trustee Sands seconded. Motion carried.

4835 (agenda no. 23) Consider compliance at this meeting with board's governance policies

The board discussed and determined its compliance during this meeting as required by governance policy *GP5 - Agenda Planning*.

4836 (agenda no. 24) Adjournment

There being no further business to come before the board, Chair Nicholson adjourned the meeting at 2:37 p.m.

APPROVED BY THE TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM BOARD OF TRUSTEES ON THE 17th DAY OF JUNE, 2021.

ATTESTED BY:



Amy Bishop
Executive Director & Secretary to the
TCDRS Board of Trustees

June 17, 2021

Date