

# INVESTMENTS

- SECTION 3 -



**Together  
we help  
you reach  
your goals.**



**HMEPS**  
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

## Discussion of Investment Policies and Activities

The Board of Trustees (“Board”) of the Houston Municipal Employees Pension System (“System”) has adopted an Investment Policy Statement (“IPS”) as a framework for the investment of the System’s assets. The authority to amend the IPS rests solely with the Board. The following provides an outline of the IPS.

### PURPOSE

The IPS assists the Board in its role as fiduciary for the System’s investments by: a) specifying the Board’s expectations, objectives and guidelines for the System, b) clarifying the responsibilities of the Board, the staff, the consultants and vendors, c) setting forth an investment structure for managing the portfolio, d) encouraging effective communications, and e) establishing criteria to select, remove, monitor and evaluate performance of money managers and vendors on a regular basis.

### INVESTMENT OBJECTIVES

The investment objective of the total portfolio is to produce an annualized investment return over the long term that exceeds the actuarial return rate assumption for the System. This will help the Board to achieve its overall objective of providing adequate retirement benefits to the members of the System.

The System’s investment performance is compared to a policy portfolio comprised of market indices, which are consistent with the overall investment policy. The policy portfolio reflects a passive implementation of the target investment policy. Effective October 1, 2017, the Board approved an updated asset allocation for the System’s investment portfolio, along with an updated policy portfolio.

The System’s investment performance is also evaluated by comparing it to a group of its public fund peers. The public pension fund universe used for comparative purposes is the Wilshire TUCS Master Trusts – Public Universe.

### ASSET ALLOCATION

The System’s asset allocation provides an efficient mix of assets that is designed to provide a return profile that is consistent with the System’s long-term portfolio risk and return objectives. The Board periodically undertakes strategic studies to address the appropriateness of asset classes to be considered for inclusion in the target asset allocation, and to define the targeted percentage to each asset class to achieve the desired level of diversification.

The System’s current asset allocation, included in Table 1, became effective October 1, 2017.

### DIVERSIFICATION

The System invests in seven major asset classes (Global Equities, Fixed Income, Real Estate, Private Credit, Private Equity, Inflation-Linked, and Absolute Return) as a method to maximize overall fund diversification. Further, the System engages the services of numerous professional investment managers (including in both public markets and private partnerships) with demonstrated skills and expertise in managing portfolios within each asset class. The managers retained are expected to utilize varied investment approaches that, when combined, will exhibit return characteristics that are similar to the asset class proxy utilized in the strategic asset allocation plan. As of June 30, 2021, the System utilized 88 investment managers, several of which manage multiple mandates. Cash inflows and outflows are directed within the targeted asset class to the various managers so that actual characteristics of the portfolio will be consistent with the strategic plan. Excluding passive strategies, no investment manager is permitted to manage more than 20% of the fair value of the System’s assets.

### REBALANCING

The IPS requires a periodic adjustment, or rebalancing, of assets be made to ensure conformance with policy target levels. Such rebalancing is necessary to reflect sizable cash flows and performance imbalances among the various asset classes that may occur over time. During fiscal year 2021, Staff directed the rebalancing of assets within the asset allocation targets in response to market dynamics and the System’s liquidity needs.

### INVESTMENT MANAGER GUIDELINES – PUBLIC MARKETS

Investment managers are subject to guidelines and objectives incorporated in the investment management agreements entered into by the Board and the respective investment managers. Investment managers

are expected to perform their fiduciary duties as prudent people skilled in such matters and, further, are expected to comply with all applicable State and Federal statutes governing the investment of retirement funds. Within the context of the guidelines, investment managers have full discretion with respect to the purchase and sale of individual securities and portfolio weightings. Portfolios are to be managed in a manner similar to other portfolios within an organization with similar guidelines and performance objectives.

The Board requires that all investment managers seek best execution for all trades ordered on behalf of the System.

### MANAGER EVALUATION

Managers of portfolios are evaluated quarterly against predetermined benchmarks such as an appropriate market index or a comparable peer group. All public market managers are required to provide written reports to HMEPS outlining actions taken within their respective portfolios and the portfolio's investment performance. In addition, System personnel and professional consultants engaged by the Board monitor managers' performance, material changes in the managers' organization and conformity with their guidelines and objectives.

Managers who do not meet expectations will be placed on probation (for public market managers) or watchlist (for private market managers). Staff and the consultant will increase monitoring of these managers, evaluating factors such as changes in the assets in the portfolio, changes in investment style, peer universe ranking and others.

### INVESTMENT PERFORMANCE EVALUATION

The Board reviews System investment performance on a periodic basis to evaluate conformity to the goals and objectives established in the strategic plan. The Board recognizes that financial markets from time to time may not support attainment of those goals and objectives. During such times, progress toward conformity is evaluated by comparing the System's performance to the policy portfolio and to the Wilshire TUCS Master Trusts – Public Universe. Investment results are calculated using a time-weighted rate of return.

### PROXY VOTING

The Board authorizes each investment manager to vote all proxies relating to securities held on behalf of the System. Each manager is expected to promptly vote all proxies and related actions in a manner consistent with the long-term best interests of the System and its participants and beneficiaries. Each investment manager is required to keep detailed records of all voting of proxies and related actions and to comply with all related regulatory obligations. The System's management staff periodically reviews each investment manager's policies and actions with respect to proxy voting.

## INVESTMENT

### LONG-TERM RESULTS

The 10-year period ended June 30, 2021 encompassed the 2020-2021 Covid pandemic and has produced volatile returns for financial markets as a whole. The System performed well, generating double digit positive returns in four of the past ten fiscal years. Additionally, the System outperformed its peer group in seven of those ten years. Due to the diversification of assets, the System's 5-year annualized return is 12.7%. The 10-year return stands at 9.7%.

As shown in the investment results (Table 2), HMEPS' total fund performance compares very favorably to the median public fund, as represented by the Wilshire TUCS Master Trusts – Public Universe. Over the ten-year period, HMEPS is in the top third of funds in the Wilshire TUCS Master Trusts – Public Universe.

### FISCAL YEAR 2021 RESULTS

For the fiscal year ended June 30, 2021, the System returned 38.7%. This rate of return exceeded both the System's policy benchmark return of 22.7% and the return of the median fund in the Wilshire TUCS Master Trusts – Public Universe of 27.1%.

The Investment Section was written by Chief Investment Officer Gregory Brunt, CFA.

TABLE 1: SCHEDULE OF ASSET ALLOCATION

Asset Class	Allocation		Investment Performance			
	Target	Actual	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
Global Equity <sup>1</sup>	32.5%	31.3%	37.0%	13.2%	13.2%	n/a
<i>MSCI All Country World IMI</i>			40.9	14.2	14.5	n/a
<i>MSCI All Country World Min Volatility</i>			19.3	9.6	8.4	n/a
Fixed Income	10.0	8.1	10.2	7.1	6.1	5.6
<i>Barclays Aggregate Index</i>			-0.3	5.3	3.0	3.4
<i>Merrill Lynch High Yield Master II Index</i>			15.6	7.1	7.3	6.5
Private Credit	5.0	2.5	23.3	11.7	n/a	n/a
<i>CSFB Leveraged Loan Index</i>			11.7	4.4	n/a	n/a
Private Equity <sup>2</sup>	17.0	28.7	64.6	24.7	21.4	15.6
<i>S&amp;P 500 Index + 3%</i>			43.8	21.7	20.6	17.8
Real Estate <sup>3</sup>	12.5	9.9	17.8	6.8	7.9	8.9
<i>NCREIF Property Index</i>			7.4	5.5	6.1	8.8
Inflation-Linked	15.0	13.0	52.8	3.8	5.1	1.1
<i>CPI + 4%</i> <sup>4</sup>			9.3	6.5	6.5	5.9
Absolute Return	8.0	3.8	22.1	7.5	6.9	4.6
<i>LIBOR + 4%</i> <sup>5</sup>			4.2	5.5	5.5	4.9
Cash / Liquidation	-	2.7	n/a	n/a	n/a	n/a
Total Portfolio	100.0	100.0	38.7	13.8	12.7	9.7
<i>Policy Benchmark</i>			22.7	11.2	11.1	8.9
<i>Median of Wilshire Public Fund Universe/TUCS</i>			27.1	11.7	11.3	9.2

SCHEDULE OF TOP INVESTMENTS AS OF JUNE 2021

Name of Investment	Base Market Value
BlackRock MSCI ACWI Minimum Volatility Index Fund	\$ 262,797,188.70
BlackRock S&P 500 Index Fund A	224,126,411.90
SSgA REIT Index Fund	127,537,110.86
SSgA Global Natural Resources Index	\$65,926,100.02
BlackRock Emerging Market Equity Free Index Fund	\$65,443,644.33
New Enterprise Associates 14, LP	\$58,713,372.17
New Enterprise Associates 15, LP	\$55,781,154.08
Summit Parnters Growth Equity Fund IX-A, LP	\$44,895,818.86
Valor M33 III, LP	\$44,421,351.14
GTCR Fund XI/A, LP	\$42,876,451.01

1 The Global Equity Policy: 3Q13 -Present: 75% MSCI All-Country World IMI (Net), 25% MSCI All-Country World Minimum Volatility Index (Net).

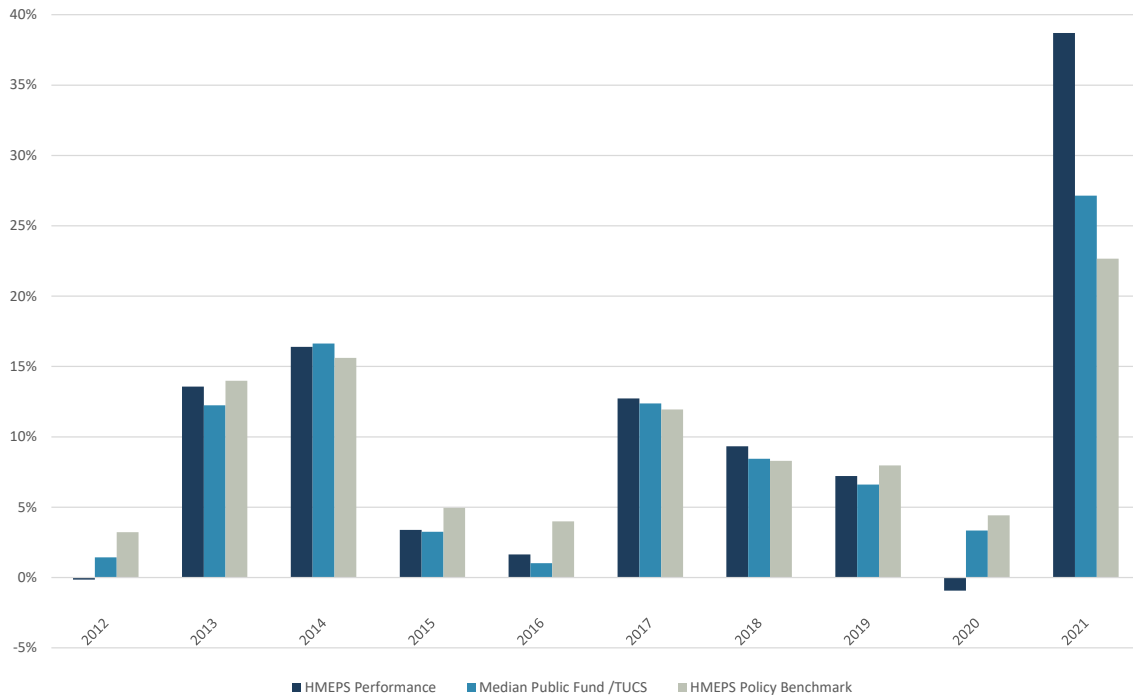
2 Beginning October 1, 2008, Private Equity is separate from Absolute Return. Prior returns were combined in the Private Equity composite.

3 Beginning October 1, 2008, Real Estate is separate from Inflation-Linked. Prior returns were combined in the Real Estate composite.

4 Inflation Linked Assets Custom Benchmark: 2Q11-Present: CPI + 4% annually; Prior to 2Q11: CPI + 5% annually.

5 Absolute Return Benchmark: 2Q11 - Present: Libor 3-Month Yield + 4% annually; Prior to 2Q11: Libor 3-Month Yield + 5% annually.

PERFORMANCE BY FISCAL YEAR  
Last Ten Years



ASSET CLASS FEES AND COMMISSIONS  
In Fiscal Year 2021

<b>Asset Class</b>	<b>Investment Management Fees <sup>1</sup></b>	<b>Profit Share/Carried Interest <sup>1,2</sup></b>	<b>Brokerage Fees/Commissions</b>
Absolute Return	\$ 2,086,604	\$ 4,740,428	\$ -
Cash	\$ 106,629	\$ -	\$ -
Fixed Income	\$ 1,280,516	\$ -	\$ -
Inflation-Linked	\$ 5,378,153	\$ 14,815,740	\$ -
Private Credit	\$ 1,340,717	\$ 4,247,965	\$ -
Private Equity	\$ 13,179,621	\$ 113,660,770	\$ -
Public Equity	\$ 3,312,256	\$ -	\$ 435,585
Real Estate	\$ 4,878,115	\$ 7,397,309	\$ -
<b>Total</b>	<b>\$ 31,562,611</b>	<b>\$ 144,862,212</b>	<b>\$ 435,585</b>

<sup>1</sup> This data is not typically presented by fund managers in a standardized format. Due to variation in reporting methodologies, the data presented here is a compilation of information provided directly by fund managers and management's estimates based on information readily available as of the time of this report.

<sup>2</sup> Profit share/carried interest as accrued (which differs from amounts actually paid) during the period.

TABLE 2: COMPARISON OF INVESTMENT RETURNS - YEARS ENDED JUNE 30  
(Calculated based on a time-weighted rate of return based on the market rate of return)

<i>Period ending 06-30</i>	<i>HMEPS Total Fund</i>	<i>HMEPS Policy Portfolio</i>	<i>Median of Wilshire Public Fund Universe/ TUCS</i>	<i>HMEPS Global Equity</i>	<i>MSCI ACWI IMI (Net)</i>	<i>MSCI ACWI Min Vol</i>	<i>HMEPS Fixed Income</i>	<i>Bloomberg U.S. Aggregate Bond Index</i>
2012	-0.14%	3.23%	1.25%	n/a	n/a	n/a	6.31%	7.48%
2013	13.58%	13.99%	12.27%	n/a	n/a	n/a	5.99%	-0.69%
2014	16.39%	15.61%	16.83%	21.92%	20.92%	13.84%	9.22%	4.37%
2015	3.38%	4.96%	3.38%	2.22%	0.81%	6.59%	1.13%	1.86%
2016	1.65%	4.02%	1.07%	-0.31%	-3.87%	11.55%	3.33%	6.00%
2017	12.73%	11.95%	12.41%	16.34%	19.01%	6.05%	7.80%	-0.31%
2018	9.33%	8.29%	8.45%	9.81%	11.14%	7.33%	1.50%	-0.40%
2019	7.22%	7.97%	6.62%	6.05%	4.56%	13.00%	6.77%	7.87%
2020	-0.93%	4.42%	2.95%	0.00%	1.17%	-2.50%	4.33%	8.74%
2021	38.71%	22.66%	27.14%	36.97%	40.94%	19.35%	10.20%	-0.34%
3 Yrs.	13.79%	11.16%	11.72%	13.24%	14.24%	9.55%	7.08%	5.34%
5 Yrs.	12.67%	11.10%	11.27%	13.15%	14.55%	8.40%	6.09%	3.03%
10 Yrs.	9.68%	8.91%	9.16%	n/a	9.90%	9.17%	5.62%	3.39%

TABLE 2: COMPARISON OF INVESTMENT RETURNS - YEARS ENDED JUNE 30  
(Calculated based on a time-weighted rate of return based on the market rate of return)

<i>Period ending 06-30</i>	<i>ICE BofAML U.S. High Yield Master II Index</i>	<i>HMEPS Private Equity</i>	<i>S&amp;P 500 Index</i>	<i>HMEPS Real Estate</i>	<i>NCREIF Property Index</i>	<i>HMEPS Inflation-Linked</i>	<i>Consumer Price Index</i>	<i>HMEPS Absolute Return</i>	<i>LIBOR</i>
2012	6.51%	11.00%	5.44%	3.78%	12.00%	-21.96%	1.66%	-0.86%	0.46%
2013	9.57%	7.85%	20.59%	12.80%	10.73%	14.52%	1.75%	10.87%	0.31%
2014	11.80%	14.31%	24.61%	9.11%	11.21%	22.33%	2.07%	7.28%	0.24%
2015	-0.55%	10.36%	7.42%	10.88%	12.96%	-9.14%	0.12%	2.65%	0.25%
2016	1.71%	7.05%	3.99%	12.95%	10.64%	-12.18%	1.01%	-6.92%	0.51%
2017	12.75%	16.02%	17.90%	9.15%	6.98%	8.24%	1.63%	7.13%	1.02%
2018	2.49%	17.22%	14.38%	9.87%	7.20%	5.78%	2.87%	4.65%	1.36%
2019	7.60%	14.05%	10.42%	7.68%	6.50%	2.05%	1.65%	3.27%	2.55%
2020	-1.10%	3.44%	7.51%	-4.03%	2.69%	-28.17%	0.71%	-1.42%	1.50%
2021	15.62%	64.56%	40.79%	17.83%	7.37%	52.77%	5.32%	22.06%	0.20%
3 Yrs.	7.15%	24.75%	18.67%	6.78%	5.50%	3.85%	2.56%	7.51%	1.41%
5 Yrs.	7.30%	21.43%	17.65%	7.87%	6.13%	5.10%	2.44%	6.86%	1.41%
10 Yrs.	6.50%	15.62%	14.84%	8.85%	8.79%	1.13%	1.89%	4.61%	0.88%



## SCHEDULE OF FEES AND COMMISSIONS PAID

In Fiscal Year 2021

<i>Broker Name</i>	<i>Number of Shares</i>	<i>Commissions (\$)</i>	<i>Cents/Share</i>
B.RILEY & CO., LLC	240,519	\$ 4,957.38	2.06
BANK OF AMERICA CORPORATION	1,583,921	\$ 26,764.88	1.69
BARCLAYS CAPITAL	966,261	\$ 15,350.93	1.59
BERNSTEIN AUTONOMOUS LLP	71,077	\$ 2,077.57	2.92
BNP PARIBAS PRIME BROKERAGE, INC.	288,250	\$ 2,245.42	0.78
CANTOR FITZGERALD + CO.	380,641	\$ 7,603.27	2.00
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	937,337	\$ 19,850.74	2.12
CITIGROUP GLOBAL MARKETS INC.	1,327,111	\$ 22,149.17	1.67
CLSA SECURITIES KOREA LTD.	469,526	\$ 8,346.94	1.78
COWEN AND COMPANY, LLC	221,411	\$ 4,391.64	1.98
CREDIT LYONNAIS SECURITIES (ASIA)	3,749,686	\$ 6,586.56	0.18
CREDIT SUISSE SECURITIES (USA) LLC	628,437	\$ 9,125.28	1.45
EVERCORE ISI	350,811	\$ 2,697.36	0.77
GOLDMAN SACHS + CO LLC	1,080,385	\$ 19,657.47	1.82
INSTINET	2,534,161	\$ 12,716.59	0.50
J P MORGAN SECURITIES INC	1,542,338	\$ 17,066.12	1.11
JEFFERIES LLC	1,573,730	\$ 16,741.45	1.06
KEPLER CHEUVREUX	289,433	\$ 6,387.09	2.21
LIQUIDNET INC	257,774	\$ 2,653.02	1.03
MAXIM GROUP	439,218	\$ 12,405.16	2.82
MIZUHO SECURITIES USA INC	200,193	\$ 4,193.44	2.09
MORGAN STANLEY CO INCORPORATED	2,281,065	\$ 32,242.51	1.41
NATIONAL FINANCIAL SERVICES CORPORATION	338,178	\$ 5,809.93	1.72
NORTH SOUTH CAPITAL LLC	383,712	\$ 5,489.59	1.43
PAREL	192,410	\$ 5,644.93	2.93
PERSHING LLC	675,862	\$ 12,337.73	1.83
PIPER JAFFRAY & CO.	135,511	\$ 2,114.45	1.56
RAYMOND JAMES AND ASSOCIATES INC	111,113	\$ 2,132.81	1.92
RBC CAPITAL MARKETS, LLC	1,285,775	\$ 19,761.62	1.54
REDBURN (EUROPE) LIMITED	122,128	\$ 2,708.29	2.22
ROBERT W. BAIRD CO.INCORPORATED	140,577	\$ 2,828.75	2.01
ROTH CAPITAL PARTNERS LLC	56,950	\$ 2,278.00	4.00
SANFORD C BERNSTEIN CO LLC	532,686	\$ 7,769.73	1.46
STATE STREET BANK AND TRUST COMPANY	765,513	\$ 11,482.71	1.50
STIFEL NICOLAUS + CO INC	2,227,252	\$ 33,407.72	1.50
UBS AG	5,609,057	\$ 23,138.09	0.41
VIRTU AMERICAS LLC	237,980	\$ 2,631.97	1.11
WELLS FARGO SECURITIES, LLC	536,960	\$ 9,693.14	1.81
Others	3,153,389	\$ 30,145.94	0.96
Total	37,918,338.12	\$ 435,585.39	1.15

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