

INVESTMENTS

- SECTION 3 -



PERFORMANCE



Renovated Memorial Park Golf Course has become one of the most iconic municipal golf facilities in the country



GREAT RESULTS EMERGE FROM FOCUS AND DEDICATION



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, 2022, the System utilized 82 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 2022, 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, 2022 encompassed the Covid pandemic and recovery followed by geopolitical volatility in the wake of the Russian invasion of Ukraine. These catalysts have 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 eight of those ten years. Due to the diversification of assets, the System's 5-year annualized return is 11.1%. The 10-year return stands at 10.2%.

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 5% of funds in the Wilshire TUCS Master Trusts – Public Universe.

FISCAL YEAR 2022 RESULTS

For the fiscal year ended June 30, 2022, the System returned 5.2%. This rate of return exceeded both the System's policy benchmark return of -2.8% and the return of the median fund in the Wilshire TUCS Master Trusts – Public Universe of -9.0%.

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

TABLE 1: ASSET ALLOCATION SUMMARY

Period ending June 30, 2022

Asset Class	Assets		Performance			
	(\$ Millions)	(%)	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
Total Global Equity¹	1,039.0	26.4	-15.3%	5.1%	6.2%	n/a
Global Equity Policy			-14.1%	5.3%	6.5%	n/a
Global Low Volatility Equity	260.5	6.6	-6.2%	3.3%	6.2%	n/a
MSCI ACWI Min Vol (Net)			-6.2%	3.2%	6.1%	n/a
Domestic Equity	452.1	11.5	-8.6%	9.6%	9.4%	11.9%
Wilshire 5000			-13.2%	10.2%	10.8%	12.7%
International Equity	326.4	8.3	-29.0%	0.5%	2.2%	4.9%
MSCI ACWI ex US (Net)			-19.4%	1.4%	2.5%	4.8%
Global Fixed Income	256.7	6.5	-11.9%	0.4%	1.9%	3.7%
Global Fixed Income Policy ²			-11.5%	0.4%	1.5%	3.0%
Real Estate	419.8	10.7	13.4%	8.6%	8.7%	9.8%
NCREIF Property			21.5%	10.2%	8.9%	9.7%
Private Equity	1,235.5	31.4	22.4%	27.7%	22.7%	16.8%
S&P 500 + 3%			-7.6%	13.6%	14.3%	16.0%
Absolute Return	130.1	3.3	0.5%	6.5%	5.5%	4.7%
LIBOR 3 Month Yield + 4%			4.7%	4.8%	5.3%	4.9%
Inflation Linked	594.7	15.1	24.9%	11.1%	8.2%	6.0%
CPI + 4%			13.1%	9.0%	7.9%	6.6%
Private Credit	104.3	2.6	7.7%	11.3%	n/a	n/a
CSFB Leveraged Loan Index			-2.7%	2.0%	n/a	n/a
Cash / Liquidation	157.8	4.0	n/a	n/a	n/a	n/a
Total Fund	3,937.9	100.0	5.2%	13.1%	11.1	10.2
Policy Index			-2.8%	7.6%	7.9%	8.6%
TUCS Ranking (6/30/22) ³			3 (98)	1 (89)	1 (78)	3 (76)

Please note that numbers may not add to 100% due to rounding

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

2 Global Fixed Income Policy: 50% Bloomberg Barclays US Aggregate Bond Index, 50% ICE/BofAML High Yield Master II Index.

3 Wilshire TUCS: Total returns of all public DB plans in the Master Trusts Public composite, as of date noted; ranking is based on a percentile within the universe. Number in parentheses is number of observations for period.

SCHEDULE OF TOP INVESTMENTS AS OF JUNE 2022

Name of Investment	Base Market Value
BlackRock MSCI ACWI Minimum Volatility Index Fund	\$ 260,529,626.91
BlackRock S&P 500 Index Fund A	200,344,751.24
SSgA REIT Index Fund	135,360,065.05
SSgA Global Natural Resources Index	83,486,218.81
New Enterprise Associates 14, LP	55,298,684.92
Valor Equity Partners IV, LP	46,420,503.08
GTCR Fund XI/A, LP	41,952,347.97
Summit Partners Growth Equity Fund IX A, LP	40,043,157.17
Valor M33 III, LP	39,786,262.01
Hellman & Friedman Capital Partners VIII, LP	39,687,499.34

TABLE 2: COMPARISON OF INVESTMENT RETURNS YEARS ENDED JUNE 30

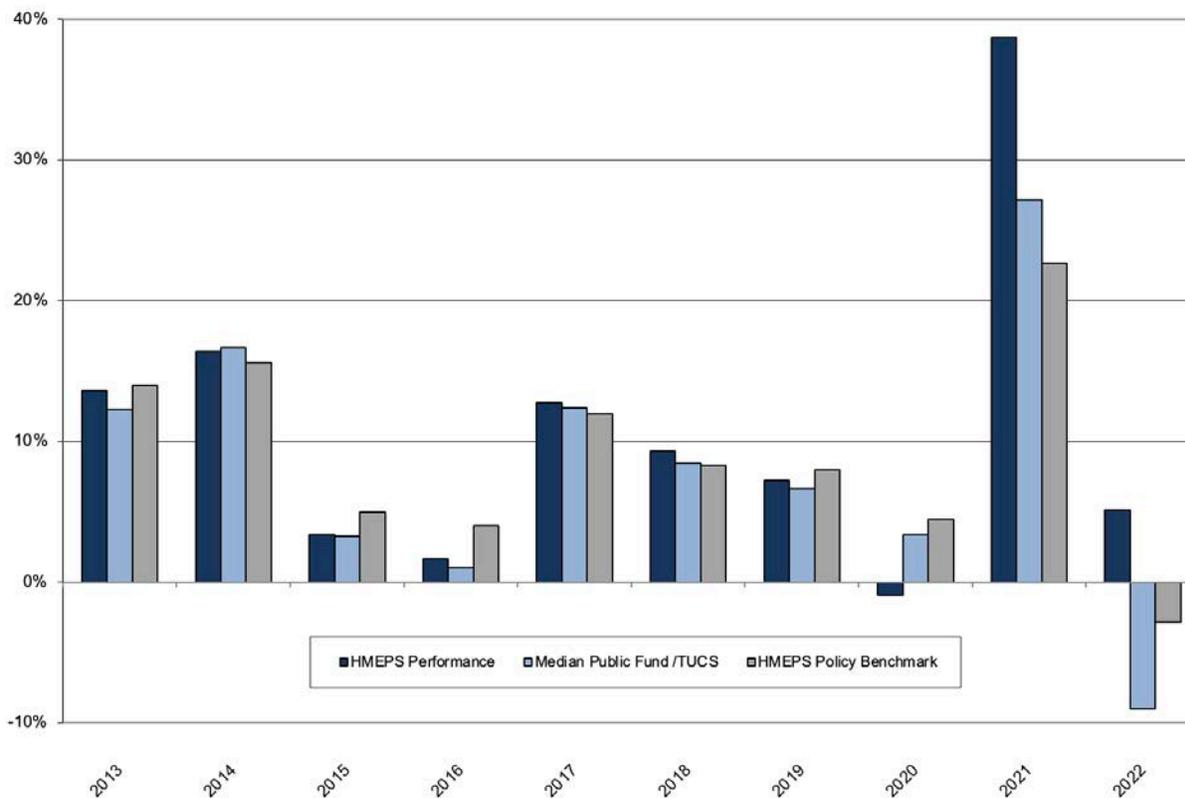
(Calculated based on a time weighted rate of return based on the market rate of return)

Period Ending 06-30	HMEPS Total Fund	HMEPS Policy Portfolio	Median of Wilshire Public Fund Universe/ TUCS	HMEPS Global Equity	MSCI ACWI IMI (Net)	MSCI ACWI Min Vol	HMEPS Fixed Income	Bloomberg U.S. Aggregate Bond Index
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%
2022	5.16%	-2.84%	-9.04%	-15.32%	-16.52%	-6.40%	-11.87%	-10.29%
3 Yrs.	13.06%	7.58%	5.61%	5.07%	5.98%	2.89%	0.45%	-0.94%
5 Yrs.	11.12%	7.85%	6.48%	6.19%	6.70%	5.72%	1.89%	0.88%
10 Yrs.	10.25%	8.62%	8.01%	n/a	8.71%	7.95%	3.66%	1.54%

Period ending 06-30	ICE BofAML U.S. High Yield Master II Index	HMEPS Private Equity	S&P 500 Index	HMEPS Real Estate	NCREIF Property Index	HMEPS Inflation-Linked	Consumer Price Index	HMEPS Absolute Return	LIBOR
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%
2022	-12.69%	22.39%	-10.62%	13.45%	21.45%	24.92%	9.06%	0.46%	0.66%
3 Yrs.	-0.05%	22.72%	10.60%	8.65%	10.22%	11.09%	4.98%	6.52%	0.79%
5 Yrs.	1.95%	22.74%	11.31%	8.70%	8.86%	8.15%	3.88%	5.49%	1.34%
10 Yrs.	4.40%	16.75%	12.96%	9.67%	9.67%	6.00%	2.59%	4.75%	0.90%

PERFORMANCE BY FISCAL YEAR

Last Ten Years



ASSET CLASS FEES AND COMMISSIONS

Asset Class	Investment Management Fees	Profit Share/Carried Interest	Brokerage Fees/Commissions
Absolute Return	\$ 1,162,694	\$ 675,904	\$ -
Cash	190,968	-	-
Fixed Income	1,128,237	-	-
Inflation-Linked	5,705,264	17,735,181	-
Private Credit	1,962,792	2,714,725	-
Private Equity	12,290,502	21,824,716	-
Public Equity	3,717,683	-	388,020
Real Estate	4,131,441	13,362,410	-
Total	\$ 30,289,582	\$ 56,312,937	\$ 388,020

1 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.

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

LIST OF MANAGERS

ABSOLUTE RETURN

Anchorage Capital Group, L.L.C.
 Angelo Gordon & Co., L.P.
 Brigade Capital Management, L.P.
 Davidson Kempner Capital Management, L.P.
 Graham Capital Management, L.P.
 MKP Capital Management, L.L.C.
 Sculptor Capital Management, Inc.
 Samlyn Capital, L.L.C.

FIXED INCOME

AllianceBernstein Holding, L.P.
 BlackRock, Inc.
 Polen Capital, formerly DDJ Capital Management, L.L.C.
 GMO L.L.C.
 Loomis, Sayles & Company, L.P.
 Pugh Capital Management, Inc.

GLOBAL EQUITY

Baillie Gifford & Co.
 BlackRock, Inc.
 DePrince, Race & Zollo, Inc.
 Globeflex Capital, L.P.
 Invesco, Ltd.
 Neumeier Poma Investment Counsel, L.L.C.
 Schroders plc
 T. Rowe Price Associates, Inc.

INFLATION-LINKED

BlackRock, Inc.
 Carnelian Energy Capital Management, L.P.
 Cohen & Steers Capital Management, Inc.
 EIV Capital, L.L.C.
 EnCap Investments, L.P.
 Global Forest Partners, L.P.
 NGP Energy Capital Management, L.L.C.
 Oaktree Capital Management, L.P.
 Quantum Energy Partners, L.P.
 Riverstone Investment Group, L.L.C.
 Salient Partners, L.P.
 State Street Global Advisors, Inc.
 Tailwater Capital, L.L.C.

Taurus Funds Management, Pty. Ltd.
 Tillridge Global Agribusiness Partners
 Tortoise Capital Advisors, L.L.C.

PRIVATE CREDIT

Angelo, Gordon & Co., L.P.
 DRC Capital, L.L.P.
 Orbimed Advisors, L.L.C.
 Summit Capital Partners, L.L.C.

PRIVATE EQUITY

Adams Street Partners, L.L.C.
 Anchorage Capital Group, L.L.C.
 Carrick Capital Management, L.L.C.
 Centerbridge Partners, L.P.
 Clearlake Capital Group, L.P.
 GTCR, L.L.C.
 HarbourVest Partners, L.L.C.
 Hellman & Friedman, L.L.C.
 ICV Partners, L.L.C.
 JMI Management, Inc.
 Lexington Partners, Inc.
 New Enterprise Associates, L.L.C.
 New Mainstream Capital Management Holding, L.L.C.
 Oaktree Capital Management, L.P.
 Onex Corporation
 Orbimed Advisors, L.L.C.
 PacVen Walden Management Co., Ltd.
 Pegasus Capital Advisors, L.P.
 Pharos Capital Group, L.L.C.
 Platinum Equity, L.L.C.
 Siris Capital Group, L.L.C.
 Summit Capital Partners, L.L.C.
 Sun Capital Partners, Inc.
 TCMI, Inc.
 The Capstreet Group, L.L.C.
 The Carlyle Group, Inc.
 The Jordan Company, L.P.
 TrueBridge Capital Partners, L.L.C.
 Valor Management, L.L.C.
 Vista Equity Partners Management, L.L.C.
 Wayzata Investment Partners, L.L.C.

REAL ESTATE

Aermont Capital, L.L.P.
 Aetos Capital Real Estate, L.P.
 Angelo, Gordon & Co., L.P.
 Artemis Real Estate Partners, L.L.C.
 Berkeley Partners Management, L.L.C.
 Crow Holdings Capital FIG, L.L.C.
 GEM Realty Capital, Inc.
 Kildare Partners U.S., L.L.C.
 Lone Star Global Acquisitions, L.L.C.
 Long Wharf Capital, L.L.C.
 Morgan Stanley & Co., L.L.C.
 Oak Street Real Estate Capital, L.L.C.
 Orion Capital Managers, L.L.P.
 Pennybacker Capital Management, L.L.C.
 The Prime Group, Inc.
 Rockpoint Group, L.L.C.
 Starwood Capital Group Global, L.P.
 State Street Global Advisors, Inc.

SCHEDULE OF FEES AND COMMISSIONS PAID

In Fiscal Year 2022

Broker Name	Number of Shares	Commissions (\$)	Cents/Share
B.RILEY & CO., LLC	169,607	\$ 4,059.34	2.39
BARCLAYS CAPITAL	942,395	10,475.25	1.11
BNP PARIBAS SECURITIES SERVICES	779,328	4,022.27	0.52
CANACCORD GENUITY INC.	137,041	4,109.22	3.00
CANTOR FITZGERALD + CO.	133,416	2,361.08	1.77
CAPITAL INSTITUTIONAL SVCS INC EQUITIES	756,057	15,121.14	2.00
CITIGROUP GLOBAL MARKETS INC.	1,099,820	15,120.89	1.37
CLSA SINGAPORE PTE LTD.	259,011	7,121.89	2.75
COWEN AND COMPANY, LLC	338,286	5,860.22	1.73
CREDIT LYONNAIS SECURITIES (ASIA)	1,466,108	2,509.69	0.17
CREDIT SUISSE INTERNATIONAL	622,628	9,432.79	1.51
DAIWA SECURITIES SB CAPITAL MARKETS	93,700	2,036.61	2.17
DAVIDSON D.A. + COMPANY INC.	57,350	2,294.00	4.00
EVERCORE GROUP L.L.C.	320,302	3,605.40	1.13
GOLDMAN SACHS INTERNATIONAL	1,410,008	27,217.92	1.93
HSBC BANK PLC	1,639,147	5,744.50	0.35
INSTINET LLC	3,053,712	12,052.34	0.39
ITG INC.	292,363	2,898.23	0.99
J.P. MORGAN SECURITIES LLC	1,622,299	20,643.40	1.27
JEFFERIES LLC	2,338,378	19,288.62	0.82
JONESTRADING INSTITUTIONAL SERVICES, LLC	137,940	2,689.31	1.95
KEPLER CHEUVREUX	158,367	5,008.38	3.16
MAXIM GROUP	1,432,052	25,587.36	1.79
MERRILL LYNCH INTERNATIONAL	1,217,332	19,977.34	1.64
MORGAN STANLEY AND CO INTERNATIONAL	1,557,244	24,681.25	1.58
NATIONAL BANK OF CANADA	118,726	3,094.86	2.61
NATIONAL FINANCIAL SERVICES CORPORATION	466,192	4,177.77	0.90
NORTH SOUTH CAPITAL LLC	587,690	5,924.07	1.01
PAREL	130,973	4,136.72	3.16
PERSHING LLC	642,576	11,372.64	1.77
PIPER JAFFRAY & CO.	341,016	6,898.31	2.02
RAYMOND JAMES AND ASSOCIATES INC	112,455	2,167.18	1.93
RBC CAPITAL MARKETS, LLC	578,187	9,082.71	1.57
SANFORD C BERNSTEIN CO LLC	635,129	7,400.62	1.17
STIFEL NICOLAUS + CO INC	488,728	14,649.73	3.00
UBS SECURITIES LLC	3,229,030	22,071.52	0.68
VIRTU AMERICAS LLC	452,679	2,780.75	0.61
WELLS FARGO SECURITIES, LLC	587,091	9,791.38	1.67
Others	2,003,121	30,553.39	1.53
TOTAL	32,407,484	\$ 388,020.09	1.20

This page intentionally left blank