



# Comprehensive Annual Financial Report

For the years ended  
December 31, 2020 & 2019

Texas County & District Retirement System




# **Comprehensive Annual Financial Report**

For the years ended December 31, 2020 & 2019

## **Texas County & District Retirement System**

Prepared by the Actuarial Services, Communications,  
Finance, and Investments Divisions






# Old roots, new growth

## Doing retirement right since 1967

In 1967, the Texas Legislature created TCDRS to provide secure retirement, disability and survivor benefits to Texas county and district employees.

Since then, we've grown into a \$37 billion system that serves more than 330,000 members and more than 800 county and district employers. We're a model for responsible funding and strive to ensure every member retires with confidence and every employer makes informed decisions about their plans.

We may have old Texan roots, but like Texas, we're also constantly pressing forward to grow and innovate as we serve hardworking members with anticipation, care and integrity.



# TCDRS: At a Glance

All figures as of Dec. 31, 2020, except where noted.

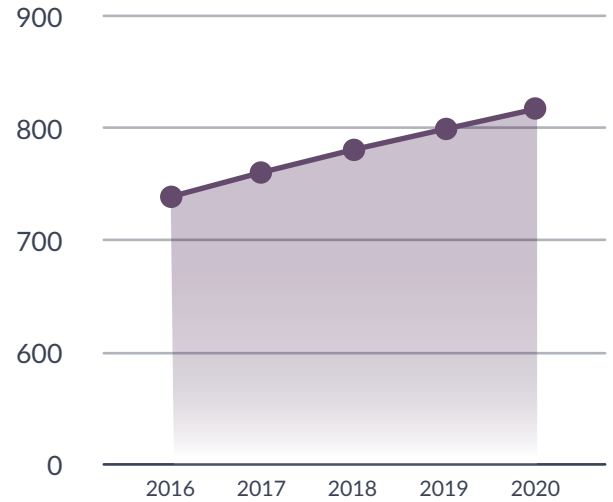
## Serving Our Membership

### Membership



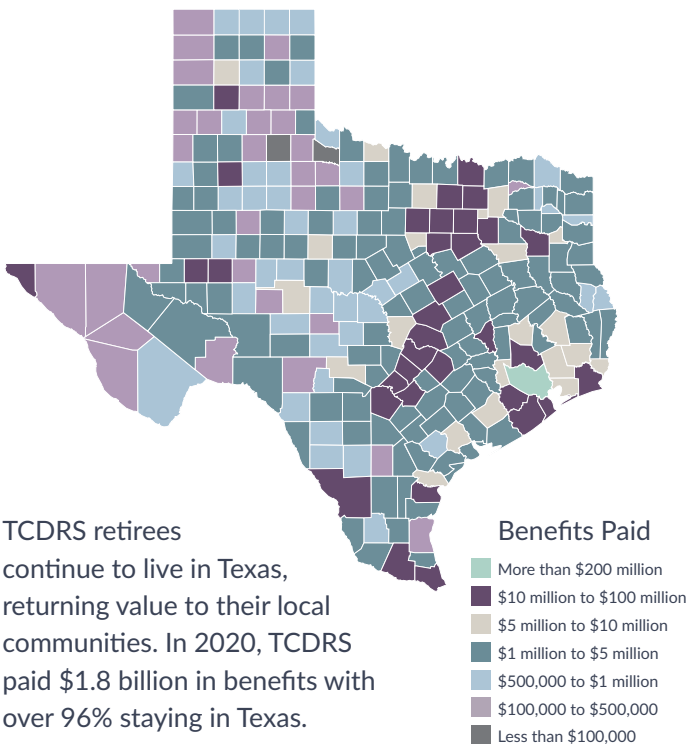
We serve a membership of more than 330,000, including over 74,000 retirees and beneficiaries.

### Participating Employers



Since 1967, the system has grown to include more than 800 counties and districts.

## Benefiting Texas



TCDRS retirees continue to live in Texas, returning value to their local communities. In 2020, TCDRS paid \$1.8 billion in benefits with over 96% staying in Texas.

### Retiree Profile

Average Age at Retirement

61

Average Years of Service

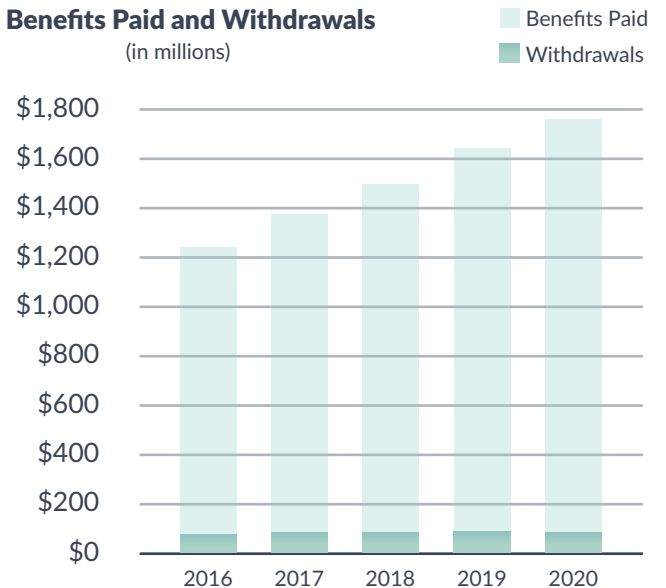
18

Average Annual Benefits

\$25,332

### Benefits Paid and Withdrawals

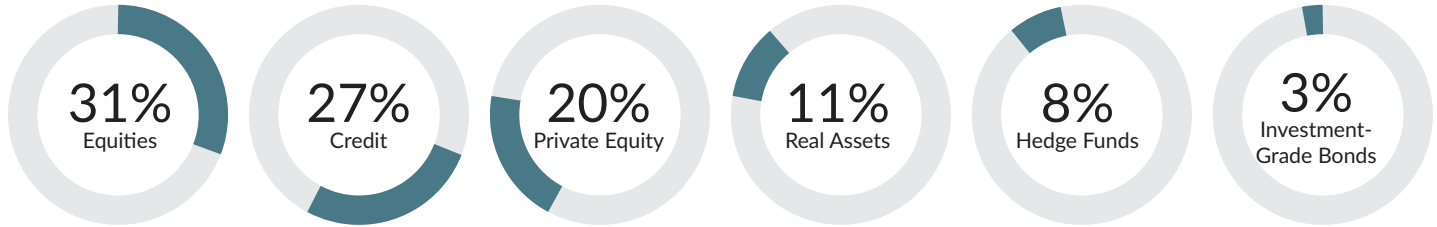
(in millions)





# Investing for the Long Term

Asset Allocation Targets as of April 2020

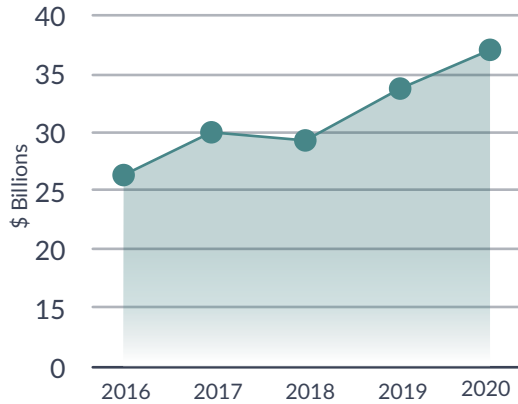


## Total Fund Return-Net of all Fees

Annualized Returns & **Total Fund** | 2020 Return **10.5%**

5 Year	10 Year	20 Year	30 Year
<b>9.3%</b>	<b>7.9%</b>	<b>7.2%</b>	<b>8.1%</b>

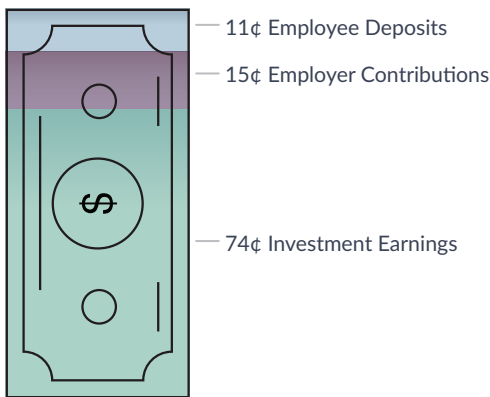
## Fiduciary Net Position



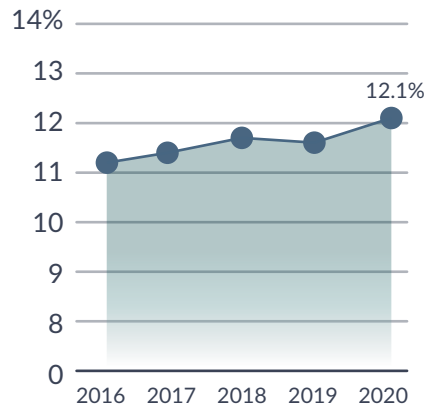
Fiduciary net position totaled **\$37.1 billion**.

# Funding Plans Responsibly

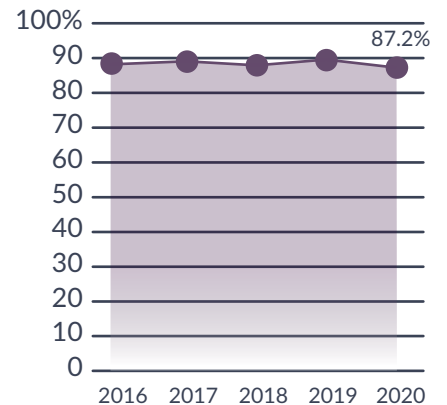
## Benefit Funding



## Average Required Employer Contribution Rates



## Funded Ratio



Investment earnings fund approximately 74¢ of every dollar of benefits. Employers must pay 100% of their required contributions every year. Each plan is funded independently by a county or district and its employees. Our conservative funding methods ensure any debt is paid down to zero within 20 years. This means money is there when needed and debt is not pushed to future generations. *All figures as of Dec. 31, 2020, except where noted.*

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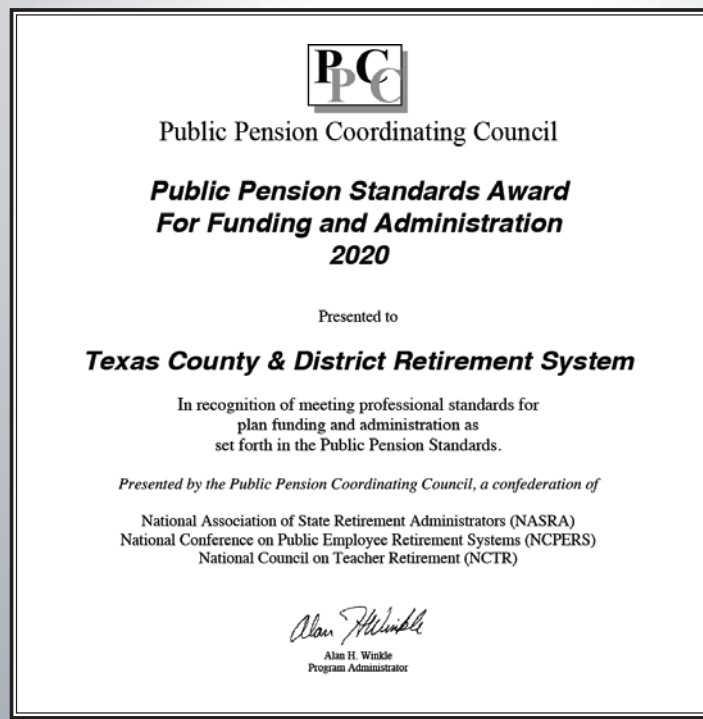
# Modeling retirement

We are proud to innovate on behalf of our members and employers to ensure that TCDRS is a model for retirement. We serve more than 330,000 Texans as they plan for one of the most important decisions of their life: retirement.





The Certificate of Achievement for Excellence in Financial Reporting was presented by the Government Finance Officers Association of the United States and Canada for the fiscal year ended Dec. 31, 2019. This was the 28th consecutive year that TCDRS has received this prestigious award, which recognizes comprehensive annual financial reports that have achieved the highest standards in government accounting and reporting.



TCDRS was awarded the Public Pension Coordinating Council's Public Pension Standards award for the 18th consecutive year. This award is in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.



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TCDRS.org

## LETTER OF TRANSMITTAL

June 4, 2021

We are pleased to present the Comprehensive Annual Financial Report of the Texas County & District Retirement System (TCDRS) for the year ended Dec. 31, 2020.

At TCDRS, we serve more than 330,000 Texans. These public servants make our Texas local communities better and safer places to live as they plan for one of the most important decisions of their life: retirement.

We are committed to growing a strong, sound fund that provides members with a secure benefit. Our unique features help make us one of the best-funded retirement systems in the nation. Savings-based benefits that are responsibly funded in advance, as well as flexibility and local control, contribute to the system's success.

Since we were created by the Texas Legislature in 1967, TCDRS has grown into a \$37 billion trust. Today, we partner with more than 800 counties and governmental districts to provide reliable retirement, disability and survivor benefits. The number of participating employers continues to grow and, for the 10-year period ended Dec. 31, 2020, has increased by 32%. Over the past decade, our membership has risen by 48% as well.

The TCDRS Board of Trustees provides leadership for the system. Our nine-person board is appointed by the governor and confirmed by the Texas Senate. The board appoints an executive director, who is responsible for all day-to-day operations, and a chief investment officer, who manages investment operations.

### WE DO RETIREMENT RIGHT

Our savings-based plan helps employers provide reliable benefits at a predictable cost. Members save for their own retirement over the length of

their careers. At retirement, benefits are based on a member's final savings balance and employer matching.

In 2020, we paid \$1.8 billion in benefits to retirees and former members. Over 96% of these benefits went to Texas addresses. That income serves as an economic engine to our local economies.

On average, our current retirees start their benefit payments at age 61 after working 18 years. The average annual benefit for current retirees is \$25,332, as of Dec. 31, 2020. The number of retirees has increased over the past decade by 83%.

### INVESTMENTS

Because members and employers are saving in advance for retirement, they are getting the maximum power of investment earnings over time. Investment earnings fund approximately 74 cents of every benefit dollar our members receive.

TCDRS is a long-term investor with a fully diversified portfolio. The TCDRS Board of Trustees constructs the investment portfolio to maximize return within an acceptable level of risk. In 2020, the TCDRS portfolio returned 10.5%, net of all fees. Our 30-year return was 8.1% for the period ended Dec. 31, 2020.

The board has adopted, and periodically reviews, an investment policy that defines and restricts investment authority. The policy also emphasizes the importance of a long-term investment philosophy with minimization of risk.

### MAJOR INITIATIVES

The theme of our 2020 annual report focuses on innovation in a modern Texas. In 2020, during a global pandemic and a historic snowstorm, achieving the ordinary was extraordinary. Through



## LETTER OF TRANSMITTAL

exceptional efforts, we not only maintained our quality of service to members and employers in a fully remote environment, but also continued to expand our investment opportunities and enhance and modernize our business capabilities for years to come.

This past year, we:

- Rolled out a modern, redesigned website, Your Partner on the Road to Retirement. In addition to rendering well on mobile devices, the new site offers streamlined navigation, expanded content, a searchable library and a robust new content management system.
- Completed extensive upgrades to our core technologies. These upgrades allow TCDRS to leverage expanded functionality and features to enhance services, performance and security.
- Made significant progress on information security objectives, including formalizing security policies and implementing an identity access management program with multi-factor authentication and privileged access management processes. We continue to strengthen our security posture and conduct frequent security awareness training and penetration testing.
- Developed a new webinar series for members based on career stage. The content is customized by employer plan and can include participation from other third-parties, such as Social Security and 457(b) vendors for a more well-rounded financial education experience. These virtual presentations have proven to be very popular and have expanded our reach to our members.

### FUNDING

As of Dec. 31, 2020, TCDRS was 87.2% funded in aggregate. The actuarial value of assets and liabilities totaled \$36.02 billion and \$41.29 billion, respectively. The fiduciary net position for pension benefits at year end in 2020 and 2019 was \$37.11 billion and \$33.83 billion, respectively. This is an increase of \$3.28 billion (9.7%).

The system also maintains a reserves position to help keep rates stable and offset future adverse experience. TCDRS is funded at 90% when reserves are considered.

TCDRS does not receive funding from the State of Texas. Each plan is funded by our employers, members and investment earnings. TCDRS has one of the most conservative funding policies in the nation, ensuring that our employers fund their

plans responsibly. By paying 100% of their required contribution rate every year, employers are funding their current employees' future benefits and are on track to pay down any liabilities within 20 years.

More than one-third of TCDRS' participating employers make additional contributions over the required amounts to prefund benefits, pay down liabilities faster or build up reserves within their plan. Each year, employers can adjust benefits and costs prospectively based on their local workforce needs and budgets. This level of flexibility and local control is unique among public pension plans.

The average employer contribution rate increased following the Dec. 31, 2020 valuation, primarily because the investment return assumption was lowered from 8% to 7.5%. Due to the pandemic and unprecedented stimulus, forecasts of returns decreased across all asset classes. Keeping the plans sound and strong required us to synchronize our investment assumption with our earnings expectations.

Cash flow from deposits and contributions is slightly less than the amounts required to make benefit payments to retirees, withdrawals to former members and administrative expenses. Negative net cash flow is expected as the system matures. Investment returns and changes in employer plans also affect annual cash flow and the change in net position.

To help better understand TCDRS' financial strength, the recent history of net investment income, contributions and deposits, benefit payments and administrative costs is shown in the Statistical Section of this report, which begins on page 81. Information on funding progress for all employers as a group is located in the Actuarial Section within Table 6: Funding Progress (see page 71).

### MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

This report fulfills the requirements established by the Texas Government Code for public retirement systems to publish an annual financial report. TCDRS management is responsible for the accuracy of the data, as well as the completeness and fairness of its presentation, within this report.

The financial statements have been prepared in accordance with the principles of governmental accounting and reporting as set forth by the Governmental Accounting Standards Board (GASB).

A comprehensive framework of internal controls exists to provide reasonable assurance regarding

the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Internal controls also provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived; second, the valuation of the cost and benefits requires estimates and judgments by management.

KPMG LLP, Certified Public Accountants, has issued an unmodified (“clean”) opinion on TCDRS’ financial statements for the year ended Dec. 31, 2020. The independent auditor’s opinion is located at the front of the Financial Section of this report (see page 20).

Immediately following the independent auditor’s opinion, Management’s Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements the Letter of Transmittal and should be read in conjunction with it.

## AWARDS AND ACKNOWLEDGMENTS

For the 28th consecutive year, TCDRS proudly accepted a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for the fiscal year ended Dec. 31, 2019. This prestigious award recognizes readable, efficiently organized comprehensive annual financial reports that satisfy accepted accounting principles and applicable legal requirements.

For 2020, TCDRS was also awarded the Public Pension Coordinating Council’s (PPCC) Public Pension Standards award for the 18th consecutive year. This award recognizes systems that meet professional standards for plan funding and administration.

## SUMMARY

At TCDRS, we are proud to innovate on behalf of our members and employers to ensure that TCDRS remains strong and sound. We thank everyone who has made TCDRS a model for retirement and a benefit that can be counted on by so many Texans.

Sincerely,



Mary Louise Nicholson  
Chair

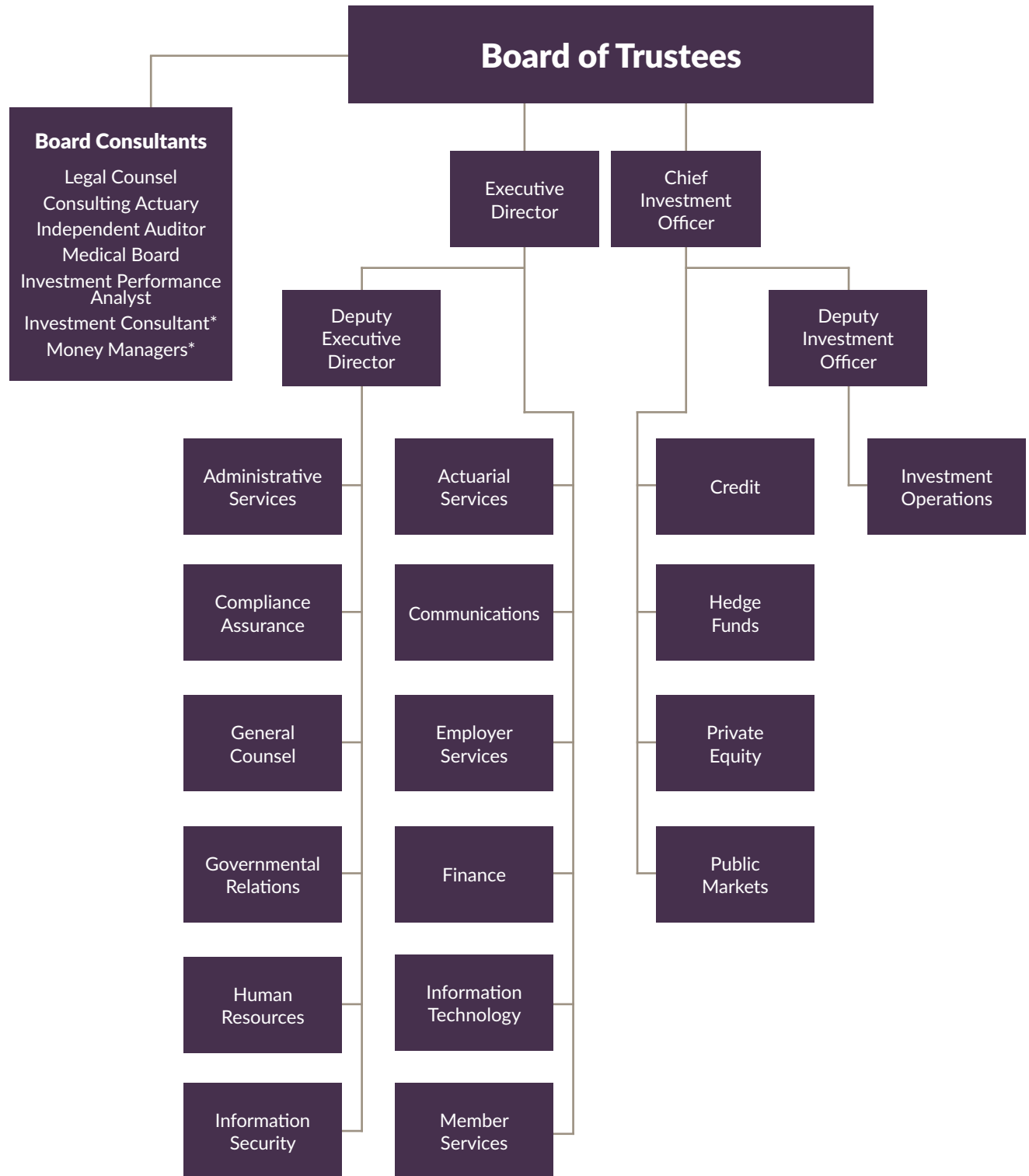


Amy Bishop  
Executive Director



Casey Wolf  
Chief Investment Officer

# ORGANIZATION CHART



\* For information regarding investment professionals' fees, see Tables 8-9 in the Investment Section.



**CHAIR**  
**Mary Louise Nicholson**  
Tarrant County Clerk  
Term expires Dec. 31, 2023



**VICE-CHAIR**  
**Deborah Hunt**  
Williamson CAD  
Board of Directors  
Term expires Dec. 31, 2021



**Tammy Biggar**  
Fannin County Clerk  
Term expires Dec. 31, 2025



**Chris Davis**  
Cherokee County Judge  
Term expires Dec. 31, 2021



**Susan Fletcher**  
Collin County Commissioner  
Term expires Dec. 31, 2023



**Chris Hill**  
Collin County Judge  
Term expires Dec. 31, 2021



**Kara Sands**  
Nueces County Clerk  
Term expires Dec. 31, 2023



**Chris Taylor**  
Tarrant County  
Assistant D.A.  
Term expires Dec. 31, 2025



**Holly Williamson**  
Harris County  
Justice of the Peace  
Term expires Dec. 31, 2025

## EXECUTIVE STAFF AND PROFESSIONAL ADVISORS

### INVESTMENT STAFF



**Casey Wolf**  
Chief Investment Officer



**Sandra Bragg**  
Deputy Investment Officer

### ADMINISTRATIVE STAFF



**Amy Bishop**  
Executive Director



**Tom Harrison**  
Deputy Executive Director



**Ann McGeehan**  
General Counsel

### PROFESSIONAL ADVISORS

#### Investment Counsel

Vinson & Elkins LLP  
Bradshaw & Bickerton PLLC  
DLA Piper LLP

#### Consulting Actuary

Milliman, Inc.

#### Investment Performance Analyst

Bank of New York Mellon

#### Investment Consultant

Cliffwater LLC

#### Independent Auditor

KPMG LLP

#### Fiduciary & Benefit Plan Administration Counsel

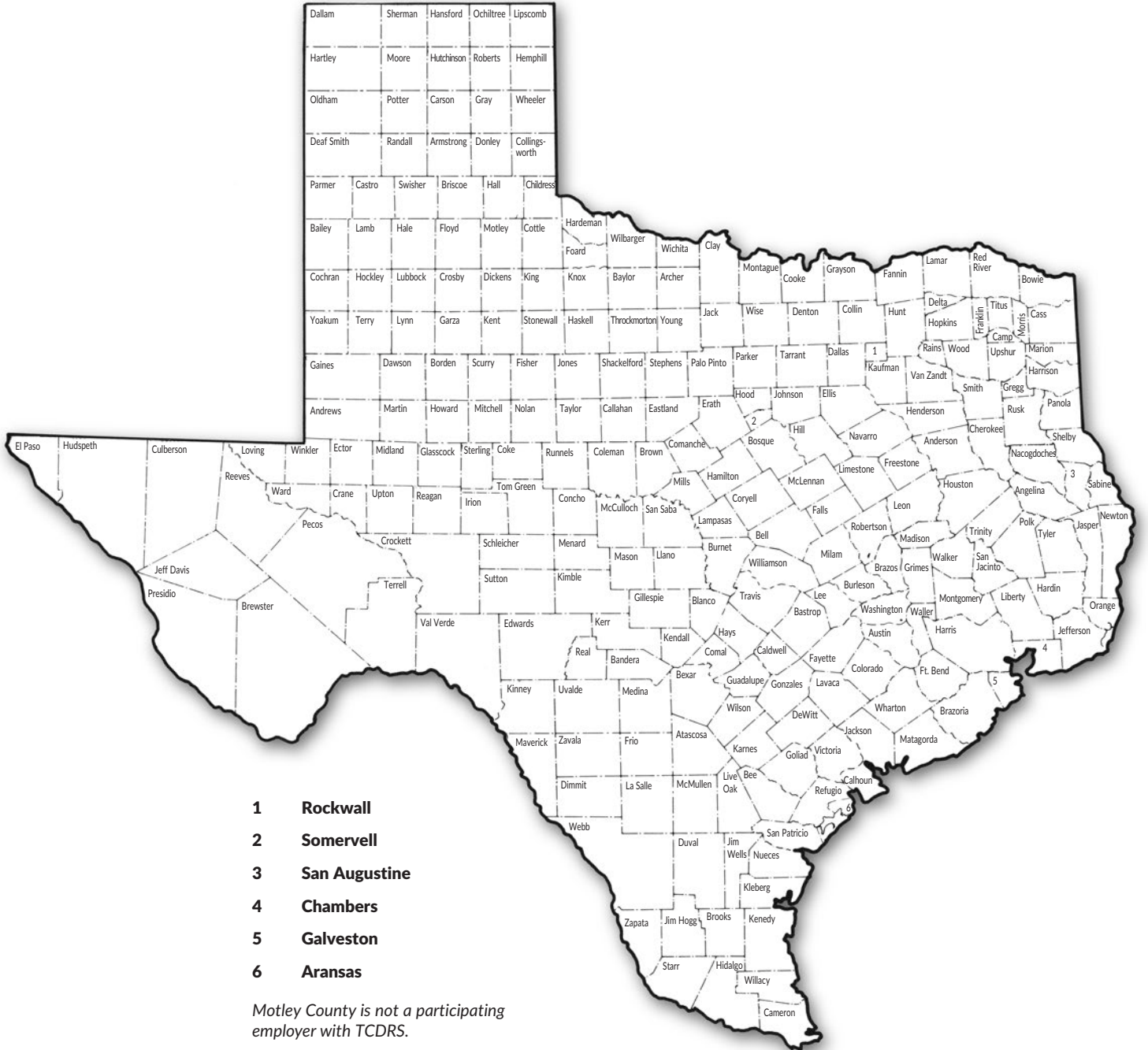
Jackson Walker LLP

#### Medical Board

Ace Alsup, M.D., Chairman  
Shelby H. Carter, M.D.  
Frank E. Robinson, M.D.



# PARTICIPATING COUNTIES AND DISTRICTS As of Dec. 31, 2020



# PARTICIPATING COUNTIES AND DISTRICTS As of Dec. 31, 2020

## A

Acton Municipal Utility District  
 Agua Special Utility District  
 Alamo Area Council of Governments  
 Alliance Regional Water Authority  
 Anderson County  
 Anderson County Central Appraisal District  
 Andrews County  
 Andrews County Appraisal District  
 Angelina and Nacogdoches Counties  
 WC & ID #1  
 Angelina County  
 Angelina County Appraisal District  
 Angleton Drainage District  
 Aquilla Water Supply District - Hill County  
 Aransas County  
 Aransas County Appraisal District  
 Aransas County Navigation District  
 Archer County  
 Archer County Appraisal District  
 Ark-Tex Council of Governments  
 Armstrong County  
 Armstrong County Appraisal District  
 Atascosa Central Appraisal District  
 Atascosa County  
 Athens Municipal Water Authority  
 Austin County  
 Austin County Appraisal District  
 Austin County Emergency Communications  
 District

## B

Bacliff Municipal Utility District  
 Bailey County  
 Ballinger Memorial Hospital District  
 Bandera County  
 Bastrop Central Appraisal District  
 Bastrop County  
 Bastrop County Emergency Services District #1  
 Bastrop County Emergency Services District #2  
 Bastrop County Water Control and  
 Improvement District 2  
 Baylor County  
 Baylor County Appraisal District  
 Bayview Irrigation District #11  
 Bayview Municipal Utility District  
 Bee County  
 Bell County  
 Bell County Appraisal District  
 Bell County Water Control and Improvement  
 District #1  
 Bell County Water Control and Improvement  
 District 3  
 Benbrook Water Authority  
 Bexar Appraisal District  
 Bexar County  
 Bexar County Emergency Service District 5  
 Bexar County Emergency Service District No. 2  
 Bexar County Emergency Services District #6  
 Bexar County Emergency Services District 7  
 Bexar County Emergency Services District #10  
 Bexar County Emergency Services District #12  
 Bexar County Emergency Services  
 District No. 8  
 Bexar County Water Control and Improvement  
 District #10

Bexar Metro 9-1-1 Network District  
 Bexar-Medina-Atascosa WCID #1  
 Bistone Municipal Water Supply District -  
 Limestone County  
 Blanco County  
 Blanco County Emergency Services  
 District No. 2  
 Bluebonnet Groundwater Conservation District  
 Borden County  
 Borden County Appraisal District  
 Bosque County  
 Bosque County Central Appraisal District  
 Bowie County  
 Brazoria County  
 Brazoria County Appraisal District  
 Brazoria County Conservation and Reclamation  
 District #3  
 Brazoria County Drainage District #4  
 Brazoria County Drainage District #5  
 Brazoria County Emergency Services  
 District No. 3  
 Brazos Central Appraisal District  
 Brazos County  
 Brazos County Emergency Communications  
 District  
 Brazos Regional Public Utility Agency  
 Brazos River Authority  
 Brazos Transit District  
 Brazos Valley Council of Governments  
 Brazos Valley Groundwater Conservation  
 District  
 Brewster County  
 Brewster County Appraisal District  
 Bright Star-Salem Special Utility District  
 Briscoe County  
 Brookeland Fresh Water Supply District  
 Brookesmith Special Utility District  
 Brooks County  
 Brookshire Municipal Water District  
 Brookshire-Katy Drainage District  
 Brown County  
 Brownsville Irrigation District  
 Brush Country Groundwater Conservation  
 District  
 Brushy Creek Municipal Utility District -  
 Williamson County  
 Burleson County  
 Burleson County Appraisal District  
 Burnet Central Appraisal District  
 Burnet County

## C

Caldwell County  
 Caldwell County Appraisal District  
 Calhoun County  
 Calhoun County Appraisal District  
 Calhoun County E911 Emergency  
 Communications District  
 Callahan County  
 Callahan County Appraisal District  
 Cameron County  
 Cameron County Appraisal District  
 Cameron County Drainage District #1  
 Cameron County Drainage District #3  
 Cameron County Drainage District #5  
 Cameron County Emergency Communication  
 District

Cameron County Irrigation District #2  
 Cameron County Irrigation District #6  
 Cameron County Regional Mobility Authority  
 Camp Central Appraisal District  
 Camp County  
 Caney Creek Municipal Utility District  
 Canyon Lake Community Library District  
 Canyon Regional Water Authority  
 Carson County  
 Cass County  
 Cass County Appraisal District  
 Castro County  
 Central Appraisal District of Bandera County  
 Central Appraisal District of Johnson County  
 Central Appraisal District of Taylor County  
 Central Texas Groundwater Conservation  
 District  
 Central Texas Regional Mobility Authority  
 Central Water Control and Improvement  
 District - Angelina County  
 Chambers County  
 Chambers County Appraisal District  
 Chambers County Public Hospital District  
 Cherokee County  
 Childress County  
 Childress County Appraisal District  
 Childress County Hospital District  
 Clay County  
 Clay County Appraisal District  
 Coastal Bend Groundwater Conservation  
 District  
 Coastal Plains Groundwater Conservation  
 District  
 Cochran County  
 Cochran County Appraisal District  
 Coke Central Appraisal District  
 Coke County  
 Coke County Soil and Water Conservation  
 District #219  
 Coleman County  
 Collin County  
 Collin County Central Appraisal District  
 Collingsworth County  
 Collingsworth County Appraisal District  
 Colorado County  
 Comal Appraisal District  
 Comal County  
 Comal County Emergency Services District #3  
 Comanche Central Appraisal District  
 Comanche County  
 Combined Consumers Special Utility District  
 Concho Central Appraisal District  
 Concho County  
 Concho County Hospital District  
 Concho Valley Council of Governments  
 Cooke County  
 Cooke County Appraisal District  
 Coryell County  
 Cottle County  
 Cow Creek Groundwater Conservation District  
 Crane County  
 Crane County Appraisal District  
 Crane County Hospital District  
 Crockett County  
 Crockett County Appraisal District

# PARTICIPATING COUNTIES AND DISTRICTS As of Dec. 31, 2020

Crockett County Water Control and Improvement District #1  
 Crosby County  
 Crosby County Appraisal District  
 Crosby Municipal Utility District  
 Cross Roads Special Utility District  
 Crystal Clear Special Utility District  
 Culberson County  
 Cypress Springs Special Utility District

**D**

Dallam County  
 Dallam County Appraisal District  
 Dallas Central Appraisal District  
 Dallas County  
 Dallas County Park Cities Municipal Utility District  
 Dawson County  
 Dawson County Central Appraisal District  
 Deaf Smith County  
 Deaf Smith County Hospital District  
 Deep East Texas Council of Governments  
 Delta County  
 Delta County Appraisal District  
 Delta County Municipal Utility District  
 Delta Lake Irrigation District  
 Denco Area 9-1-1 District - Denton County  
 Denton Central Appraisal District  
 Denton County  
 Denton County Fresh Water Supply District 1A  
 Denton County Fresh Water Supply District #10  
 Denton County Transportation Authority  
 DeWitt County  
 DeWitt County Appraisal District  
 Dickens County  
 Dickens County Appraisal District  
 Dimmit County  
 Donley County  
 Duval County  
 Duval County Appraisal District  
 Duval County Groundwater Conservation District

**E**

East Central Special Utility District  
 East Fork Special Utility District  
 East Harris County Emergency Services Joint Powers Board  
 East Medina County Special Utility District  
 Eastland County  
 Eastland County Appraisal District  
 Ector County  
 Ector County Appraisal District  
 Ector County Hospital District  
 Edwards Aquifer Authority - Bexar County  
 Edwards Central Appraisal District  
 Edwards County  
 El Paso Central Appraisal District  
 El Paso County  
 El Paso County 9-1-1 District  
 El Paso County Emergency Services District #1  
 El Paso County Emergency Services District #2  
 El Paso County Hospital District  
 El Paso County Water Improvement District No. 1

El Paso Mental Health and Mental Retardation  
 Electra Housing Authority  
 Ellis Appraisal District  
 Ellis County  
 Emerald Bay Municipal Utility District  
 Emergency Communication District of Ector County  
 Erath County  
 Erath County Appraisal District

**F**

Falls County  
 Falls County Appraisal District  
 Fannin Central Appraisal District  
 Fannin County  
 Fayette County  
 Fern Bluff Municipal Utility District  
 Fisher County  
 Fisher County Hospital District  
 Floyd County  
 Foard County  
 Fort Bend Central Appraisal District  
 Fort Bend County  
 Fort Bend County Emergency Services District 2  
 Fort Bend County Emergency Services District #4  
 Fort Bend County Emergency Services District #7  
 Fort Bend County Water Control and Improvement District #2  
 Fort Clark Municipal Utility District  
 Fort Griffin Special Utility District  
 Four Way Special Utility District  
 Franklin County  
 Freer Water Control & Improvement District  
 Freestone County  
 Freestone County Appraisal District  
 Frio County  
 Frio County Appraisal District

**G**

Gaines County  
 Gaines County Appraisal District  
 Galveston Central Appraisal District  
 Galveston County  
 Galveston County Consolidated Drainage District  
 Galveston County Drainage District #1  
 Galveston County Drainage District #2  
 Galveston County Emergency Communication Dist.  
 Galveston County Fresh Water Supply District #6  
 Galveston County Health District  
 Galveston County Water Control and Improvement District #1  
 Galveston County Water Control & Improvement District No. 8  
 Garza Central Appraisal District  
 Garza County  
 Garza County Health Care District  
 Gillespie Central Appraisal District  
 Gillespie County  
 Gillespie County Soil and Water Conservation District  
 Glasscock County

Glasscock County Appraisal District  
 Goliad County  
 Gonzales Central Appraisal District  
 Gonzales County  
 Graham Regional Medical Center  
 Gray County  
 Gray County Appraisal District  
 Grayson Central Appraisal District  
 Grayson County  
 Greater Harris County 9-1-1 Emergency Network  
 Greenbelt Municipal & Industrial Water Authority - Donley County  
 Gregg County  
 Grimes County  
 Grimes County Appraisal District  
 Guadalupe Appraisal District  
 Guadalupe County  
 Guadalupe County Groundwater Conservation District  
 Guadalupe-Blanco River Authority  
 Gulf Coast Water Authority - Galveston County

**H**

Hale County  
 Hall County  
 Hall County Appraisal District  
 Hamilton County  
 Hamilton County Appraisal District  
 Hansford County  
 Hansford County Hospital District  
 Hardeman County  
 Hardin County  
 Hardin County Appraisal District  
 Hardin County Emergency Services District #2  
 Harlingen Irrigation District Cameron County #1  
 Harris County  
 Harris County Appraisal District  
 Harris County Emergency Services District #7  
 Harris County Emergency Services District 9  
 Harris County Emergency Services District 10  
 Harris County Emergency Services District 12  
 Harris County Emergency Services District 17  
 Harris County Emergency Services District #24  
 Harris County Emergency Services District #29  
 Harris County Emergency Services District #48  
 Harris County Emergency Services District #50  
 Harris County Emergency Services District No. 13  
 Harris County Emergency Services District No. 46  
 Harris County Fresh Water Supply District 61  
 Harris County Housing Authority  
 Harris County Sports & Convention Corporation  
 Harris County Water Control and Improvement District #1  
 Harris County Water Control and Improvement District #36  
 Harris County Water Control and Improvement District #50  
 Harrison County  
 Hartley County  
 Hartley County Appraisal District  
 Haskell County  
 Haskell Memorial Hospital District

## PARTICIPATING COUNTIES AND DISTRICTS As of Dec. 31, 2020

Hays County  
Hays County Emergency Services District #5  
Hays County Emergency Services District #6  
Hays County Emergency Services District #8  
Heart of Texas Council of Governments  
Hemphill County  
Hemphill County Appraisal District  
Hemphill County Hospital District  
Hemphill County Underground Water Conservation District  
Henderson County  
Henderson County 9-1-1 Communications District  
Henderson County Appraisal District  
Hickory Creek Special Utility District  
Hidalgo and Cameron Counties Irrigation District #9  
Hidalgo County  
Hidalgo County Appraisal District  
Hidalgo County Drainage District #1  
Hidalgo County Irrigation District #1  
Hidalgo County Irrigation District #2  
Hidalgo County Irrigation District #6  
Hidalgo Municipal Utility District #1  
High Plains Underground Water Conservation District #1  
High Point Special Utility District  
Hill County  
Hockley County  
Hockley County Appraisal District  
Hood Central Appraisal District  
Hood County  
Hopkins County  
Hopkins County Appraisal District  
Housing Authority of Starr County  
Housing Authority of the City of Edinburg Texas  
Housing Authority of the City of Kirbyville  
Housing Authority of the City of Knox City  
Housing Authority of the City of Mercedes Texas  
Housing Authority of the City of Mission  
Housing Authority of the City of Munday  
Housing Authority of Travis County  
Houston County  
Houston County Appraisal District  
Howard County  
Howard County Appraisal District  
Hudspeth County  
Hunt County  
Hunt County Appraisal District  
Hurst Creek Municipal Utility District  
Hutchinson County  
Hutchinson County Appraisal District

### I

Iraan General Hospital District  
Irion County  
Irion County Appraisal District

### J

Jack County  
Jack County Appraisal District  
Jackson County  
Jackson County Appraisal District  
Jackson County County-Wide Drainage District

Jackson County Emergency Services District No. 3  
Jasper County  
Jasper County Appraisal District  
Jasper County Water Control and Improvement District #1  
Jeff Davis County  
Jefferson Central Appraisal District  
Jefferson County  
Jefferson County Drainage District #3  
Jefferson County Drainage District #6  
Jefferson County Drainage District #7  
Jefferson County Water Control and Improvement District #10  
Jim Hogg County  
Jim Hogg County Appraisal District  
Jim Hogg County Emergency Services District #1  
Jim Hogg County Water Control and Improvement District #2  
Jim Wells County  
Johnson County  
Jonah Water Special Utility District  
Jones County  
Jones County Appraisal District

### K

Karnes County  
Karnes County Appraisal District  
Karnes County Hospital District  
Kaufman County  
Kaufman County Appraisal District  
Kendall Appraisal District  
Kendall County  
Kendall County Water Control and Improvement District #1  
Kenedy County  
Kenedy County Central Appraisal District  
Kenedy County Fire & Emergency Services District No. 1  
Kent County  
Kent County Tax Appraisal District  
Kerr County  
Kerr County Soil and Water Conservation District  
Kerr Emergency 9-1-1 Network  
Kimble County  
King County  
King County Appraisal District  
Kinney County  
Kinney County Appraisal District  
Kleberg County  
Knox County

### L

La Salle County  
La Salle County Appraisal District  
Laguna Madre Water District - Cameron County  
Lake Cities Municipal Utility Authority  
Lake Fork Special Utility District  
Lake Kiowa Special Utility District  
Lakeway Municipal Utility District - Travis County  
Lamar County  
Lamar County Appraisal District  
Lamb County

Lampasas Central Appraisal District  
Lampasas County  
Lavaca County  
Lavaca-Navidad River Authority - Jackson County  
Lee Central Appraisal District  
Lee County  
Leon County  
Leon County Central Appraisal District  
Liberty County  
Liberty County Central Appraisal District  
Limestone County  
Limestone County Appraisal District  
Lipscomb County  
Live Oak County  
Live Oak County Appraisal District  
Llano Central Appraisal District  
Llano County  
Loving County  
Loving County Appraisal District  
Lower Trinity Groundwater Conservation District  
Lower Valley Water District  
Lubbock Central Appraisal District  
Lubbock County  
Lubbock County Water Control and Improvement District #1  
Lubbock Emergency Communication District  
Lubbock Reese Redevelopment Authority  
Lumberton Municipal Utility District  
Lynn County  
Lynn County Appraisal District  
Lynn County Hospital District

### M

Macedonia - Eylau Municipal Utility District - Bowie County  
Mackenzie Municipal Water Authority - Briscoe County  
Madison County  
Madison County Appraisal District  
Marion County  
Marion County Appraisal District  
Marion-Cass Soil and Water Conservation District  
Marshall-Harrison County Health District  
Martin County  
Martin County Appraisal District  
Mason County  
Mason County Soil & Water Conservation District #223  
Matagorda County  
Matagorda County Appraisal District  
Matagorda County Drainage District  
Matagorda County Hospital District  
Matagorda County Navigation District #1  
Maverick County  
Maverick County Hospital District  
Maverick County Water Control and Improvement District #1  
McCamey County Hospital District  
McCulloch County  
McCulloch County Appraisal District  
McLennan County  
McLennan County 9-1-1 Emergency Assistance District  
McLennan County Appraisal District



# PARTICIPATING COUNTIES AND DISTRICTS As of Dec. 31, 2020

McLennan County Water Control and Improvement District #2  
 McMullen Central Appraisal District  
 McMullen County  
 Medical Arts Hospital - Dawson County  
 Medina County  
 Medina County 911 District  
 Medina County Appraisal District  
 Memorial Medical Center - Calhoun County  
 Menard County  
 Menard County Hospital District  
 Menard County Underground Water District  
 Mesa Underground Water Conservation District  
 Middle Rio Grande Development Council  
 Midland Central Appraisal District  
 Midland County  
 Midland Emergency Communication District  
 Milam Appraisal District  
 Milam County  
 Mills Central Appraisal District  
 Mills County  
 Mitchell County  
 Mitchell County Appraisal District  
 Monahans Housing Authority  
 Montague County  
 Montague County Tax Appraisal District  
 Montgomery Central Appraisal District  
 Montgomery County  
 Montgomery County Emergency Communication District  
 Montgomery County Emergency Service District No. 3  
 Montgomery County Emergency Services District #4  
 Montgomery County Emergency Services District 7  
 Montgomery County Emergency Services District #8  
 Montgomery County Emergency Services District 9  
 Montgomery County Emergency Services District No. 10  
 Montgomery County ESD 1  
 Montgomery County Hospital District  
 Montgomery County Housing Authority  
 Moore County  
 Moore County Appraisal District  
 Moore County Hospital District  
 Morris County  
 Morris County Appraisal District  
 Mustang Special Utility District

## N

Nacogdoches County  
 Navarro Central Appraisal District  
 Navarro County  
 Newton Central Appraisal District  
 Newton County  
 Nolan County  
 Nortex Regional Planning Commission  
 North Blanco County Emergency Services District No. 1  
 North Central Texas Municipal Water Authority  
 North East Texas Regional Mobility Authority  
 North Hunt Special Utility District

North Plains Groundwater Conservation District  
 North Texas Emergency Communication Center  
 North Texas Tollway Authority  
 Northeast Gaines County Emergency Services District #1  
 Northeast Texas Municipal Water District  
 Northeast Texas Public Health District  
 Northern Trinity Groundwater Conservation District  
 Nueces County  
 Nueces County Appraisal District  
 Nueces County Drainage District #2  
 Nueces County Emergency Services District #2  
 Nueces County Water Control and Improvement District #3  
 Nueces County Water Control and Improvement District #4

## O

Ochiltree County  
 Ochiltree County Appraisal District  
 Oldham County  
 Oldham County Appraisal District  
 Orange County  
 Orange County Appraisal District  
 Orange County Drainage District  
 Orange County Emergency Services District #1  
 Orange County Emergency Services District #2  
 Orange County Navigation and Port District  
 Orange County Water Control and Improvement District #1

## P

Palo Duro Water District  
 Palo Pinto Appraisal District  
 Palo Pinto County  
 Panola County  
 Parker County  
 Parker County Appraisal District  
 Parker County Emergency Services District No. 1  
 Parker County Hospital District  
 Parker County Special Utility District  
 Parmer County  
 Parmer County Appraisal District  
 Pecan Valley Groundwater Conservation District  
 Pecos County  
 Pecos County Appraisal District  
 Pecos County Water Control & Improvement District #1  
 Permian Basin Regional Planning Commission  
 Permian Regional Medical Center  
 Pineywoods Groundwater Conservation District  
 Polk Central Appraisal District  
 Polk County  
 Polk County Fresh Water Supply District #2  
 Port of Bay City Authority  
 Port of Beaumont Navigation District  
 Port of Corpus Christi Authority  
 Port of Port Arthur Navigation District  
 Post Oak Savannah Groundwater Conservation District

Potter County  
 Potter-Randall County Emergency Communication District  
 Prairielands Groundwater Conservation District  
 Presidio Appraisal District  
 Presidio County

## R

Rains County  
 Rains County Appraisal District  
 Randall County  
 Randall County Appraisal District  
 Rankin County Hospital District - Upton County  
 Rayburn Country Municipal Utility District  
 Reagan County  
 Reagan Hospital District  
 Real County  
 Real County Appraisal District  
 Red Bluff Water Power Control District - Reeves County  
 Red River Appraisal District  
 Red River Authority  
 Red River County  
 Red River County Soil and Water Conservation District  
 Reeves County  
 Reeves County Appraisal District  
 Reeves County Emergency Service District No. 1  
 Reeves County Emergency Service District No. 2  
 Reeves County Hospital District  
 Refugio County  
 Refugio County Drainage District #1  
 Rio Grande Council of Governments  
 Riverside Special Utility District  
 Roberts County  
 Robertson County  
 Robertson County Appraisal District  
 Robertson County Emergency Services District  
 Rockwall Central Appraisal District  
 Rockwall County  
 Runnels County  
 Rusk County  
 Rusk County Appraisal District  
 Rusk County Groundwater Conservation District

## S

Sabine County  
 Sabine County Appraisal District  
 Sabine Pass Port Authority  
 Sabine-Neches Navigation District of Jefferson County Texas  
 San Augustine County  
 San Jacinto County  
 San Jacinto County Central Appraisal District  
 San Jacinto County Emergency Services District  
 San Marcos Housing Authority  
 San Patricio County  
 San Patricio County Appraisal District  
 San Patricio County Drainage District  
 San Patricio County Navigation District #1  
 San Patricio Municipal Water District



## PARTICIPATING COUNTIES AND DISTRICTS As of Dec. 31, 2020

San Saba County  
 Santo Special Utility District  
 Schleicher County  
 Scurry County  
 Scurry County Appraisal District  
 Scurry County Hospital District  
 Seis Lagos Utility District  
 Shackelford County  
 Shackelford County Appraisal District  
 Shelby County  
 Shelby County Appraisal District  
 Sherman County  
 Sherman County Appraisal District  
 Smith County  
 Smith County 9-1-1 Communications District  
 Smith County Appraisal District  
 Smith County Emergency Services District #2  
 Somervell County  
 Somervell County Central Appraisal District  
 Somervell County Water District  
 South Plains Association of Governments  
 South Rains Special Utility District  
 South Texas Development Council  
 Southeast Texas Groundwater Conservation District  
 STAR Transit  
 Starr County  
 Starr County Appraisal District  
 Stephens County  
 Stephens County Tax Appraisal District  
 Sterling County  
 Sterling County Appraisal District  
 Stonewall County  
 Stonewall County Appraisal District  
 Stonewall Memorial Hospital District  
 Stratford Hospital District - Sherman County  
 Sutton County  
 Sutton County Hospital District  
 Swisher County  
 Swisher County Appraisal District

### T

Talty Special Utility District  
 Tarrant Appraisal District  
 Tarrant County  
 Tarrant Co. 9-1-1 Emergency Assistance District  
 Tax Appraisal District of Cottle County  
 Taylor County  
 Terrell County  
 Terrell County Water Control & Improvement District #1  
 Terry County  
 Terry Memorial Hospital District  
 Texas Association of Counties  
 Texas County & District Retirement System  
 Texas Eastern 9-1-1 Network  
 The City of Quanah Housing Authority  
 The Housing Authority of the City of Abilene  
 The Housing Authority of the City of Huntington  
 The Housing Authority of the City of Pharr Texas  
 The Housing Authority of the County of Hidalgo Texas  
 Throckmorton Central Appraisal District

Throckmorton County  
 Titus County  
 Titus County Appraisal District  
 Titus County Fresh Water Supply District  
 Tom Green County  
 Travis Central Appraisal District  
 Travis County  
 Travis County Emergency Services District #1  
 Travis County Emergency Services District #2  
 Travis County Emergency Services District #5  
 Travis County Emergency Services District 12  
 Travis County Emergency Services District No. 11  
 Tri-County Special Utility District  
 Trinity Bay Conservation District  
 Trinity County  
 Trinity County Appraisal District  
 Trinity Glen Rose Groundwater Conservation District  
 Trophy Club Municipal Utility District No. 1  
 Two Way Special Utility District  
 Tyler County  
 Tyler County Appraisal District

### U

United Irrigation District - Hidalgo County  
 Upper Brushy Creek Water Control and Improvement District  
 Upper Leon River Municipal Water District  
 Upper Sabine Valley Solid Waste Management District  
 Upper Trinity Groundwater Conservation District  
 Upshur County  
 Upton County  
 Upton County Appraisal District  
 Uvalde County  
 Uvalde County Appraisal District

### V

Val Verde County  
 Valley Municipal Utility District #2 - Cameron County  
 Valwood Improvement Authority - Dallas County  
 Van Zandt County  
 Van Zandt County Appraisal District  
 Velasco Drainage District - Brazoria County  
 Victoria County  
 Victoria County Drainage District #3  
 Victoria County Groundwater Conservation District

### W

Walker County  
 Walker County Appraisal District  
 Walker County Emergency Service District #2  
 Walker County Special Utility District  
 Waller County  
 Waller County Appraisal District  
 Ward County  
 Ward County Central Appraisal District  
 Ward Memorial Hospital  
 Washington County  
 Webb County  
 Webb County Appraisal District  
 West Central Texas Council of Governments

West Central Texas Municipal Water District  
 West Jefferson County Municipal Water District  
 West Nueces-Las Moras Soil and Water Conservation District #236  
 West Travis County Public Utility Agency  
 Wharton County  
 Wharton County Central Appraisal District  
 Wharton County Water Control and Improvement District #1  
 Wharton County Water Control and Improvement District No. 2  
 Wheeler County  
 Wheeler County Appraisal District  
 White River Municipal Water District - Dickens County  
 Wichita Appraisal District  
 Wichita County  
 Wichita County Water Improvement District #2  
 Wichita-Wilbarger 9-1-1 District  
 Wickson Creek Special Utility District - Brazos County  
 Wilbarger County  
 Wilbarger County Appraisal District  
 Wilbarger County Hospital District  
 Willacy County  
 Willacy County Appraisal District  
 Willacy County Housing Authority  
 Williamson Central Appraisal District  
 Williamson County  
 Williamson County Emergency Services District #3  
 Williamson County Emergency Services District #5  
 Williamson County Emergency Services District #7  
 Williamson County Emergency Services District No. 4  
 Wilson County  
 Wilson County Appraisal District  
 Wilson County Emergency Services District #1  
 Wilson County Emergency Services District #3  
 Winkler County  
 Winkler County Appraisal District  
 Winkler County Hospital District  
 Wintergarden Groundwater Conservation District  
 Wise County  
 Wise County Appraisal District  
 Wood County  
 Wood County Appraisal District  
 Woodbine Special Utility District  
 Wylie Northeast Special Utility District

### Y

Yoakum County  
 Yoakum County Appraisal District  
 Young County

### Z

Zapata County  
 Zapata County Appraisal District  
 Zapata Soil and Water Conservation District  
 Zavala County  
 Zavala County Appraisal District





**Financial**

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# Powering Texas

In 2020, TCDRS paid \$1.8 billion in total benefits to retirees and former members, and 96% of that money stayed in Texas. This means TCDRS benefits supported \$2.5 billion in total economic activity, added to the Texas GDP and created thousands of jobs.





KPMG LLP  
Suite 1900  
111 Congress Avenue  
Austin, TX 78701-4091

## Independent Auditors' Report

The Board of Trustees  
Texas County & District Retirement System:

We have audited the accompanying financial statements of the Texas County & District Retirement System (TCDRS), which comprise the statements of fiduciary net position as of December 31, 2020 and 2019, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise TCDRS' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Texas County & District Retirement System as of December 31, 2020 and 2019, and the changes in its fiduciary net position for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the Schedule of Money-Weighted Rates of Return on pages 22-25 and 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively compromise the TCDRS basic financial statements. The Introductory Section on pages 1-18; Other Supplementary Information – Changes in Fiduciary Net Position by Fund and Interfund Transfers, Changes in Endowment Fund, Changes in Income Fund, Administrative Revenues and Expenses, Investment Expenses, and Professional and Consulting Services on pages 46-52; the Investment Section on pages 53-62; the Actuarial Section on pages 63-80; and the Statistical Section on pages 81-92 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information – Changes in Fiduciary Net Position by Fund and Interfund Transfers, Changes in Endowment Fund, Changes in Income Fund, Administrative Revenues and Expenses, Investment Expenses, and Professional and Consulting Services is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information – Changes in Fiduciary Net Position by Fund and Interfund Transfers, Changes in Endowment Fund, Changes in Income Fund, Administrative Revenues and Expenses, Investment Expenses, and Professional and Consulting Services is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section, the Investment Section, the Actuarial Section, and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**KPMG LLP**

Austin, Texas  
June 4, 2021

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

This section provides an overview and analysis of the system's financial position and performance, focusing on the current year's results, changes in those results (including three-year trends), and other currently known information. Readers are encouraged to consider this information in conjunction with information provided in other areas of the Financial Section, as well as information presented in the Letter of Transmittal in the Introductory Section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of the Statements of Fiduciary Net Position, Statements of Changes in Fiduciary Net Position and the Notes to the Financial Statements. Required Supplementary Information and Other Supplementary Information are also presented.

- The Statements of Fiduciary Net Position report the assets less liabilities and the resulting net position restricted for pension or insurance benefits at the end of 2020, compared to 2019.
- The Statements of Changes in Fiduciary Net Position report the transactions that occurred during 2020 and 2019 for which additions less deductions equal the net increase or decrease in fiduciary net position.
- Notes to the Financial Statements include additional information not readily evident in the statements themselves. The notes are considered essential to a full understanding of the information provided in the financial statements.
- Required Supplementary Information provides the money-weighted rate of return information.
- Other Supplementary Information provides detailed information, including activity by fund, administrative and investment expenses, and professional and consultant fees and services. These schedules support summary data presented in the basic financial statements.

TCDRS operates two trusts, both of which are accounted for as fiduciary funds. The Pension Trust Fund accounts for and provides retirement, disability and survivor benefits to the employees of participating employers. The Group Term Life Fund (GTLF or Group Term Life) provides a program of group term life insurance for the employees and, if covered, retirees of electing employers. No assets of the Pension Trust Fund may be used to pay any insurance benefit due from the GTLF, nor

may assets of the GTLF be used to pay any benefit due from the Pension Trust Fund. Discussion and analysis is provided separately for each of the two trusts.

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position show financial information for both the Pension Trust Fund and the GTLF.

## FINANCIAL ANALYSIS: PENSION TRUST FUND

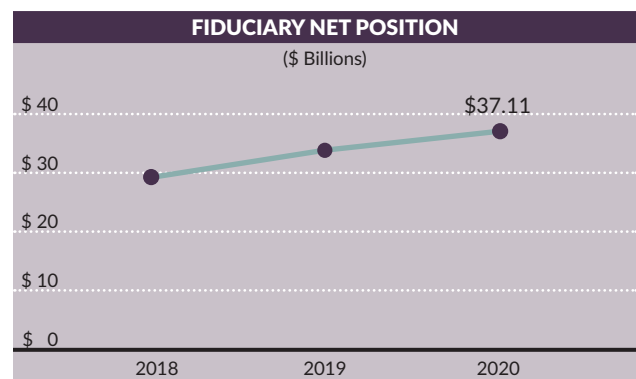
The Pension Trust Fund is comprised of six individual funds, each with a specific operational purpose. Note A in the Notes to the Financial Statements has additional information about each of these funds.

Summary information about fiduciary net position and the changes in fiduciary net position showing comparative detail for 2020, 2019 and 2018 is presented on page 23.

Net position (the amount that assets exceed liabilities) restricted for pensions at year end 2020 totaled \$37.11 billion. The 2019 amount was \$33.83 billion and for 2018 was \$29.26 billion. In 2020, the fiduciary net position increased by \$3.28 billion, in 2019 increased by \$4.57 billion, and in 2018 decreased by \$0.74 billion.

The increase in 2020 fiduciary net position was primarily due to a net investment gain of \$3.50 billion, a 10.5% overall return, net of all fees. Net investment results for 2020 consist of the appreciation in fair value of investments of \$3.38 billion, plus \$155 million in interest and dividends, net income from securities-lending activity of \$2.4 million, less \$44 million of investment activity expenses. Net investment gain in 2019 was \$4.81 billion and in 2018 was a loss of \$559 million.

2020 was a strong year for investment markets with most major asset classes increasing in value. The





## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY INFORMATION ABOUT FIDUCIARY NET POSITION

	Pension Trust Fund (\$ Millions)							
	Dec. 31,			2020 - 2019		2019 - 2018		
	2020	2019	2018	\$ Change	% Change	\$ Change	% Change	
<b>Assets</b>								
Investments, at Fair Value	\$ 37,004	\$ 33,733	\$ 29,156	\$ 3,271	9.7%	\$ 4,577	15.7%	
Invested Securities-Lending Collateral	303	438	349	(135)	(30.8)	89	25.5	
Receivables, Cash and Cash Equivalents, Other	166	159	156	7	4.4	3	1.9	
Capital Assets, Net	16	17	21	(1)	(5.9)	(4)	(19.0)	
<b>Total Assets</b>	<b>37,489</b>	<b>34,347</b>	<b>29,682</b>	<b>3,142</b>	<b>9.2</b>	<b>4,665</b>	<b>15.7</b>	
<b>Liabilities</b>								
Securities-Lending Collateral	303	438	349	(135)	(30.8)	89	25.5	
Other Liabilities	78	75	72	3	4.0	3	4.2	
<b>Total Liabilities</b>	<b>381</b>	<b>513</b>	<b>421</b>	<b>(132)</b>	<b>(25.7)</b>	<b>92</b>	<b>21.9</b>	
<b>Net Position Restricted for Benefits</b>	<b>\$ 37,108</b>	<b>\$ 33,834</b>	<b>\$ 29,261</b>	<b>\$ 3,274</b>	<b>9.7%</b>	<b>\$ 4,573</b>	<b>15.6%</b>	

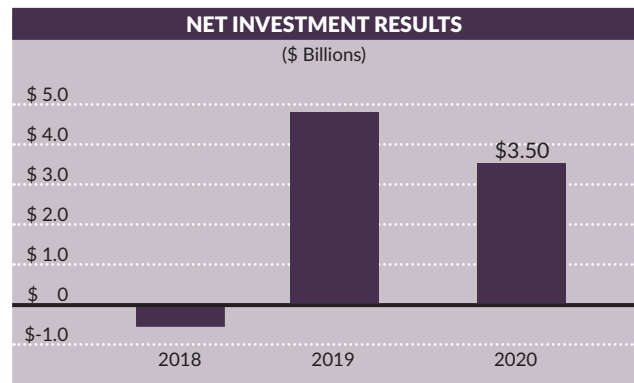
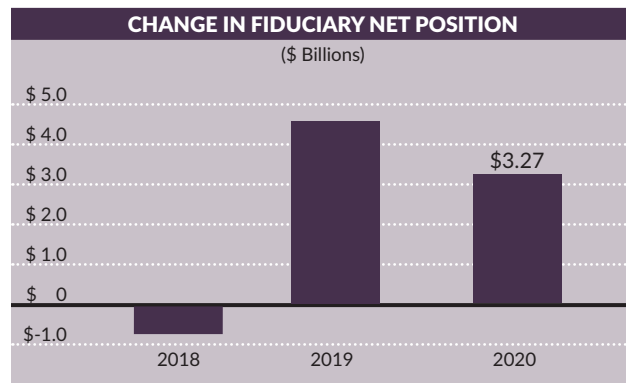
Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

### SUMMARY INFORMATION ABOUT CHANGES IN FIDUCIARY NET POSITION

	Pension Trust Fund (\$ Millions)							
	Dec. 31,			2020 - 2019		2019 - 2018		
	2020	2019	2018	\$ Change	% Change	\$ Change	% Change	
<b>Additions</b>								
Employee Deposits	\$ 536	\$ 498	\$ 470	\$ 38	7.6%	\$ 28	6.0%	
Employer Contributions	1,034	939	870	95	10.1	69	7.9	
Net Investment Results	3,497	4,807	(559)	(1,310)	(27.3)	5,366	(959.9)	
Other Income	2	2	2	0	0.0	0	0.0	
<b>Total Additions</b>	<b>5,069</b>	<b>6,246</b>	<b>783</b>	<b>(1,177)</b>	<b>(18.8)</b>	<b>5,463</b>	<b>696.7</b>	
<b>Deductions</b>								
Benefits Paid	1,678	1,551	1,409	127	8.2	142	10.1	
Withdrawals	85	92	86	(7)	(7.6)	6	7.0	
Administrative Expenses	27	26	23	1	3.8	3	13.0	
Other Expenses	5	5	4	0	0.0	1	25.0	
<b>Total Deductions</b>	<b>1,795</b>	<b>1,674</b>	<b>1,522</b>	<b>121</b>	<b>7.2</b>	<b>152</b>	<b>10.0</b>	
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	<b>3,274</b>	<b>4,572</b>	<b>(739)</b>	<b>(1,298)</b>	<b>(28.4)</b>	<b>5,311</b>	<b>(718.7)</b>	
<b>Net Position Restricted for Benefits</b>	<b>\$ 37,108</b>	<b>\$ 33,834</b>	<b>\$ 29,261</b>	<b>\$ 3,274</b>	<b>9.7%</b>	<b>\$ 4,573</b>	<b>15.6%</b>	

Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

## MANAGEMENT'S DISCUSSION AND ANALYSIS



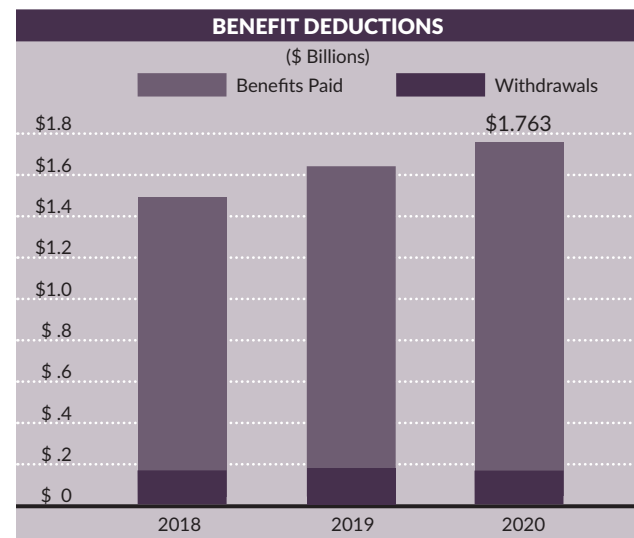
global pandemic caused equity markets to initially fall in the first half of the year. However, with the combination of both fiscal and monetary stimulus from governments across the globe, interest rates fell, which drove equities higher in the second half of 2020. Bond returns were also positive, benefiting from lower interest rates. The results from investing activities for all asset classes, net of all fees, are presented on page 57.

Additions to fiduciary net position in 2020 included \$536 million in employee deposits and \$1.03 billion in employer contributions. Employee deposits increased \$38 million and employer contributions rose \$95 million over 2019 amounts. In 2019, employee deposits increased by \$28 million and employer contributions rose by \$69 million. Together, employee deposits and employer contributions increased during 2020 by 9.3% and in 2019 by 7.2% over the previous year's amounts, primarily due to growth in covered payroll.

Deductions for benefits paid and withdrawals for 2020 were \$1.76 billion, a 7.3% increase over the previous year. These deductions for 2019 were \$1.64 billion, a 9.9% increase over 2018, and in 2018, these deductions were \$1.50 billion, an 8.4% increase over 2017. Higher deductions in 2020 and 2019 were due to several factors, including increases in the number of retiree and beneficiary accounts in 2020 (a 5.3% increase) and in 2019 (a 5.1% increase) along with higher average benefits. Withdrawals decreased by \$7 million in 2020 and increased by \$6 million in 2019.

### OTHER CURRENTLY KNOWN INFORMATION: PENSION TRUST FUND

TCDRS' investment return for 2020 was 10.5% net of fees, underperforming its benchmark return of 12.4% by 1.9%.



### FINANCIAL ANALYSIS: GROUP TERM LIFE FUND (GTLF)

The GTLF provides an optional program of group term life insurance for the employees and, if covered, retirees of electing employers. An actuarial valuation is performed annually to determine employers' premium rates and to maintain adequate funding over the long term. Based on actuarial analysis, the amount of fiduciary net position is expected to be sufficient to cover any adverse experience that may occur.

Summary information about fiduciary net position and the changes in fiduciary net position showing comparative detail for 2020, 2019 and 2018 is presented on page 25.

The net position restricted for insurance benefits at year end 2020 was \$42.6 million, an increase of \$1.2 million (3.0%) over the 2019 amount. The increase is due to an interest allocation of \$2.9 million, along with a \$1.6 million decrease in operating income (lower employer premiums than insurance benefits). For the year ended 2020, employer premiums

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY INFORMATION ABOUT FIDUCIARY NET POSITION

	Group Term Life Fund							
	Dec. 31,			2020 - 2019		2019 - 2018		
	2020	2019	2018	\$ Change	% Change	\$ Change	% Change	
Total Assets	\$ 43,810,954	\$ 42,316,669	\$ 39,458,130	\$ 1,494,285	3.5%	\$ 2,858,539	7.2%	
Total Liabilities	1,191,274	922,073	682,681	269,201	29.2	239,392	35.1	
<b>Net Position Restricted for Benefits</b>	<b>\$ 42,619,680</b>	<b>\$ 41,394,596</b>	<b>\$ 38,775,449</b>	<b>\$ 1,225,084</b>	<b>3.0%</b>	<b>\$ 2,619,147</b>	<b>6.8%</b>	

### SUMMARY INFORMATION ABOUT CHANGES IN FIDUCIARY NET POSITION

	Group Term Life Fund							
	Dec. 31,			2020 - 2019		2019 - 2018		
	2020	2019	2018	\$ Change	% Change	\$ Change	% Change	
<b>Additions</b>								
Employer Premiums	\$ 4,647,511	\$ 4,357,410	\$ 4,518,735	\$ 290,101	6.7%	\$ (161,325)	(3.6%)	
Income Allocation from Pension Trust Fund	2,856,996	2,715,200	2,527,808	141,796	5.2	187,392	7.4	
<b>Total Additions</b>	<b>7,504,507</b>	<b>7,072,610</b>	<b>7,046,543</b>	<b>431,897</b>	<b>6.1</b>	<b>26,067</b>	<b>0.4</b>	
<b>Deductions</b>								
Insurance Benefits	6,279,423	4,453,463	4,398,477	1,825,960	41.0	54,986	1.3	
<b>Total Deductions</b>	<b>6,279,423</b>	<b>4,453,463</b>	<b>4,398,477</b>	<b>1,825,960</b>	<b>41.0</b>	<b>54,986</b>	<b>1.3</b>	
<b>Net Increase in Fiduciary Net Position</b>	<b>1,225,084</b>	<b>2,619,147</b>	<b>2,648,066</b>	<b>(1,394,063)</b>	<b>(53.2)</b>	<b>(28,919)</b>	<b>(1.1)</b>	
<b>Net Position Restricted for Benefits</b>	<b>\$ 42,619,680</b>	<b>\$ 41,394,596</b>	<b>\$ 38,775,449</b>	<b>\$ 1,225,084</b>	<b>3.0%</b>	<b>\$ 2,619,147</b>	<b>6.8%</b>	

increased \$0.3 million (6.7%), while insurance benefits rose \$1.8 million (41.0%) related to more active members and retirees having claims (up 37.7% and 36.1%, respectively).

At year end 2019, the net position restricted for insurance benefits was \$41.4 million, which was an increase of \$2.6 million (6.8%) over the 2018 amount.

For the year ended 2019, employer premiums decreased \$0.2 million while insurance benefits rose \$0.1 million.

### REQUESTS FOR INFORMATION

This annual report is designed to provide a general overview of TCDRS' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to TCDRS, Finance Division, Barton Oaks Plaza IV, Ste. 500, 901 S. MoPac Expy., Austin, TX 78746.

# BASIC FINANCIAL STATEMENTS

## STATEMENTS OF FIDUCIARY NET POSITION

	Dec. 31, 2020			Dec. 31, 2019		
	Pension Trust Fund	Group Term Life Fund	Total	Pension Trust Fund	Group Term Life Fund	Total
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 23,296,600	\$ —	\$ 23,296,600	\$ 34,594,734	\$ —	\$ 34,594,734
Receivables:						
Contributions	127,847,436	—	127,847,436	103,246,450	—	103,246,450
Investment Interest and Dividends	12,198,321	—	12,198,321	14,784,842	—	14,784,842
Securities-Lending Interest	137,985	—	137,985	325,152	—	325,152
Foreign Currency & Exchange Contracts	4,908	—	4,908	4,533	—	4,533
Employer Premiums	—	271,988	271,988	—	142,264	142,264
Other	233,895	—	233,895	214,050	—	214,050
Total Receivables	140,422,545	271,988	140,694,533	118,575,027	142,264	118,717,291
Prepaid Expenses and Other Assets	2,258,713	—	2,258,713	5,567,941	—	5,567,941
Investments, at Fair Value:						
U.S. Equities	5,238,105,367	—	5,238,105,367	5,039,253,372	—	5,039,253,372
International Equities	5,056,361,309	—	5,056,361,309	5,288,865,462	—	5,288,865,462
Global Equities	1,272,403,121	—	1,272,403,121	884,720,760	—	884,720,760
Hedge Funds	3,473,720,461	—	3,473,720,461	4,776,204,676	—	4,776,204,676
Credit	8,841,421,429	—	8,841,421,429	6,806,624,173	—	6,806,624,173
Private Equity	7,849,596,739	—	7,849,596,739	5,568,217,165	—	5,568,217,165
REITs	1,038,345,623	—	1,038,345,623	840,227,556	—	840,227,556
Master Limited Partnerships	1,001,465,179	—	1,001,465,179	1,328,733,460	—	1,328,733,460
Private Real Estate Partnerships	1,185,948,582	—	1,185,948,582	951,017,320	—	951,017,320
Investment-Grade Bonds	1,059,415,046	—	1,059,415,046	1,781,631,373	—	1,781,631,373
Cash and Cash Equivalents	987,458,437	—	987,458,437	467,064,761	—	467,064,761
Total Investments	37,004,241,293	—	37,004,241,293	33,732,560,078	—	33,732,560,078
Invested Securities-Lending Collateral	302,541,902	—	302,541,902	437,957,863	—	437,957,863
Funds Held by Pension Trust Fund	—	43,538,966	43,538,966	—	42,174,405	42,174,405
Capital Assets, net	15,760,884	—	15,760,884	17,434,616	—	17,434,616
<b>Total Assets</b>	<b>37,488,521,937</b>	<b>43,810,954</b>	<b>37,532,332,891</b>	<b>34,346,690,259</b>	<b>42,316,669</b>	<b>34,389,006,928</b>
<b>LIABILITIES</b>						
Accounts and Investments Payable	34,243,127	—	34,243,127	33,047,462	—	33,047,462
Insurance Benefits Payable	—	1,191,274	1,191,274	—	922,073	922,073
Funds Held for Group Term Life Fund	43,538,966	—	43,538,966	42,174,405	—	42,174,405
Securities-Lending Collateral	302,541,902	—	302,541,902	437,957,863	—	437,957,863
<b>Total Liabilities</b>	<b>380,323,995</b>	<b>1,191,274</b>	<b>381,515,269</b>	<b>513,179,730</b>	<b>922,073</b>	<b>514,101,803</b>
<b>Net Position Restricted for Benefits</b>	<b>\$ 37,108,197,942</b>	<b>\$ 42,619,680</b>	<b>\$ 37,150,817,622</b>	<b>\$ 33,833,510,529</b>	<b>\$ 41,394,596</b>	<b>\$ 33,874,905,125</b>

See accompanying Notes to the Financial Statements.



# BASIC FINANCIAL STATEMENTS

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	Year Ended Dec. 31, 2020			Year Ended Dec. 31, 2019		
	Pension Trust Fund	Group Term Life Fund	Total	Pension Trust Fund	Group Term Life Fund	Total
<b>ADDITIONS</b>						
Contributions and Deposits						
Employee Deposits	\$ 536,458,089	\$ —	\$ 536,458,089	\$ 498,343,448	\$ —	\$ 498,343,448
Employer Contributions	1,034,443,116	—	1,034,443,116	939,026,347	—	939,026,347
Employer Premiums	—	4,647,511	4,647,511	—	4,357,410	4,357,410
<b>Total</b>	<b>1,570,901,205</b>	<b>4,647,511</b>	<b>1,575,548,716</b>	<b>1,437,369,795</b>	<b>4,357,410</b>	<b>1,441,727,205</b>
Investment Income						
<i>From Investment Activities</i>						
Net Appreciation in Fair Value of Investments	3,383,134,445	—	3,383,134,445	4,637,205,521	—	4,637,205,521
Interest and Dividends	154,577,382	—	154,577,382	206,226,774	—	206,226,774
<b>Total Investment Activity Income</b>	<b>3,537,711,827</b>	<b>—</b>	<b>3,537,711,827</b>	<b>4,843,432,295</b>	<b>—</b>	<b>4,843,432,295</b>
Less Investment Activity Expenses	43,515,258	—	43,515,258	39,143,435	—	39,143,435
<b>Net Income from Investment Activities</b>	<b>3,494,196,569</b>	<b>—</b>	<b>3,494,196,569</b>	<b>4,804,288,860</b>	<b>—</b>	<b>4,804,288,860</b>
<i>From Securities-Lending Activities</i>						
Securities-Lending Income	4,525,792	—	4,525,792	14,129,723	—	14,129,723
Less Securities-Lending Expenses:						
Borrower Rebates and Agent Fees	2,124,932	—	2,124,932	11,346,602	—	11,346,602
<b>Net Income from Securities-Lending Activities</b>	<b>2,400,860</b>	<b>—</b>	<b>2,400,860</b>	<b>2,783,121</b>	<b>—</b>	<b>2,783,121</b>
<b>Total Net Investment Income</b>	<b>3,496,597,429</b>	<b>—</b>	<b>3,496,597,429</b>	<b>4,807,071,981</b>	<b>—</b>	<b>4,807,071,981</b>
Building Operations and Miscellaneous Income	1,818,132	—	1,818,132	1,976,896	—	1,976,896
Income Allocation from Pension Trust Fund	—	2,856,996	2,856,996	—	2,715,200	2,715,200
<b>Total Additions</b>	<b>5,069,316,766</b>	<b>7,504,507</b>	<b>5,076,821,273</b>	<b>6,246,418,672</b>	<b>7,072,610</b>	<b>6,253,491,282</b>
<b>DEDUCTIONS</b>						
Benefits Paid	1,678,037,042	—	1,678,037,042	1,551,157,559	—	1,551,157,559
Withdrawals	84,763,643	—	84,763,643	91,784,504	—	91,784,504
Terminating Employers SAF Refunds	838	—	838	37,835	—	37,835
Interest Allocation to Group Term Life Fund	2,856,996	—	2,856,996	2,715,200	—	2,715,200
Insurance Benefits	—	6,279,423	6,279,423	—	4,453,463	4,453,463
Administrative Operations Expenses	26,779,313	—	26,779,313	25,623,203	—	25,623,203
Building Operations Expenses	2,191,521	—	2,191,521	2,136,100	—	2,136,100
<b>Total Deductions</b>	<b>1,794,629,353</b>	<b>6,279,423</b>	<b>1,800,908,776</b>	<b>1,673,454,401</b>	<b>4,453,463</b>	<b>1,677,907,864</b>
<b>Net Increase in Net Position</b>	<b>3,274,687,413</b>	<b>1,225,084</b>	<b>3,275,912,497</b>	<b>4,572,964,271</b>	<b>2,619,147</b>	<b>4,575,583,418</b>
<b>Net Position Restricted for Benefits:</b>						
<b>Beginning of Period, Jan. 1</b>	<b>33,833,510,529</b>	<b>41,394,596</b>	<b>33,874,905,125</b>	<b>29,260,546,258</b>	<b>38,775,449</b>	<b>29,299,321,707</b>
<b>End of Period, Dec. 31</b>	<b>\$37,108,197,942</b>	<b>\$ 42,619,680</b>	<b>\$ 37,150,817,622</b>	<b>\$33,833,510,529</b>	<b>\$ 41,394,596</b>	<b>\$33,874,905,125</b>

See accompanying Notes to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The Texas County & District Retirement System (TCDRS or system) was created in 1967 by the Texas Legislature. The system partners with Texas counties and districts to provide their employees with retirement, disability and survivor benefits. TCDRS is governed by the Texas Legislature and overseen by an independent board of trustees, which is responsible for the administration of the system. TCDRS does not receive state funding. Each plan is funded independently by the county or district, its employees and by investment earnings.

The TCDRS Board of Trustees provides leadership for the system, which serves more than 330,000 TCDRS members and retirees. Our independent, nine-member board is comprised of system members and retirees appointed by the governor and confirmed by the Texas Senate. TCDRS trustees serve staggered six-year terms and have oversight of all system operations, including the annual budget, policy determination, legislative proposals and investment policy. The board appoints an executive director to manage the day-to-day operations of TCDRS and chief investment officer to manage TCDRS investments.

The financial statements of TCDRS have been prepared to conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements report the operations of TCDRS, which consists of two fiduciary funds: the Pension Trust Fund and the Group Term Life Fund (GTLF). The Pension Trust Fund is used to provide retirement, survivor, disability and withdrawal benefits and to pay the operating expenses of the system. The GTLF is used to operate a voluntary program of group term life insurance benefits.

### New Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, Leases, whose objective is to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single

model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement will be implemented for fiscal years beginning after June 15, 2021. Management has determined that the implementation of GASB 87 has no material impact.

### Basis of Accounting

The system's funds are maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of when payment is made. Employee deposits and employer contributions are recognized in the period the employer reports compensation for its employees pursuant to statutory requirements. Benefit payments are recognized when due and payable in accordance with the plans' terms.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The system invests in a diversified portfolio of assets. Investments, in general, are exposed to various risks, such as interest rate, credit and market volatility. It is possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

### Basis of Presentation

TCDRS maintains separate funds and accounts in accordance with the TCDRS Act. This is done to help ensure observance of limitations and restrictions on the use of resources available to TCDRS.

In the Pension Trust Fund, the assets of all employer plans are pooled for investment purposes. However, each employer's plan is accounted for separately, so that each employer's assets are used only for the funding of its individual plan.

## NOTES TO THE FINANCIAL STATEMENTS

The costs of administering TCDRS are paid from investment earnings and general reserves of the pooled assets of all plans.

The TCDRS Act requires that all assets of the retirement system be credited to one of the following funds and accounts, according to the purpose for which they are held:

### **Employees Saving Fund**

The Employees Saving Fund (ESF) contains an account for each member. Each account is increased as a member makes deposits and earns interest. Accounts are reduced due to withdrawals and retirement transfers.

### **Subdivision Accumulation Fund**

The Subdivision Accumulation Fund (SAF) receives employer contributions and contains an account for each participating employer to fund retirement benefits. An account is increased as an employer makes contributions and by transfers from members' ESF accounts at retirement. An account is decreased as employers pay benefits. Annually, the board decides on the income allocation to each employer's account based on investment earnings and the employer's plan assets. Employer accounts increase if there is a positive allocation of earnings; accounts decrease if there is a negative allocation.

### **Closed Subdivision Annuity Reserve Fund**

The Closed Subdivision Annuity Reserve Fund (CSARF) is used to pay benefits to retirees of terminated plans. When a member retires from an employer that is terminated, amounts are transferred from the member's account to the CSARF to fund the member's retirement annuity.

### **Endowment Fund**

The Endowment Fund contains accounts that hold the general reserves of the system, inactive accounts from the ESF and reserves to transfer to the Expense Fund for subsequent year operating expenses. Refer to the schedule of Changes in Endowment Fund on page 48.

General reserves are maintained in the Endowment Fund and have been used to keep rates stable and to help offset future adverse experience. The Endowment Fund may increase or decrease based on income allocation decisions by the board of trustees.

### **Income Fund**

All investment income is credited to the Income

Fund. It accounts for investment earnings and expenses, and annual allocations to other funds. The fund is reduced by investment expenses and by the statutory allocation of interest to the ESF, CSARF and GTLF. In addition, the board makes an allocation to the SAF.

If any excess exists after all allocations are made, the remainder is transferred to the Endowment Fund. Refer to the Changes in Income Fund schedule on page 49 for additional information.

### **Expense Fund**

TCDRS pays administrative and investment operating expenses from this fund. As mentioned in the Endowment Fund and the Income Fund, operating expenses are financed from general reserves at the beginning of the year, and the Income Fund finances the investment expenses.

The Group Term Life Fund reports the net position available to pay insurance benefits for covered participants. Premiums paid by employers and an annual income allocation are added to the fund, while insurance benefits are paid from the fund.

### **Investments**

Investments consist of a diversified portfolio, including equities, hedge funds, credit investments, private equity, real assets and investment-grade bonds along with cash and cash equivalents. The portfolio is further diversified within each of the asset classes.

Investment purchases and sales are recorded as of their trade dates. Separately managed fixed income, equity and debt securities are reported at fair value, and are primarily valued using ICE Data Services (formerly known as Interactive Data Corporation). U.S. and international commingled funds, hedge fund investments, real estate funds or similar private limited partnership investment vehicles that do not actively trade through established exchange mechanisms are valued by a general or managing partner. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade-date basis.

For the years ended Dec. 31, 2020 and 2019, the annual money-weighted rate of return on investments, net of investment expenses, was 10.42% and 16.58%, respectively. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. In the



## NOTES TO THE FINANCIAL STATEMENTS

Required Supplementary Information is a table of the annual money-weighted rates of return for the 10-year period ended Dec. 31, 2020.

### Capital Assets

Capital assets, which consist of land, building and improvements, software, and equipment and furniture are reported at historical cost and are depreciated on a straight-line basis over the estimated useful lives. TCDRS has elected to capitalize items that individually exceed \$5,000 and have a useful life of greater than one year. The estimated useful lives for building and improvements range from 5 to 40 years, for furniture, fixtures and equipment 3 to 10 years, and for leasehold improvements 3 to 40 years.

### B: PLAN DESCRIPTION

#### Pension Trust Fund

TCDRS is a statewide, agent multiple-employer, public-employee retirement system. The system serves over 800 participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the governing body of each employer, within the options available in the TCDRS Act. Employers have the flexibility and local control to adjust benefits annually and pay for those benefits based on their needs and budgets.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan. Membership in TCDRS as of Dec. 31, 2020 and 2019 is summarized in Table 1 on page 31.

#### Benefits

A percentage of each employee's paycheck is deposited into his or her TCDRS account.

That percentage (from 4% to 7%) is set by the employer.

The employee's savings grow, by law, at a rate of 7%, compounded annually. The employer selects

a matching rate — at least “dollar for dollar,” up to \$2.50 per \$1.00 in the employee's account. At retirement, the employee's account balance is combined with employer matching and converted into a lifetime monthly benefit.

Employees receive a month of service time for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older. Employers may choose 5-, 8- or 10-year vesting. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the employer:

- **“Rule of” eligibility:** Under these rules, a vested employee can retire if their age plus years of service time add up to at least 75 or 80.
- **20-year or 30-year retirement at any age:** This lets employees retire when they have at least 20 or 30 years of service time.

Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options, which are detailed on page 75.

Employers may elect to provide other optional benefits. Prior service gives employees monetary credit for time worked for an organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer. Partial lump-sum payments at retirement allow employees to withdraw part or all of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit.

In addition, an employer may choose to adopt a cost-of-living adjustment (COLA) for its retirees. This adjusts retiree benefits to restore purchasing power lost due to the effects of inflation.

#### Contributions

A combination of three elements funds each employer's plan: employee deposits, employer contributions and investment income.

- The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body.
- Participating employers are required, by law, to contribute at a minimum the actuarially required rates, which are determined annually.
- Investment income funds a large part of the benefits employees earn.

## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 1: MEMBERSHIP**

Dec. 31,

<b>Pension Trust Fund:</b>	<b>2020</b>	<b>2019</b>
Retirees and Beneficiaries		
Currently Receiving Benefits	<b>74,615</b>	<b>70,852</b>
Inactive Plan Members Entitled to But Not Yet Receiving Benefits:		
Vested Accounts	26,885	25,723
Nonvested Accounts	85,901	81,224
<b>Total</b>	<b>112,786</b>	<b>106,947</b>
Active Plan Members:		
Vested Accounts	66,675	66,526
Nonvested Accounts	76,047	75,739
<b>Total</b>	<b>142,722</b>	<b>142,265</b>
Number of Plans:		
Counties	253	253
Districts	564	545
Inactive Plan	1	1
<b>Total</b>	<b>818</b>	<b>799</b>
<b>Group Term Life Fund:</b>		
Retirees	<b>9,080</b>	<b>8,685</b>
Terminated Employees:		
Vested	<b>7,877</b>	<b>7,458</b>
Current Employees:		
Vested	16,766	16,698
Nonvested	19,314	19,277
<b>Total</b>	<b>36,080</b>	<b>35,975</b>
Number of Plans:		
Counties	127	127
Districts	230	209
<b>Total</b>	<b>357</b>	<b>336</b>

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employers “pre-fund” benefit increases, such as a cost-of-living adjustment to retirees, and they can be used to help offset or mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions: (a) paying an elected contribution rate that is higher than the required rate and (b) making an additional elective contribution as a lump sum.

Administrative costs of TCDRS are financed through the system’s general reserves, which are part of the Endowment Fund.

### Group Term Life Fund (GTLF)

TCDRS also administers the Group Term Life program, a group term life insurance. The fund for this benefit is a separate trust administered by the board. The fund receives monthly premiums from participating employers and pays benefits when due. The obligations of the program are payable only from this fund, and are not an obligation of, or a claim against, the TCDRS Pension Trust Fund. The fund’s assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act and annually receive an allocation of income based on the fund value. The Group Term Life program is voluntary and employers can annually begin, change or cease participation. This program provides group term life insurance coverage to currently employed members, and if elected by employers, to retirees. Participation in the Group Term Life program as of Dec. 31, 2020 and 2019 is summarized in Table 1.

### Benefits

Current employees of participating employers are insured for an amount equivalent to the employee’s current annual compensation. Employers may also optionally choose to cover retirees. Retirees are insured for \$5,000. Life insurance proceeds are payable as a lump sum. The coverage provided to retirees is a postemployment benefit other than pension benefits (OPEB).

### Contributions

Each participating employer contributes to the Group Term Life program at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is equal to the cost of providing one-year term life insurance. The premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. Contributions are not intended to pre-fund retiree term life insurance during employees’ careers.

# NOTES TO THE FINANCIAL STATEMENTS

## C: TCDRS AS EMPLOYER

### Pension Trust Fund

TCDRS, as an employer, participates in the Texas County & District Retirement System. A brief description of benefit terms:

1. All full- and part-time employees in a non-temporary position participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
2. The plan provides retirement, disability and survivor benefits.
3. TCDRS is a savings-based plan. For TCDRS, as an employer, 7% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on the beginning of year balances annually. At retirement, the account is matched at an employer-set percentage (current match is 200%) and is then converted to an annuity.
4. There are no automatic COLAs. Each year, TCDRS, as an employer, may elect an ad hoc COLA for its retirees. There are two COLA types, each limited by actual inflation.
5. Benefit terms are established under the TCDRS Act. They may be amended effective Jan. 1 each year within parameters set forth in the Act.

TCDRS, as an employer, has a contribution rate that is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. Contributions to the pension plan from TCDRS, as an employer, for 2020, were based on the elected rate of 10.5%, plus a one-time lump-sum amount of \$200,000.

### Group Term Life Fund

TCDRS participates in the Group Term Life program. For a general explanation of the Group Term Life program, turn to page 31. TCDRS provides coverage to current eligible employees and to retired employees.

TCDRS, as an employer, contributes to the Group Term Life program at a contractually required rate.

TCDRS' contributions, as an employer, to the Group Term Life program for the years ended Dec. 31, 2020 and 2019 were \$30,110 and \$31,249, respectively, which equaled the required contributions each year.

### TCDRS Bridge Program Health Reimbursement Arrangement

TCDRS adopted the TCDRS Bridge Program Health Reimbursement Arrangement (Bridge Program) for its employees. The program is open to all former TCDRS employees who meet all three conditions: (a) employed with TCDRS on or after Jan. 1, 2007; (b) accumulated at least 10 years of full-time employment with TCDRS; and (c) an active TCDRS employee on or after attaining age 58½.

The Bridge Program is a self-insured medical expense reimbursement plan that provides a maximum credit of \$550 per month for 60 consecutive months. Coverage begins on the first day of the month immediately after the eligible former employee reaches age 60 or has separated from employment with TCDRS, whichever occurs later.

As of Dec. 31, 2019, the measurement date, the Bridge Program OPEB (other postemployment benefit) liability was \$1,087,880. The plan is unfunded and the discount rate at Dec. 31, 2019, was 2.74% with 130 active members. TCDRS' contributions as an employer pays the benefits under the Bridge Program by reimbursing eligible expenses. For the years ended Dec. 31, 2020 and 2019, benefits paid were \$79,747 and \$79,210, respectively.

### Deferred Compensation

The employees of TCDRS may participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees of TCDRS, permits the deferral of a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or certain unforeseeable emergencies. All compensation deferred under the plan is held by a custodian for the exclusive benefit of participants and beneficiaries.

## D: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of funds on deposit with a financial institution in interest-bearing demand deposit accounts. They are invested on an overnight basis (sweep) in a U.S. dollar-denominated investment under a repurchase agreement. The funds are collateralized at 102% using U.S. Treasury, government or agency securities. Cash held in (1) demand deposit accounts, (2) the overnight sweep, and (3) the JPMorgan U.S. Government Money Market Fund (an open-end institutional money market fund) is available to pay benefits, operational expenses and funds awaiting transfer to investment management.

## NOTES TO THE FINANCIAL STATEMENTS

Custodial credit risk is the risk that in the event of a bank failure, the system's deposits may not be returned to it. A discussion of custodial credit risk pertaining to cash and cash equivalents can be found in Note G, beginning on page 35.

### E: INVESTMENTS

Investment decisions of the board are subject to Section 67, Article XVI of the Texas Constitution, and to the applicable statutory provisions of the Texas Trust Code that provide for a "prudent person" standard of care. Investment authorization is restricted by the investment policy adopted by the board that emphasizes the importance of a long-term investment philosophy with minimization of risk while targeting an attractive risk adjusted return. The board has determined that a diversified portfolio will offer the best opportunity to produce the desired risk adjusted return. Accordingly, the TCDRS investment portfolio includes investments in the following asset classes:

#### Equity Holdings

The system's U.S. equities and a portion of its developed international and emerging market equities are passively managed in commingled index funds designed to replicate the performance of broad market indices. The remaining developed international, emerging market and global equities are actively managed in commingled funds or limited partnerships.

#### Hedge Funds

The vehicles for hedge fund investments are typically commingled vehicles, such as limited partnerships, limited liability companies or offshore corporations. At Dec. 31, 2020, the system's hedge fund portfolio consisted of 19 partnerships with a fair value totaling \$3.5 billion.

#### Credit Investments

The board has divided the credit asset class into three portions.

- The strategic credit portfolio is driven primarily by credit risk and includes a combination of traded non-investment-grade bonds and private credit opportunities. These assets provide potential for high returns and exhibit low correlation to the broader credit markets. As the market environment changes, various credit strategies move in and out of favor. TCDRS alters investment concentration among strategies to optimize the opportunity set for any given market environment.
- Distressed debt partnerships invest in securities of companies whose debt has declined in value because they are experiencing financial stress. Typical holdings are senior and subordinated debt instruments.
- Direct lending partnerships consist of privately originated debt made to small and medium-sized companies or to real estate investors in order to take advantage of dislocations in the capital markets.

Table 2 lists the committed and unfunded capital to private strategic credit, distressed debt and direct lending investments at Dec. 31, 2020. During the first quarter of 2021, TCDRS made additional commitments of \$58 million to strategic credit, \$100 million to distressed debt and \$460 million to direct lending partnerships.

#### Private Equity

TCDRS' private equity investments consist of partnerships that (a) take public companies private in order to improve their operations and then resell them in the future; (b) invest in start-up companies with new ideas or technologies; (c) invest in both traditional and renewable energy discovery and production; and (d) invest in real estate. As of Dec. 31, 2020, TCDRS had committed \$12.5 billion of capital to 278 private equity partnerships.

**TABLE 2: SCHEDULE OF UNFUNDED COMMITMENTS**

Investment Category	Dec. 31, 2020		
	Total Commitment	Unfunded Commitment	Fair Value
Strategic Credit	\$ 4,779,791,764	\$ 385,218,885	\$ 4,296,933,922
Distressed Debt	2,384,517,357	790,610,470	971,188,855
Direct Lending	5,650,850,607	2,443,075,813	3,436,040,627
Private Equity	12,518,818,691	5,103,649,298	7,849,596,739
Private Real Estate	3,510,375,069	1,887,235,516	1,185,948,582
<b>Total Contingent Commitments</b>	<b>\$ 28,844,353,488</b>	<b>\$ 10,609,789,982</b>	<b>\$ 17,739,708,725</b>



## NOTES TO THE FINANCIAL STATEMENTS

Table 2 lists the committed and unfunded capital to private equity investments at Dec. 31, 2020. During the first quarter of 2021, an additional \$177 million has been committed to private equity partnerships.

### Real Assets

- Real estate investment trusts (REITs) are companies that own and operate income-producing real estate, such as commercial office buildings, apartments, malls, warehouses and storage facilities. Under provisions of the U.S. tax law, if REITs pay out most of their income in dividends, they are not required to pay income taxes. Consequently, substantial amounts of income can be received from investing in REITs.
- Private real estate partnerships acquire and operate commercial properties including office buildings, apartments, hotels, malls and residential real estate. Private real estate investments are illiquid and typically have expected holding periods of 10 to 12 years. As reported in Table 2, at Dec. 31, 2020, TCDRS had committed \$3.5 billion to 53 private real estate partnerships. During the first quarter of 2021, an additional \$145 million has been committed to private real estate partnerships.
- Master Limited Partnerships (MLPs) are publicly traded partnership interests authorized by Congress to encourage investment in domestic energy infrastructure. At the entity level, these interests are tax free provided that 90% of their income comes from natural resources such as oil, natural gas, coal, timber and other depletable resources.

### Investment-Grade Bonds

The investment-grade bond portfolio consists of debt instruments issued by the United States Treasury and governmental agencies, asset-backed securities, and corporate bonds that are rated investment grade by the major ratings agencies. Additionally, this portfolio may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock.

The portfolio should exhibit an overall dollar-weighted average quality rating of AA with no investment rated lower than BBB- or equivalent as rated by Standard & Poor's (S&P), Moody's Investor Service or Fitch Investor's Service at the time of purchase or, if not rated, be deemed by the manager to be of similar quality.

### Cash and Cash Equivalents

The TCDRS Board of Trustees may select one or more commercial banks, depository trust companies or

other entities to serve as custodian or custodians of the system's cash, cash equivalents and short-term investments, and may authorize the custodian to invest the cash in such short-term investments as the board determines. TCDRS has authorized its custodian to invest cash, on an overnight basis, in the custodian's Collective Trust Government Short-Term Investment Fund (STIF). The investment objective of the STIF is to provide safety of principal, daily liquidity and competitive returns. The STIF owns high-quality debt instruments (which include U.S. government or U.S. government agencies, repurchase agreements, floating-rate notes, etc.). At Dec. 31, 2020, the dollar-weighted average maturity of the STIF was 47 days with an average current yield of 0.07%.

The investment officer manages cash in the STIF together with new contributions until they are allocated to a portfolio.

### F: SECURITIES LENDING

State statutes and the board's policies permit TCDRS to use its investments to enter into securities-lending transactions – loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The system's custodian, The Bank of New York Mellon Corp. (BNY Mellon), is engaged as the lending agent to lend securities from the system's REITs, MLPs, High-Yield and Investment-Grade Bond portfolios for collateral of a minimum of 102% of the fair value of securities loaned.

Collateral, either cash or U.S. government securities, is initially pledged for the securities on loan and additional collateral is required from the borrower by the close of the next business day if its value falls to less than 100% of the fair value of the securities

**TABLE 3:  
INVESTED SECURITIES-LENDING CASH-COLLATERAL**

Dec. 31,		
Investment Type	2020	2019
Cash and Other Liquid Assets	23,222	1,041,636
Money Funds	5,377,000	0
Asset-Backed Securities	28,945,000	63,635,713
Agencies	188,162,277	364,687,659
Commercial Paper	13,569,083	0
Repurchase Agreements	50,115,320	8,592,855
Certificates of Deposit	16,350,000	0
<b>Total Invested Securities-Lending Collateral</b>	<b>\$ 302,541,902</b>	<b>\$ 437,957,863</b>

## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 4: CREDIT RISK BY QUALITY**

		Dec. 31,							
		Investment-Grade Fixed Income				High-Yield Bonds <sup>1</sup>			
Based on Moody's ratings		2020		2019		2020		2019	
Rating		Fair Value (\$ Millions)	% of Total	Fair Value (\$ Millions)	% of Total	Fair Value (\$ Millions)	% of Total	Fair Value (\$ Millions)	% of Total
Aaa		553.0	52	1,129.9	63	-	0	-	0
Aa		53.4	5	59.3	3	-	0	-	0
A		124.2	12	206.8	12	0.3	less than 1	-	0
Baa		199.7	19	311.4	18	4.8	4	2.6	2
Ba		45.3	4	48.8	3	34.2	25	36.7	28
B		0.1	less than 1	-	0	77.1	56	67.4	52
Less than B		-	0	-	0	18.1	13	10.1	8
Not Rated - Bonds		83.7	8	25.4	1	2.8	2	12.8	10
<b>Total</b>		<b>\$ 1,059.4</b>	<b>100%</b>	<b>\$ 1,781.6</b>	<b>100%</b>	<b>\$ 137.3</b>	<b>100%</b>	<b>\$ 129.6</b>	<b>100%</b>

<sup>1</sup> Included in the fair value of Credit investments reported in Statements of Fiduciary Net Position on page 26.

on loan. TCDRS does not have the ability to pledge or sell securities received as collateral unless the borrower defaults. At Dec. 31, 2020 and 2019, BNY Mellon held \$43,851,037 and \$78,604,368 of non-cash collateral, respectively.

Cash collateral is invested in short-term fixed-income instruments in accordance with the system's securities-lending guidelines. Table 3 lists the categories of cash-collateral investments at Dec. 31, 2020 and 2019.

At the end of years 2020 and 2019, TCDRS had no credit risk exposure to borrowers because the amounts the system owed to borrowers (cash plus non-cash collateral) exceeded the amounts the borrowers owed to TCDRS. The contract with the lending agent requires the agent to indemnify TCDRS if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities on loan) or fail to pay TCDRS for income distributions while the securities are on loan. At Dec. 31, 2020 and 2019, the fair value of securities on loan for cash and non-cash collateral was \$338,695,899 and \$504,324,419, respectively.

Additionally, TCDRS invests in two commingled domestic and international equity portfolios that participate in securities-lending programs managed by State Street Global Advisors. TCDRS receives a proportionate share of the securities-lending income generated from these activities.

### G: DEPOSIT AND INVESTMENT RISK

Identification of credit risk, custodial credit risk, concentration of credit risk, interest rate risk and

foreign currency risk is mandated by GASB Statement No. 40.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At both Dec. 31, 2020 and 2019, according to Standard and Poor's (S&P) evaluations, the investment-grade bond portfolio exhibited an overall quality rating of A+. The Bloomberg Barclays U.S. Aggregate Bond Index is the benchmark for performance measurement of the investment-grade bond portfolio. At both Dec. 31, 2020 and 2019, the Bloomberg Barclays U.S. Aggregate Bond Index had an average S&P quality rating of AA-.

At both Dec. 31, 2020 and 2019, according to S&P evaluations, the high-yield portion of the credit portfolio exhibited an overall quality rating of B+. The FTSE High-Yield Cash-Pay Capped Index is the benchmark for performance measurement of the credit portfolio. At both Dec. 31, 2020 and 2019, according to S&P evaluations, the benchmark exhibited an average quality rating of B+.

The investment policy does not explicitly outline an acceptable level of credit risk for the investment-grade bond or credit portfolios, but the board's adoption of their respective benchmark indices is an implicit adoption of the market risk inherent in these portfolios.

Table 4 lists the credit risk associated with the investment-grade bond portfolio and the high-yield bond portion of the credit investments portfolio.

## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 5: INTEREST RATE RISK – FIXED-INCOME PORTFOLIOS**

Asset Class	2020		2019	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
Investment-Grade Bonds	\$ 1,059,415,046	5.9	\$ 1,781,631,373	5.5
High-Yield Bonds <sup>1</sup>	137,258,024	3.7	129,571,048	3.1

<sup>1</sup> Included in Credit investments reported in the Statements of Fiduciary Net Position on page 26.

At Dec. 31, 2020, according to Moody's Investors Service evaluations, the BNY Mellon STIF contained short-term securities with quality ratings of P-1 (Prime-1), which exhibit a superior ability for repayment of senior short-term debt obligations, and long-term investments (maturity date greater than one year) with an average quality rating of Aaa. Based upon the fair value of the fund at Dec. 31, 2020, 78% of the instruments were rated P-1, 22% of the instruments were rated Aaa and less than 1% was held in cash.

At Dec. 31, 2019, according to Moody's Investors Service evaluations, the BNY Mellon STIF exhibited average short-term quality ratings of P-1 and an average long-term quality rating of Aaa with 56% of the instruments rated P-1, 44% of the instruments rated Aaa and less than 1% was held in cash.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, TCDRS will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. TCDRS requires that demand deposit accounts be fully collateralized. Funds received by its master custodian are invested on an overnight basis or, if the funds are received late during a business day, are maintained in a U.S. dollar-denominated interest-bearing deposit account insured by the FDIC.

TCDRS investments, evidenced by securities in physical or book entry form and not on loan, are registered and held in safekeeping for TCDRS by its custodian bank.

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Investment guidelines established with the individual investment managers generally address concentration risk limits. At Dec. 31, 2020 and 2019, TCDRS did not have investments in any one issuer which were greater than 5% of net investments.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of

an investment. The values of portfolios of longer duration are more affected by interest rate changes than are those of shorter duration. Increases in bond market yields result in fair value losses; decreases result in fair value gains. Multiplying the change in market yield by the duration of the portfolio can approximate the size of the gain or loss in fair value. For example, if one owned a portfolio of investment-grade bonds that had a duration of 6.5 years and if the yields within the bond market were to immediately fall 1%, the fair value gain of the portfolio would approximate 6.5%. This change in fair value indicates the level of interest rate risk inherent in the portfolio.

Table 5 discloses the level of interest rate risk inherent in the TCDRS fixed-income portfolios by reporting the effective duration of those portfolios.

The effective duration of the Bloomberg Barclays U.S. Aggregate Bond Index at Dec. 31, 2020 and 2019 was 6.3 and 5.9 years, respectively.

The high-yield bond portion of the credit portfolio is measured against the FTSE High-Yield Cash-Pay Capped Index. The effective duration of the FTSE High-Yield Cash-Pay Capped Index at Dec. 31, 2020 and 2019 was 3.3 and 3.1 years, respectively.

TCDRS does not have a formal policy governing interest rate risk, but the board's adoption of the respective benchmark indices used to measure the investment-grade bond and credit portfolios against is an implicit adoption of the market risk inherent in these portfolios.

The maturities of the investments made with cash collateral may not match the maturities of securities on loan. Any material interest rate risk on investments from cash collateral received from securities lending is mitigated by maintaining an investment yield higher than the rebate rate owed to borrowers. Further, to reduce risk, investment guidelines require floating-rate instruments to reset no less frequently than 90 days or limit maturity of fixed-rate instruments to no more than 18 months.

## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 6: FOREIGN CURRENCY RISK**

	Dec. 31,							
	REITs / MLPs		Credit Investments		Private Equity & Private Real Estate		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
AUSTRALIAN DOLLAR	1,472	1,661	-	-	-	-	1,472	1,661
BRITISH POUND STERLING	-	-	1,024,399	1,150,972	76,723,150	74,828,174	77,747,549	75,979,146
CANADIAN DOLLAR	1,044,696	62,547,869	-	-	-	-	1,044,696	62,547,869
EURO CURRENCY UNIT	13,400	26,948	134,146,742	82,663,683	747,281,650	517,554,367	881,441,791	600,244,998
NORWEGIAN KRONE	7,085	6,903	-	-	-	-	7,085	6,903
SWISS FRANC	19,500	26,705	-	-	-	-	19,500	26,705
<b>Total subject to currency risk</b>	<b>\$ 1,086,153</b>	<b>\$ 62,610,086</b>	<b>\$ 135,171,141</b>	<b>\$ 83,814,655</b>	<b>\$ 824,004,800</b>	<b>\$ 592,382,541</b>	<b>\$ 960,262,093</b>	<b>\$ 738,807,282</b>

Due to rounding, totals and detail may not equal.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The asset allocation plan adopted in the investment policy includes a 16.5% allocation to international and global equities, a 4% allocation to distressed debt, a 3% allocation to REITs, a 2% allocation to MLPs, an 11% allocation to direct lending, a 6% allocation to private real estate partnerships and a 20% allocation to private equity, all of which allow non-U.S. dollar-denominated investments. TCDRS does not have a formal policy governing foreign currency risk. Accordingly, the foreign currency risks inherent in the benchmark indices assigned to these asset classes have been implicitly adopted as an acceptable level of foreign currency risk.

Table 6 lists the foreign currency risk associated within the REITs, MLPs, credit investments, private equity and private real estate partnerships portfolios.

Additionally, at Dec. 31, 2020 and 2019, the international equity portfolio contained seven commingled funds subject to foreign currency risk with an aggregate fair value of \$5,056,361,309 and \$5,288,865,462, respectively.

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. The investment policy does not explicitly outline the use of derivatives, but investment guidelines allow the investment-grade bond managers the use of exchange-traded treasury futures to replicate cash investments or to manage yield curve or other risk positions within their portfolio. In 2015, the board approved the implementation of a currency overlay program to

the passive developed international equity and emerging market allocations managed by State Street Global Advisors using foreign currency forward contracts which are over-the-counter (OTC) instruments used to hedge volatility in currency exchange rates on assets held within these portfolios. TCDRS' derivative instruments are considered investments and not hedges for accounting purposes. In 2016, the overlay program was suspended but may be re-engaged at a future date.

Table 7, on page 38, lists TCDRS' exposure to derivative instruments at Dec. 31, 2020.

### H: FAIR VALUE MEASUREMENT AND APPLICATION

TCDRS categorizes fair value measurements of investment assets and liabilities within the fair value hierarchy established by generally accepted accounting principles as mandated by GASB Statement No. 72. These investments are valued through industry standard practices for the respective type of security at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy classifications are based on the transparency of inputs to the valuation techniques used and should not be perceived as the particular investment's risk. These classifications are summarized into three broad levels, arranged from highest to lowest:

Level 1 — Unadjusted inputs using quoted prices in active markets or exchanges for identical investments.



## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 7: FUTURES CONTRACTS**

Dec. 31, 2020

Futures Contract	Expiration Date	Contracts	Value Per Point	Price Per Contract	Exposure	Base Notional Cost	Unrealized Gain/(Loss)
US 10Yr Ultra Future	Mar 2021	-163.00	1,000	156.3594	\$(25,486,578)	\$(25,570,554)	\$83,976
US 10Yr Ultra Future	Mar 2021	-152.00	1,000	156.3594	(23,766,625)	(23,842,531)	75,906
US Long Bond Future	Mar 2021	-162.00	1,000	173.1875	(28,056,375)	(28,155,004)	98,629
US Long Bond Future	Mar 2021	-3.00	1,000	173.1875	(519,563)	(521,906)	2,343
US 10Yr Note Future	Mar 2021	230.00	1,000	138.0781	31,757,969	31,765,344	(7,375)
US 10Yr Note Future	Mar 2021	249.00	1,000	138.0781	34,381,453	34,326,433	55,020
US 5Yr Note Future	Mar 2021	-84.00	1,000	126.1641	(10,597,781)	(10,575,537)	(22,244)
US 5Yr Note Future	Mar 2021	52.00	1,000	126.1641	6,560,531	6,543,828	16,703
US 2YR Treasury Note Future	Mar 2021	51.00	2,000	110.4883	11,269,805	11,258,648	11,157
US Ultra Bond Future	Mar 2021	64.00	1,000	213.5625	13,668,000	13,861,500	(193,500)
US Ultra Bond Future	Mar 2021	78.00	1,000	213.5625	16,657,875	16,747,469	(89,594)
<b>Total</b>					<b>\$ 25,868,711</b>	<b>\$ 25,837,690</b>	<b>\$ 31,021</b>

Due to rounding, totals and detail may not equal.

Level 2 – Other significant observable inputs including quoted prices of securities that are comparable in coupon, rating, maturity and industry. Inputs other than quoted prices that are observable take into account operational, market, financial and non-financial factors (interest rates, yield curves, credit risk, and default rates) or other market corroborated inputs that are observable at commonly quoted intervals for the full term of the investment.

Level 3 – Significant inputs that are not observable and cannot be corroborated by observable market data (assumptions, cash flows or earnings multiples).

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The assessment of the significance of particular inputs to their fair value measurements requires judgment and considers factors specific to each asset.

In 2020 and 2019, there were no changes in valuation techniques that had a significant impact on the result.

### Short-Term Securities

Holdings in short-term securities at Dec. 31, 2020 and 2019 consist of a Government Short-Term Investment Fund (STIF) which invests principally or entirely in securities or other obligations issued

by or guaranteed by the U.S. government or its agencies and repurchase agreements collateralized by securities or other obligations issued by or guaranteed by the U.S. government. The value of the fund is reported at cost plus accrued interest which approximates fair value. TCDRS classifies the STIF at level 2 based on the availability of a daily value, traded in an inactive market.

### Equity, Debt and Other Securities

Equity and debt securities classified in level 1 are valued using prices quoted in active markets. Investments classified in level 2 are derived using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Index-linked securities are valued by using multiples of the external market price and the index ratio. Level 3 debt securities at Dec. 31, 2020 and 2019 are impaired assets and are valued using unobservable inputs in inactive markets, such as proprietary information or single source pricing.

Commingled funds are valued daily or monthly through an exchange or provided by the investment manager. Funds where pricing is obtained daily are considered to be in an active market and are listed in level 1, and monthly priced funds are listed in level 2.

### Investments Measured at the Net Asset Value (NAV)

For assets that are measured at the NAV per share (or its equivalent), the non-lagged year-end valuation provided by the fund manager is used. All partnerships provide audited financial statements with unmodified opinions, along with unaudited quarterly reports. In addition, as part of the annual audit, a confirmation is obtained which includes additional information regarding the underlying holdings and TCDRS' ownership percentage of the total limited partnership.

### Commingled Funds

The commingled funds with fair values reported at NAV per share (or its equivalent), such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed, are reported in Tables 8 and 9 disclosures on pages 40–43, along with their redemption restrictions.

### Hedge Funds & Strategic Credit Funds

Most hedge funds and strategic credit funds are organized as limited partnerships under the laws of Delaware and use partnership accounting methodologies. These partnerships may invest their assets directly or through a master fund and may also use a wider range of investment techniques such as leverage, short selling and derivatives to achieve their objectives. The fair value of these investments has been determined using the NAV per share or its equivalent. Due to the inherent uncertainty of valuations of investments that are determined to be illiquid and/or do not have readily ascertainable fair values, the estimates of fair value may differ from the values ultimately realized by the partnership, and those differences can be material. The amount of notice the investor is required to give to the general partner in order to redeem ranges from 30 to 180 days. For hedge funds, investors are generally able to sell their interest in the partnerships at regular intervals ranging from monthly to every two years. Strategic credit funds can be organized using a traditional hedge fund structure, which provides investors regular intervals to sell their interest in the partnership ranging from quarterly to every two years, or organized using a shorter-duration, private-equity structure which allows for a two-year investment period, one-year harvest period, and an optional one- to two-year extension. Certain funds may allow for the creation of "special investments," which are investments the investment manager believes lack a readily ascertainable fair value, are illiquid, or should be held until the resolution of a special event or circumstance.

TCDRS targets 50% of its hedge fund allocation to equity long/short funds in which the equity securities maintain some level of market exposure (either net long or net short); however, the level of exposure may vary through time. TCDRS targets 5% of its hedge fund allocation to a market neutral strategy designed to maintain no net exposure to the overall direction of the equity market. Event-driven funds, which are targeted at 20% of TCDRS' hedge fund allocation, focus on identifying and analyzing securities that can benefit from the occurrence of an extraordinary corporate transaction or event such as mergers, acquisitions, buyouts, stock splits and bankruptcies. Credit/distressed debt funds can come in the form of bonds, mutual funds or the distressed firm itself. This strategy has a low correlation with factors that affect the stock markets. TCDRS reduced its hedge fund target allocation of this strategy to zero. The global macro strategy structures its holdings, such as long and short positions, in order to take advantage of shifts in macroeconomic trends; TCDRS targets 10% of hedge funds to this strategy. The remaining 15% uses a multi-strategy approach, which represents a mix of the other hedge fund strategies.

### Private Equity

Private equity is risk capital provided outside of the public markets. Investments are illiquid and traded only on acquisition or exit. The term private equity is very broad and includes many types of investments. TCDRS targets 50% of its private equity allocation to buyout funds which include investments in acquisitions, growth equity, recovery investments, and special situations (a class which represents a diversified strategy across many sub-classes). Buyouts use leverage (debt), aggressive restructuring and the purchase of large controlling stakes in the portfolio companies. Venture capital includes funds that invest in companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage. TCDRS targets 25% of its private equity allocation to venture capital funds. TCDRS targets 5% of its private equity allocation to real assets. Funds that invest in real assets have a return linked to inflation, such as energy or other commodity-based investments. The remaining allocation to private equity targets non-U.S. investments. These may be buyout, venture capital or real assets.

Fair value for these funds is determined by reference to observable valuation measures for comparable companies or transactions, adjusted for differences between the investment and the

# NOTES TO THE FINANCIAL STATEMENTS

**TABLE 8: INVESTMENTS AND DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE**

Investment Description	Investment Portfolio	Fair Value 12/31/2020	Fair Value Measurements Using		
			Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Short-Term Securities</b>					
Collective US Gov. STIF	Investment-Grade Bonds	\$ 80,299,275	\$ —	\$ 80,299,275	\$ —
	Master Limited Partnerships	6,176,304	—	6,176,304	—
	Credit	1,170,661	—	1,170,661	—
	REITs	8,144,004	—	8,144,004	—
	Cash and Cash Equivalents	832,942,449	—	832,942,449	—
<b>Total Short-Term Securities</b>		<b>928,732,693</b>	<b>—</b>	<b>928,732,693</b>	<b>—</b>
<b>Equity Securities</b>					
Corporate Stock - Preferred	Investment-Grade Bonds	10,661,597	—	10,661,597	—
	Credit	1,188,123	—	1,188,123	—
Corporate Stock - Common	Master Limited Partnerships	996,265,167	996,265,167	—	—
	Credit	75,048,994	74,948,584	—	100,410
	REITs	738,501,310	738,501,310	—	—
Domestic Equity/Commingled	US Equities	5,238,105,367	5,238,105,367	—	—
Internat'l Equity/Commingled Funds	Credit	5,476,867	5,476,867	—	—
	REITs	291,700,309	291,700,309	—	—
	International Equities	4,818,771,025	4,263,913,603	554,857,422	—
<b>Total Equity Securities</b>		<b>12,175,718,759</b>	<b>11,608,911,207</b>	<b>566,707,142</b>	<b>100,410</b>
<b>Debt Securities</b>					
Corp. Debt Instruments	Investment-Grade Bonds	516,165,228	—	516,165,228	—
	Credit	127,197,061	—	125,107,091	2,089,970
Government Non-US	Investment-Grade Bonds	4,876,587	—	4,876,587	—
Municipals	Investment-Grade Bonds	16,049,183	—	16,049,183	—
US Government Securities	Investment-Grade Bonds	484,515,268	—	484,515,268	—
Bond Futures/Swaps	Investment-Grade Bonds	31,022	31,022	—	—
<b>Total Debt Securities</b>		<b>1,148,834,349</b>	<b>31,022</b>	<b>1,146,713,357</b>	<b>2,089,970</b>
<b>Other Investments</b>					
Invested Securities-Lending Collateral		302,541,902	—	302,541,902	—
		302,541,902	—	302,541,902	—
<b>Leveled Assets at Fair Value</b>		<b>\$ 14,555,827,702</b>	<b>\$ 11,608,942,229</b>	<b>\$ 2,944,695,094</b>	<b>\$ 2,190,380</b>
<b>Investments Measured at the Net Asset Value (NAV)</b>					
Internat'l Equity/Commingled Funds	Emerging	237,590,284			
	Global	1,272,403,121			
Private Real Estate Partnerships		1,185,948,582			
Private Equity Partnerships		7,846,903,669			
Hedge Funds		3,473,720,461			
Strategic Credit		4,296,933,922			
Distressed Debt		971,188,855			
Direct Lending		3,363,165,101			
<b>Total Investments Measured at the NAV</b>		<b>22,647,853,995</b>			
Investment-related Cash, Receivables and Payables Not Included Above		103,101,498			
<b>Total Investments and Securities-Lending Collateral Reinvested</b>		<b>\$ 37,306,783,195</b>			

Due to rounding, totals and detail may not equal.

## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 8: LIQUIDITY INFORMATION FOR INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)**

Period		Fair Value 12/31/2020	Unfunded Commitments	Redemption Frequency	Redemption Notice
Internat'l Equity/Commingle Funds	Emerging	\$ 237,590,284		Monthly, Quarterly	15-60 days
	Global	1,272,403,121		Monthly	45 days
Private Real Estate Partnerships		1,185,948,582	\$ 1,887,235,516	Not eligible	
Private Equity Partnerships	Buyout	4,545,864,346	3,337,217,460	Not eligible	
	Venture Capital	2,910,816,747	1,402,916,929	Not eligible	
	Real Assets	390,222,576	373,514,909	Not eligible	
Hedge Funds	Equity Long/Short	1,518,990,053		Monthly, Quarterly, Rolling 1-yr	30-91 days
	Event Driven	441,710,378		Monthly, Quarterly	60-65 days
	Credit/Distressed	395,848,448		Quarterly	60-90 days
	Global Macro	343,513,377		Quarterly	45 days
	Multi-Strategies	480,664,750		Monthly, Quarterly, Semi-annual	45-180 days
	Terminating Funds/In Liquidation	292,993,455			
Strategic Credit		3,971,749,279	170,000,000	Monthly, Quarterly, Annually	60-90 days
Strategic Credit - not eligible for redemption		325,184,643	215,218,885	Not eligible	
Distressed Debt		971,188,855	790,610,470	Not eligible	
Direct Lending		3,363,165,101	2,443,075,813	Not eligible	
Total Investments Measured at the NAV		\$ 22,647,853,995	\$ 10,609,789,982		

Due to rounding, totals and detail may not equal.



# NOTES TO THE FINANCIAL STATEMENTS

**TABLE 9: INVESTMENTS AND DERIVATIVE INSTRUMENTS MEASURED AT FAIR VALUE**

Investment Description	Investment Portfolio	Fair Value Measurements Using			
		Fair Value 12/31/2019	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Short-Term Securities</b>					
Collective US Gov. STIF	Investment-Grade Bonds	\$ 28,911,946	\$ -	\$ 28,911,946	\$ -
	Master Limited Partnerships	50,884,264	-	50,884,264	-
	Credit	2,914,868	-	2,914,868	-
	REITs	1,530,908	-	1,530,908	-
	Cash and Cash Equivalents	467,102,588	-	467,102,588	-
<b>Total Short-Term Securities</b>		<b>551,344,574</b>	<b>-</b>	<b>551,344,574</b>	<b>-</b>
<b>Equity Securities</b>					
Corporate Stock - Preferred	Investment-Grade Bonds	11,177,558	-	11,177,558	-
	Credit	822,746	-	822,746	-
Corporate Stock - Common	Master Limited Partnerships	1,292,471,511	1,292,471,511	-	-
	Credit	1,750,412	1,750,412	-	-
	REITs	519,120,585	519,120,585	-	-
Domestic Equity/Commingled	US Equities	5,039,253,372	5,039,253,372	-	-
Internat'l Equity/Commingled Funds	Credit	5,297,187	-	-	5,297,187
	REITs	312,705,776	312,705,776	-	-
	Hedge Funds	199,700,919	199,700,919	-	-
	International Equities	5,121,381,825	4,677,269,583	444,112,242	-
<b>Total Equity Securities</b>		<b>12,503,681,890</b>	<b>12,042,272,157</b>	<b>456,112,546</b>	<b>5,297,187</b>
<b>Debt Securities</b>					
Corp. Debt Instruments	Investment-Grade Bonds	767,879,811	-	767,850,735	29,077
	Credit	118,941,763	-	118,920,664	21,099
Government Non-US	Investment-Grade Bonds	11,580,181	-	11,580,181	-
Municipals	Investment-Grade Bonds	21,016,380	-	21,016,380	-
US Government Securities	Investment-Grade Bonds	948,957,577	-	948,957,577	-
Bond Futures/Swaps	Investment-Grade Bonds	1,257,457	1,257,457	-	-
<b>Total Debt Securities</b>		<b>1,869,633,170</b>	<b>1,257,457</b>	<b>1,868,325,537</b>	<b>50,176</b>
<b>Other Investments</b>					
Invested Securities-Lending Collateral		437,957,863	-	437,957,863	-
		437,957,863	-	437,957,863	-
<b>Leveled Assets at Fair Value</b>		<b>\$ 15,362,617,496</b>	<b>\$ 12,043,529,614</b>	<b>\$ 3,313,740,519</b>	<b>\$ 5,347,363</b>
<b>Investments Measured at the Net Asset Value (NAV)</b>					
Internat'l Equity/Commingled Funds	Emerging	167,483,637			
	Global	884,720,760			
Private Real Estate Partnerships		951,017,320			
Private Equity Partnerships		5,568,217,165			
Hedge Funds		4,576,503,757			
Strategic Credit		3,772,421,293			
Distressed Debt		478,887,872			
Direct Lending		2,425,743,960			
<b>Total Investments Measured at the NAV</b>		<b>18,824,995,764</b>			
Investment-related Cash, Receivables and Payables Not Included Above		(17,095,319)			
<b>Total Investments and Securities-Lending Collateral Reinvested</b>		<b>\$ 34,170,517,941</b>			

Due to rounding, totals and detail may not equal.

## NOTES TO THE FINANCIAL STATEMENTS

**TABLE 9: LIQUIDITY INFORMATION FOR INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)**

Period		Fair Value 12/31/2019	Unfunded Commitments	Redemption Frequency	Redemption Notice
Internat'l Equity/Commingled Funds	Emerging	\$ 167,483,637		Monthly, Quarterly	15-60 days
	Global	884,720,760		Monthly	45 days
Private Real Estate Partnerships		951,017,320	\$ 1,972,606,520	Not eligible	
Private Equity Partnerships	Buyout	3,103,327,301	3,612,647,784	Not eligible	
	Venture Capital	2,038,638,410	348,276,226	Not eligible	
	Real Assets	426,251,454	250,037,392	Not eligible	
Hedge Funds	Equity Long/Short	1,397,027,152		Monthly, Quarterly, Annually	30-65 days
	Event Driven	732,354,613		Quarterly, Semi-annual, Annually	60-65 days
	Credit/Distressed	1,252,420,496		Quarterly, Annually, Rolling 3-Yr	45-90 days
	Global Macro	682,898,095		Monthly, Quarterly	3-45 days
	Multi-Strategies	502,159,737		Monthly, Quarterly, Semi-annual	45-180 days
	Terminating Funds/In Liquidation	9,643,664			
Strategic Credit		3,499,647,714	272,664,274	Monthly, Quarterly, Annually	60-90 days
Strategic Credit - not eligible for redemption		272,773,579	327,226,037	Not eligible	
Distressed Debt		478,887,872	552,960,278	Not eligible	
Direct Lending		2,425,743,960	1,969,934,748	Not eligible	
Total Investments Measured at the NAV		\$ 18,824,995,764	\$ 9,306,353,259		

Due to rounding, totals and detail may not equal.

## NOTES TO THE FINANCIAL STATEMENTS

referenced comparable, and in some instances by reference to option pricing models or other similar methods. Inputs may include, but are not limited to, significant developments such as meaningful third-party transactions, material progress or slippage in the development of the investee company's business, a change in the cash or debt on a company's balance sheet, dividend accretion on certain types of securities, valuation of comparable publicly traded companies, significant changes in the overall market environment and discounts for lack of marketability.

Private equity investments are illiquid and typically have expected holding periods of 10 to 12 years. These investments are not eligible for redemption. Distributions from each fund are received as the underlying investments in the funds are liquidated.

### **Distressed Debt**

Distressed debt includes investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Gains can be realized by holding the debt until there are some payments by the company at maturity or through distributions of cash, restructured debt or equity resulting from the bankruptcy process. Distressed debt investments are not eligible for redemption. Distributions are received as the underlying investments in the funds are liquidated. Investments are typically made in years one through five with capital typically returned in years three through ten.

### **Direct Lending**

Direct lending partnerships invest primarily in privately originated debt and preferred equity instruments to small and mid-sized companies and privately originated senior and mezzanine debt for real estate. Direct lending investments may also include other types of yield-oriented non-correlated funds including, but not limited to, royalty streams and aviation leases. Direct lending investments are not eligible for redemption. Distributions are received as the underlying investments in the funds are liquidated, which may take up to three to five years.

### **Private Real Estate**

Private real estate may behave as highly debt-like securities or as highly equity-like securities, depending on the characteristics of the property. Core properties tend to be held for a long time to take full advantage of the lease and rental cash flows that they provide. Value-added and opportunistic real estate achieve a substantial portion of their return from appreciation in value. Value-added real estate can involve repositioning, renovation, and redevelopment of existing properties while opportunistic real estate includes all of these activities as well as the purchase of raw land and ground-up development. These investments are not eligible for redemption. Distributions from each fund will be received as the underlying investments in the funds are liquidated. As a private, non-exchange-traded asset, private real estate funds are illiquid. The life of a private real estate fund is typically 10 to 12 years.

## **I. SUBSEQUENT EVENTS**

TCDRS has evaluated its subsequent events through June 4, 2021, the date on which the financial statements were available to be issued.

## REQUIRED SUPPLEMENTARY INFORMATION AND NOTES

**TABLE 10: MONEY-WEIGHTED RATES OF RETURN (UNAUDITED)**

The money-weighted rates of return are presented to provide information regarding investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Annual money-weighted rate of return, net of investment expenses	10.42%	16.58%	-1.85%	14.72%	7.48%	-0.66%	6.84%	16.39%	12.63%	-1.15%

See accompanying independent auditor's report.

Table 10 presents the money-weighted rate of return which provides information regarding TCDRS' investment performance, net of investment expenses, adjusted for the changing amounts actually invested. The money weighted return and time-weighted performance return may differ due to timing and magnitude of cash flows.



# OTHER SUPPLEMENTARY INFORMATION

## CHANGES IN FIDUCIARY NET POSITION BY FUND AND INTERFUND TRANSFERS

### Pension Trust Fund

Twelve Month Period Ending December 31, 2020

	Employees Saving Fund	Subdivision Accumulation Fund
<b>ADDITIONS</b>		
Employee Deposits and Employer Contributions	\$ 536,458,089	\$ 1,034,443,116
Investment Income		
Net Depreciation in Fair Value of Investments	—	—
Interest and Dividends	—	—
Total Investment Activity Income	—	—
Less Investment Activity Expenses	—	—
Net Income from Investment Activities	—	—
Net Income from Securities-Lending Activities	—	—
Total Net Investment Income	—	—
Building Operations and Miscellaneous Income	—	—
<b>Total Additions</b>	<b>536,458,089</b>	<b>1,034,443,116</b>
<b>DEDUCTIONS</b>		
Benefits Paid	—	1,676,656,597
Withdrawals	84,763,643	—
Terminating Employer SAF Refunds	—	838
Interest Allocation to Group Term Life Fund	—	—
Administrative Operations Expenses	—	—
Building Operations Expenses	—	—
<b>Total Deductions</b>	<b>84,763,643</b>	<b>1,676,657,435</b>
<b>TRANSFERS OF FUNDS</b>		
Retirement Transfers	(557,744,785)	557,104,748
Income Allocation	506,040,740	2,916,127,944
Terminating Employer Transfers	5,428	(22,817)
Expense Fund Transfer	—	—
Escheated Accounts, Net	(872,418)	—
Allocation of General Reserves	—	—
Net Transfers	(52,571,035)	3,473,209,875
<b>Net Increase (Decrease) in Fiduciary Net Position</b>	<b>399,123,411</b>	<b>2,830,995,556</b>
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS</b>		
Beginning of Period	7,590,997,879	25,188,695,184
End of Period	\$ 7,990,121,290	\$ 28,019,690,740

See accompanying independent auditor's report.

## OTHER SUPPLEMENTARY INFORMATION

### CHANGES IN FIDUCIARY NET POSITION BY FUND AND INTERFUND TRANSFERS, continued

**Pension Trust Fund**  
Twelve Month Period Ending December 31, 2020

Closed Subdivision Annuity Reserve Fund	Endowment Fund	Income Fund	Expense Fund	Total
\$ —	\$ —	\$ —	\$ —	\$ 1,570,901,205
—	—	3,383,134,445	—	3,383,134,445
—	—	154,577,382	—	154,577,382
—	—	3,537,711,827	—	3,537,711,827
—	—	43,515,258	—	43,515,258
—	—	3,494,196,569	—	3,494,196,569
—	—	2,400,860	—	2,400,860
—	—	3,496,597,429	—	3,496,597,429
—	—	—	1,818,132	1,818,132
—	—	<b>3,496,597,429</b>	<b>1,818,132</b>	<b>5,069,316,766</b>
1,371,239	9,206	—	—	1,678,037,042
—	—	—	—	84,763,643
—	—	—	—	838
—	—	2,856,996	—	2,856,996
—	—	—	26,779,313	26,779,313
—	—	—	2,191,521	2,191,521
<b>1,371,239</b>	<b>9,206</b>	<b>2,856,996</b>	<b>28,970,834</b>	<b>1,794,629,353</b>
640,037	—	—	—	—
873,972	(800,000,000)	(2,623,042,656)	—	—
17,389	—	—	—	—
—	(20,000,000)	—	20,000,000	—
—	872,418	—	—	—
—	870,697,777	(870,697,777)	—	—
1,531,398	51,570,195	(3,493,740,433)	20,000,000	—
<b>160,159</b>	<b>51,560,989</b>	<b>—</b>	<b>(7,152,702)</b>	<b>3,274,687,413</b>
<b>12,724,845</b>	<b>1,021,477,198</b>	<b>—</b>	<b>19,615,423</b>	<b>33,833,510,529</b>
<b>\$ 12,885,004</b>	<b>\$ 1,073,038,187</b>	<b>\$ —</b>	<b>\$ 12,462,721</b>	<b>\$ 37,108,197,942</b>

## OTHER SUPPLEMENTARY INFORMATION

### CHANGES IN ENDOWMENT FUND

Pension Trust Fund  
Twelve Month Period Ending December 31, 2020

	General Reserves Account	Perpetual Endowment Account	Reserve for Expense Fund	Total
<b>ADDITIONS</b>				
Transfer from Income Fund	\$ 870,697,777	\$ —	\$ —	\$ 870,697,777
Escheated Accounts	—	1,753,144	—	\$ 1,753,144
<b>Total Additions</b>	<b>870,697,777</b>	<b>1,753,144</b>	<b>0</b>	<b>872,450,921</b>
<b>DEDUCTIONS</b>				
Special Allocation to SAF	\$ 800,000,000	—	—	800,000,000
Transfer to Expense Fund	—	—	20,000,000	20,000,000
Reinstatements of Escheated Accounts	—	880,726	—	880,726
Uncollectible Benefits	9,206	—	—	9,206
<b>Total Deductions</b>	<b>800,009,206</b>	<b>880,726</b>	<b>20,000,000</b>	<b>820,889,932</b>
<b>TRANSFERS</b>				
Next Year Expense Fund Transfer	(25,000,000)	—	25,000,000	—
<b>Total Transfers</b>	<b>(25,000,000)</b>	<b>0</b>	<b>25,000,000</b>	<b>0</b>
<b>Net Change in Fund</b>	<b>45,688,571</b>	<b>872,418</b>	<b>5,000,000</b>	<b>51,560,989</b>
<b>Beginning of Year</b>	<b>996,930,763</b>	<b>4,546,435</b>	<b>20,000,000</b>	<b>1,021,477,198</b>
<b>Balance — December 31, 2020</b>	<b>\$ 1,042,619,334</b>	<b>\$ 5,418,853</b>	<b>\$ 25,000,000</b>	<b>\$ 1,073,038,187</b>

See accompanying independent auditor's report.

## OTHER SUPPLEMENTARY INFORMATION

### CHANGES IN INCOME FUND

Pension Trust Fund  
Twelve Month Period Ending December 31, 2020

#### INVESTMENT RESULTS

Net Appreciation in Fair Value of Investments	\$ 3,383,134,445
Interest and Dividends	154,577,382
Net Income from Securities-Lending Activities	2,400,860
Investment Activity Expenses	(43,515,258)
<b>Net Investment Results</b>	<b>3,496,597,429</b>

#### LESS: STATUTORY ALLOCATIONS

Allocation of Current Year Interest:	
Employees Saving Fund	506,040,740
Closed Subdivision Annuity Reserve Fund	873,972
Group Term Life Fund	2,856,996
<b>Total Statutory Allocations</b>	<b>509,771,708</b>

#### LESS: BOARD OF TRUSTEES' ALLOCATIONS

Subdivision Accumulation Fund	2,916,127,944
Transfer to General Reserves Account	70,697,777
<b>Total Board of Trustees' Allocations</b>	<b>2,986,825,721</b>

#### Net Change in Fund

Balance—January 1, 2020	—
Balance—December 31, 2020	<b>\$ —</b>

See accompanying independent auditor's report.



## OTHER SUPPLEMENTARY INFORMATION

### ADMINISTRATIVE REVENUES AND EXPENSES

Year Ended Dec. 31, 2020

	Administrative Operations	Building Operations	Combined Operations
<b>Administrative Revenues:</b>			
Rental Income	\$ —	\$ 1,806,486	\$ 1,806,486
Other Income	11,646	—	11,646
<b>Total Administrative Revenues</b>	<b>11,646</b>	<b>1,806,486</b>	<b>1,818,132</b>
<b>Administrative Expenses:</b>			
Payroll and Temporary Employees	10,300,574	—	10,300,574
Payroll Taxes	697,197	—	697,197
Pension Expense	1,451,082	—	1,451,082
Employee Insurance & Benefits	1,490,323	—	1,490,323
Professional Fees/Outsourced Services	2,352,094	—	2,352,094
Software Licensing	1,495,926	—	1,495,926
Equipment Service	201,297	—	201,297
Building Operations	—	1,537,261	1,537,261
Office Supplies/Postage	77,416	—	77,416
Telecommunications/Internet Services	215,008	—	215,008
Member and Retiree Communications	603,823	—	603,823
Records Management and Reference Materials	37,385	—	37,385
Memberships	25,019	—	25,019
Education and Training	108,933	—	108,933
Field Services for Members and Employers	52,965	—	52,965
Organization and Meetings	35,234	—	35,234
General Insurance	229,145	—	229,145
Strategic Projects	3,030,561	—	3,030,561
Depreciation and Amortization	4,375,332	654,260	5,029,592
<b>Total Administrative Expenses</b>	<b>\$26,779,313</b>	<b>\$ 2,191,521</b>	<b>\$ 28,970,834</b>

See accompanying independent auditor's report.

## OTHER SUPPLEMENTARY INFORMATION

### INVESTMENT EXPENSES

Year Ended Dec. 31, 2020

#### INVESTMENT-ACTIVITY EXPENSES

##### Department Operating Expenses

Salaries	\$ 3,747,477
Payroll Taxes	220,502
Pension Expense	519,201
Employee Insurance and Benefits	356,662
Professional Fees/Outsourced Services	1,462,436
Investment Data Systems	333,655
Equipment Service and Repairs	1,106
Office Supplies/Postage	13,244
Telecommunications	9,125
Reference Materials and Memberships	18,870
Education and Travel	91,359
Depreciation	4,396

Total Department Operating Expenses	6,778,033
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##### Nondepartment Managers' Fees:

Equities/Hedge Funds	15,871,409
REITs	3,695,386
Master Limited Partnerships	5,205,531
Private Real Estate Partnerships	5,670,108
Investment-Grade Bonds	1,760,969
Credit	1,180,195
Private Equity	72,896

Total Nondepartment Managers' Fees	33,456,494
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Total Department Operating Expenses and Managers' Fees	40,234,527
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Custodial Fees – Mellon Trust	530,731
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Investment Consultant Fees – Cliffwater LLC	2,750,000
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<b>Total Investment-Activity Expenses</b>	<b>\$ 43,515,258</b>
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#### SECURITIES-LENDING EXPENSES

Borrower Rebates and Agent Fees	\$ 2,124,932
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See accompanying independent auditor's report.

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## OTHER SUPPLEMENTARY INFORMATION

### PROFESSIONAL AND CONSULTING SERVICES

Year Ended Dec. 31, 2020

Professional/Consultant	Nature of Service	Administrative Operations	Investment Department <sup>1</sup>
Evonsys, LLC	Technology consulting	\$ 1,763,194	
Vinson & Elkins, LLP	Legal		1,199,160
Oshyn, Inc.	Technology consulting	533,300	
Milliman, Inc.	Actuary services	517,204	
Phidiac, LLC	Technology consulting	425,234	
Digital Results, LLC	Technology consulting	273,209	
Thought Leaders Group	Technology consulting	268,088	
SmartComms, LLC	Technology consulting	250,852	
KPMG, LLP	Audit services	225,650	
Adjacent Technologies, Inc.	Technology consulting	139,340	45,000
DLA Piper US, LLP	Legal		172,934
Binary Defense Systems	Technology consulting	145,839	
Agile Progress, LLC	Technology consulting	132,454	
Gartner, Inc.	Technology consulting	127,279	
Jackson Walker, LLP	Legal	28,665	82,340
JP Morgan Chase	Banking services	88,118	
Pegasystems Inc.	Technology consulting	87,440	
McElvaney Public Affairs, LLC	Consultant	80,000	
Bradshaw & Bickerton, PLLC	Legal		70,005
Whitehat Virtual Technologies	Technology consulting	55,017	
Texhahn Media, Inc.	Media support	53,731	
Backstop Solutions Group, LLC	Technology consulting	32,175	5,165

<sup>1</sup> Pursuant to GFOA guidelines, investment advisor expenses are shown only on the investment expenses schedule on the preceding page. The members of the TCDRS Board of Trustees serve without compensation and are reimbursed for actual out-of-pocket travel expenses incurred.

See accompanying independent auditor's report.

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# Investing for the future

TCDRS' broadly diversified portfolio is engineered for the long haul. We take a long-term view when it comes to managing our investments. Our investment horizon of 30-plus years equips us to weather short-term storms in the market and maximize our returns within an acceptable level of risk.



May 2021

Board of Trustees  
Texas County and District Retirement System  
901 MoPac Expressway South  
Barton Oaks Plaza IV, Ste. 500  
Austin, Texas 78746

To the members of the Board:

It is our pleasure to be the investment consultant for the Texas County and District Retirement System (hereinafter referred to as "TCDRS") and to report on your investment performance and activities for the year ending 2020. Retained in 2005, Cliffwater LLC provides investment policy development and review, asset allocation analysis, asset class structure analysis, investment manager searches and investment performance monitoring and evaluation to the Board and its staff. In calculating investment performance, TCDRS uses the industry standard time-weighted rate of return methodology (net of fees) based upon market values.

2020 was a year defined by the global pandemic. By mid-March, the eleven-year global expansion was brought to a dramatic end and global stock markets and bond yields fell. However, with the massive amounts of monetary and fiscal stimulus, it ended up being the shortest crash for the US stock market, with the S&P 500 fully recovering to its pre-COVID level within seven months. As a result, the US Total Stock Market Index was +20.8%, developed international stocks (MSCI World Ex US net Index) +7.6% and emerging markets +18.3%. To support the US economy, the Federal Reserve took the Fed Funds rate to 0% and re-engaged in quantitative easing. As a result, the 10 Year US Treasury yield started the year at 1.92% and ended the year at 0.91%. Risk bearing asset classes improved in 4Q with the roll out of vaccines. As a result, high yield bonds ended the year with a 5.6% return (FTSE High Yield Cash-Pay Capped Index) while oil prices and MLPs partially recovered from their steep losses. Public and private real estate lagged due to the uncertainty of potential longer term COVID impacts, but private equity had a strong performance year, particularly for venture capital backed companies that benefited from a robust exit environment.

TCDRS' diversified investment portfolio increased in total assets from \$33.7 billion to \$37.0 billion. The one-year total fund return was 10.5%, after fees, which was below the Board's Total Fund Policy Benchmark return of 12.4%. Over 10 years, the fund's 7.9% return exceeded the Board's Total Fund Policy Benchmark return of 7.1%. At the asset class level, TCDRS' passively-managed US equities portfolio returned 20.1% for the year. TCDRS' balance of active and passive developed international managers resulted in an 8.5% return, exceeding the benchmark return while the active global equity portfolio returned 31.3% vs. 15.9% for the benchmark. Emerging market equities had a 22.5% return compared to the benchmark of 18.3% with the outperformance due to active management. The active REIT portfolio's return of -1.9% exceeded the benchmark's -6.4% return while the MLP portfolio returned -25.1% compared to the benchmark's -28.7% return. The active core fixed income portfolio returned 9.8% relative to 7.5% for the benchmark and the hedge fund portfolio returned 10.6% compared to its benchmark return of 10.9%. The strategic credit asset class return of 0.9% trailed the benchmark's 5.6% return as this portfolio is more event-oriented and suffered losses during the March drawdown. The private equity program returned 27.4%, distressed debt returned 8.1%, direct lending returned 7.1% and the real estate program returned 0.1% for the year. Having exposure to cash during the market rebound and the underperformance of several asset classes led to the fund performing below the benchmark.

In terms of asset allocation, the TCDRS Board increased both the private equity and distressed debt exposure each by 2%. Public US equity exposure increased by 4% with a 3% decrease in developed non-US equity and a 5% decrease in hedge funds. REITs increased by 1% with the allocation being shifted from MLPs. The fund added several strategic credit managers to increase diversification. The fund also committed to new private equity, private real estate, distressed debt and direct lending partnerships in accordance with its annual commitment budgets.

Respectfully submitted,

Kathleen K. Barchick, Sr. Managing Director



## A: THE TCDRS ACT AND INVESTMENT POLICY

Investment decisions of the TCDRS Board of Trustees (board) are subject to the Texas Constitution, the TCDRS Act and the applicable statutory provisions of the Texas Trust Code that provide for a “prudent person” standard of care.

Additionally, the board has adopted, and reviews at least annually, an investment policy that defines investment authority and emphasizes the importance of a long-term investment philosophy with minimization of risk.

## B: INVESTMENT PHILOSOPHY AND STRATEGY

The board has established a long-term target investment return of 8% and has diversified the TCDRS portfolio to include:

- Equities
  - U.S., international developed, emerging markets, and global equities
- Hedge funds

- Credit investments
  - Strategic credit, distressed debt and direct lending
- Private equity
- Real assets
  - Real estate investment trusts (REITs), commodities, private real estate partnerships, Treasury Inflation-Protected Securities (TIPS) and Master Limited Partnerships (MLPs)
- Investment-grade bonds

(For more information on these types of securities, please see the Glossary on page 89.)

The board uses a long-term, strategic approach to asset allocation based upon capital market assumptions that are reviewed and adopted annually. The assumptions in effect as of April 2020 are shown in Table 1 and include the long-term expected return and risk (standard deviation) for each asset class.

## C: ASSET ALLOCATION

The board has established asset allocation targets for each asset class within the TCDRS portfolio. Table 2 shows the target allocations in effect during 2020 for each asset class.

**TABLE 1: CAPITAL MARKET ASSUMPTIONS**

As of Apr. 1, 2020

Asset Category (Portfolio)	Expected Return	Standard Deviation
<b>Equities</b>		
U.S. Equities	7.00%	17.00%
International Equities – Developed	7.00	18.00
International Equities – Emerging	7.50	26.00
Global Equities	7.30	17.70
<b>Hedge Funds</b>	4.10	4.40
<b>Credit Investments</b>		
Strategic Credit	4.94	5.86
Distressed Debt	8.70	11.00
Direct Lending	8.96	12.00
<b>Private Equity</b>	10.00	20.00
<b>Real Assets</b>		
REIT Equities	6.30	22.00
Commodities	1.25	18.00
Private Real Estate Partnerships	7.30	30.00
TIPS	0.65	7.00
Master Limited Partnerships (MLPs)	10.20	17.00
<b>Investment-Grade Bonds</b>	1.60	4.00
<b>Cash and Cash Equivalents<sup>1</sup></b>	1.20	2.00

<sup>1</sup> Money awaiting allocation to an asset category and deposited with the system's custodian.

**TABLE 2: ASSET ALLOCATION TARGETS**

Asset Category	Target Allocation Percentages in Effect at:	
	Jan. 1, 2020	Dec. 31, 2020
<b>Equities</b>		
U.S. Equities	10.5%	14.5%
International Equities – Developed	10.0	7.0
International Equities – Emerging	7.0	7.0
Global Equities	2.5	2.5
<b>Hedge Funds</b>	13.0	8.0
<b>Credit Investments</b>		
Strategic Credit	12.0	12.0
Distressed Debt	2.0	4.0
Direct Lending	11.0	11.0
<b>Private Equity</b>	18.0	20.0
<b>Real Assets</b>		
REIT Equities	2.0	3.0
Private Real Estate Partnerships	6.0	6.0
Master Limited Partnerships	3.0	2.0
<b>Investment-Grade Bonds</b>	3.0	3.0

The target allocation for TIPS and Commodities at 12/31/20 was 0.0%.

**TABLE 3: BENCHMARK PORTFOLIOS FOR PERFORMANCE MEASUREMENT**

<b>Asset Category</b>	<b>Benchmark Portfolio</b>	
Equities	<b>U.S. Equity Index</b> <i>Dow Jones U.S. Total Stock Market Index</i>	
	<b>Developed International Equity Index</b> <i>MSCI World ex U.S. Index (net)</i>	
	<b>Emerging Market International Equity Index</b> <i>MSCI EM (Emerging Markets) Index (net)</i>	
	<b>Global Equity Index</b> <i>MSCI World Index (net)</i>	
Hedge Funds	<i>Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index</i>	
Credit Investments	<b>Strategic Credit Index</b> <i>FTSE High-Yield Cash-Pay Capped Index</i>	
	<b>Distressed Debt Index</b> <i>Cambridge Associates Distressed Securities Index<sup>1</sup></i>	
	<b>Direct Lending Index</b> <i>S&amp;P/LSTA Leveraged Loan Index</i>	
Private Equity	<i>Cambridge Associates Global Private Equity &amp; Venture Capital Index<sup>2</sup></i>	
Real Assets	<b>REIT Index</b> <i>67% FTSE NAREIT All Equity REIT Index</i> <i>33% S&amp;P Global REIT (net) Index</i>	
	<b>Commodities Index</b> <i>Bloomberg Commodities Index</i>	
	<b>TIPS Index</b> <i>Bloomberg Barclays U.S. 10-Year Breakeven Inflation Index</i>	
	<b>Private Real Estate Partnerships</b> <i>Cambridge Associates Real Estate Index<sup>3</sup></i>	
	<b>MLP Index</b> <i>Alerian MLP Index</i>	
	Investment-Grade Fixed-Income	<i>Bloomberg Barclays U.S. Aggregate Bond Index</i>

<sup>1</sup> Includes vintage years 2005–present of Quarter Pooled Horizon IRRs.

<sup>2</sup> Includes vintage years 2006–present of Quarter Pooled Horizon IRRs.

<sup>3</sup> Includes vintage years 2007–present of Quarter Pooled Horizon IRRs.

## D: ASSET CLASSES, INVESTMENT STYLES AND INVESTMENT MANAGERS

TCDRS uses both active and passive styles of investment management. The passive style seeks to match the performance of an established market index by holding the same securities as the index. An active style seeks to exceed the performance of a benchmark by allowing the manager to actively trade securities that may be different from the index.

Asset classes managed actively are hedge funds, strategic credit, distressed debt, direct lending, private equity, REITs, TIPS, commodities, MLPs, private real estate partnerships, investment-grade bonds, global equities, and a portion of the developed international and emerging market equities portfolios. Asset classes managed passively are U.S. equities and the remainder of the developed international and emerging market equities.

The investment manager responsible for an externally managed portfolio holds any cash that portfolio generates in interest-bearing instruments or accounts until it is reinvested. The TCDRS Investment Officer manages cash as well as new contributions in a short-term investment fund until allocated to a portfolio.

## E: INVESTMENT RESULTS

TCDRS retains a professional performance measurement analyst that regularly reports investment performance to the board for each investment manager, for the aggregate of all managers in each asset class and for the total portfolio.

### Performance Reporting

Performance of each investment manager is measured against the performance of similar assets contained within a benchmark portfolio, as represented by a specific index. Comparisons indicate the value added by each manager, if any, in excess of the performance that was experienced by the specific benchmark index. When multiple investment managers are retained within a particular asset class, a benchmark portfolio is selected for measurement of the performance of the entire asset class. Table 3 identifies the benchmark portfolio associated with each asset class contained within the TCDRS investment portfolio.

A policy benchmark portfolio consisting of individual asset class benchmarks, weighted by asset class target allocation, is constructed for measurement of the performance of the entire portfolio.

## Performance Results

The TCDRS portfolio in 2020 returned +10.5% net of fees, underperforming its benchmark return of +12.4% by -1.9%. 2020 was a very strong year for most investment markets with all major asset classes increasing in value which was unexpected considering the economic impact of the COVID-19 global pandemic. TCDRS' U.S. equities (+20.1%), developed international equities (+8.5%), global equities (+31.3%) and emerging market equities

(+22.5%) were all up significantly. Bond returns were also positive at +9.8%. Strategic credit was up +0.9%. The private asset classes also produced strong returns with private equity (+27.4%), distressed debt (+8.1%), direct lending (+7.1%) and private real estate (+0.1). The hedge fund portfolio was positive at +10.6%. The only investments which were negative in 2020 were REITs (-1.9%), and MLPs (-25.1%). Cash returned +0.5%.

**TABLE 4: RESULTS FROM INVESTING ACTIVITIES, NET OF ALL FEES<sup>1</sup>**

Periods Ended Dec. 31, 2020

TCDRS Portfolio/Benchmark Portfolio	2020 Return	Annualized Returns				
		3-Year	5-Year	10-Year	20-Year	30-Year
Total Fund	10.5	8.1	9.3	7.9	7.2	8.1
<i>Policy Benchmark Portfolio</i>	12.4	8.0	9.3	7.1	6.6	7.0
Equities						
U.S. Equities	20.1	14.2	15.3	13.8	8.0	—
<i>U.S. Equity Index Benchmark Portfolio</i>	20.8	14.4	15.4	13.7	8.0	—
International Equities - Developed	8.5	4.9	7.5	6.1	4.9	—
<i>Developed Intl Equity Index Benchmark Portfolio</i>	7.6	4.2	7.6	5.2	4.5	—
International Equities - Emerging	22.5	8.2	12.3	3.7	—	—
<i>Emerging Intl Equity Index Benchmark Portfolio</i>	18.3	6.2	12.8	3.6	—	—
Global Equity	31.3	17.0	16.2	—	—	—
<i>Global Equity Benchmark Portfolio</i>	15.9	10.5	12.2	—	—	—
Hedge Funds	10.6	6.3	5.7	5.0	—	—
<i>Hedge Fund Benchmark Portfolio</i>	10.9	4.9	4.6	3.3	—	—
Credit Investments						
Strategic Credit	0.9	4.6	8.0	7.8	7.7	—
<i>Strategic Credit Benchmark Portfolio</i>	5.6	5.6	8.1	6.3	7.8	—
Distressed Debt	8.1	6.6	9.7	9.2	—	—
<i>Distressed Debt Index Benchmark Portfolio</i>	7.7	5.6	8.2	6.4	—	—
Direct Lending	7.1	8.4	9.0	—	—	—
<i>Direct Lending Index Benchmark Portfolio</i>	3.1	4.0	5.2	—	—	—
Private Equity	27.4	19.4	18.0	15.4	—	—
<i>Private Equity Benchmark Portfolio</i>	28.2	17.9	16.6	14.5	—	—
Real Assets						
REITs	-1.9	6.6	6.5	8.3	9.6	—
<i>REIT Index Benchmark Portfolio</i>	-6.4	3.9	5.3	7.8	9.2	—
Private Real Estate Partnerships	0.1	4.7	7.9	12.1	—	—
<i>Private Real Estate Benchmark Portfolio</i>	1.5	5.7	7.9	10.1	—	—
MLPs	-25.1	-10.0	-3.9	—	—	—
<i>MLP Index Benchmark Portfolio</i>	-28.7	-12.7	-6.0	—	—	—
Investment-Grade Bonds	9.8	6.1	5.5	4.7	5.4	6.9
<i>Investment-Grade Bond Index Benchmark Portfolio</i>	7.5	5.3	4.4	3.8	5.0	6.0

<sup>1</sup> Calculations of performance were prepared using time-weighted rates of return calculations and are reported net of all fees.  
Source: BNY Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2020

**TABLE 5: LIST OF LARGEST EQUITY HOLDINGS<sup>1</sup>**

Dec. 31, 2020 (\$ Millions)

Company	Portfolio	Fair Value
Apple Inc	U.S. Equities	\$279.0
Microsoft Corp	U.S. Equities	221.2
Amazon.Com Inc	U.S. Equities	182.7
Enterprise Products Partners	MLP	137.1
MPLX LP	MLP	122.6
Cheniere Energy Inc	MLP	89.6
Facebook Inc	U.S. Equities	86.4
The Williams Cos Inc	MLP	75.7
Enbridge Inc	MLP	71.5
Tesla Inc	U.S. Equities	70.4

<sup>1</sup> TCDRS invests in equity securities through separately managed and commingled equity vehicles. At Dec. 31, 2020, the largest equities contained in the U.S. Equities portfolio represent TCDRS' investment in a State Street U.S. Total Stock Market Index Fund which TCDRS owns a 97.6% undivided interest in. The remaining securities are individual shares held in the MLP portfolio.

## F: LISTS OF LARGEST HOLDINGS<sup>1</sup>

### Equity Holdings

The system's exposure to equity markets is achieved through participation in commingled investment pools, such as State Street Global Advisors (SSgA) U.S. equity and international equity index funds, and direct investment in separately managed REIT and MLP portfolios. At Dec. 31, 2020, TCDRS' largest equity holdings were in the U.S. equity and MLP portfolios. Table 5 displays our exposure to the 10 largest equity holdings.

### Fixed-Income Holdings

Table 6 presents the top 10 fixed-income securities owned by TCDRS. The securities are contained within the investment-grade bond portfolio. At Dec. 31, 2020, the aggregate fair value of the investment-grade bond portfolio was \$1,059 million.

<sup>1</sup> A complete listing of all securities TCDRS owned at Dec. 31, 2019, is available upon written request.

## G: RESULTS OF SECURITIES-LENDING ACTIVITIES

TCDRS retains The Bank of New York Mellon Corp. as securities-lending agent to engage in lending securities from its portfolios. Securities-lending transactions consist of loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The gross income and

**TABLE 6: LIST OF LARGEST FIXED-INCOME HOLDINGS**

Dec. 31, 2020 (\$ Millions)

Description	Maturity	Interest Rate	Fair Value
US Treasury Note	12/15/2023	0.125%	\$ 30.34
US Treasury Note	12/31/2027	0.625%	19.56
US Treasury Note	11/15/2030	0.875%	18.36
Commit to Purchase FNMA	03/01/2051	2.000%	17.69
US Treasury Note	10/31/2027	0.500%	14.88
Commit to Purchase FNMA	02/01/2051	2.500%	14.61
US Treasury Bond	11/15/2040	1.375%	14.07
FHLMC Pool #RA-3202	07/01/2050	2.500%	13.08
US Treasury Note	12/31/2025	0.375%	13.08
SLC Student Loan Trust	12/15/2039	Variable	11.40

**TABLE 7: SECURITIES-LENDING ACTIVITY**

Year Ended Dec. 31, 2020

Elements of Securities-Lending Activity	Amount
Gross Earnings	\$ 3,785,761
Less Rebates from Lenders and Lending Agent's Share of Income	2,124,932
Net Securities-Lending Income (Separately Managed Accounts)	1,660,829
Securities-Lending Income (Commingled Funds)	740,031
<b>Net Securities-Lending Income</b>	<b>\$ 2,400,860</b>

expenses attributable to securities-lending activity and net lending income of \$1.6 million are shown in Table 7.

Additionally, SSgA passively manages the U.S. and international equity portfolios of TCDRS in commingled funds. The securities in these funds participate in the securities-lending program of SSgA with TCDRS receiving a proportionate share of the securities-lending income generated from this activity. Also shown in Table 7 is income of \$0.7 million representing TCDRS' share of the 2020 equity portfolios' securities-lending income.

## H: FEES AND COMMISSIONS

Table 8, on page 59, presents the 2020 investment managers' fees TCDRS incurred, excluding securities-lending fees.

Note that all returns presented throughout this annual report are reported net of the amounts reported in Table 8.

**TABLE 8: INVESTMENT MANAGERS' FEES**

Year Ended Dec. 31, 2020

Asset Class	Fees Paid from the Pension Trust Fund <sup>1</sup>		Fees Netted Against Returns		Fair Value at Dec. 31, 2020
	Management Fees	Performance Fees	Management Fees	Performance Fees	
Equities	\$ 8,984,342	\$ 6,887,067	\$ —	\$ —	\$ 11,566,869,797
MLPs	5,205,531	—	—	—	1,001,465,179
REITs	3,695,386	—	—	—	1,038,345,623
Investment-Grade Bonds	1,760,969	—	—	—	1,059,415,046
Cash & Equivalents	—	—	—	—	987,458,437
Alternative Investments	Management Fees	Performance Fees	Management Fees	General Partner Carried Interest	Fair Value at Dec. 31, 2020
Private Equity	72,896	—	116,745,545	400,545,145	7,849,596,739
Private Real Estate Partnerships	5,670,108	—	28,729,862	1,820,302	1,185,948,582
Hedge Funds	—	—	25,863,110	35,397,642	3,473,720,461
Strategic Credit	1,180,195	—	39,443,711	22,966,104	4,434,191,947
Distressed Debt	—	—	13,063,631	5,085,894	971,188,855
Direct Lending	—	—	29,875,124	38,492,318	3,436,040,627
<b>Total</b>	<b>\$ 26,569,427</b>	<b>\$ 6,887,067</b>	<b>\$ 253,720,983</b>	<b>\$ 504,307,405</b>	<b>\$ 37,004,241,293</b>

<sup>1</sup> See Nondepartment Managers' Fees on page 51.

### Alternative Investment Fees

The investment management fees included in Investment Activity Expenses presented in the Statement of Changes in Fiduciary Net Position represent only those paid directly from the Pension Trust Fund and do not include fees incurred and charged by general partners in partnerships investing in private equity, distressed debt, direct lending, strategic credit, private real estate and hedge funds as these types of fees are netted directly against returns for those investments in accordance with FASB ASC 820. In the interest of greater transparency, fees and profit shares associated with these types of investments are disclosed in Table 8, based on information requested and received from fund general partners in conjunction with the annual audit.

The investment expenses related to TCDRS' investments in partnerships investing in private equity, distressed debt, direct lending, strategic credit, private real estate and hedge funds fall into the categories of management fees and profit share (also called "carried interest").

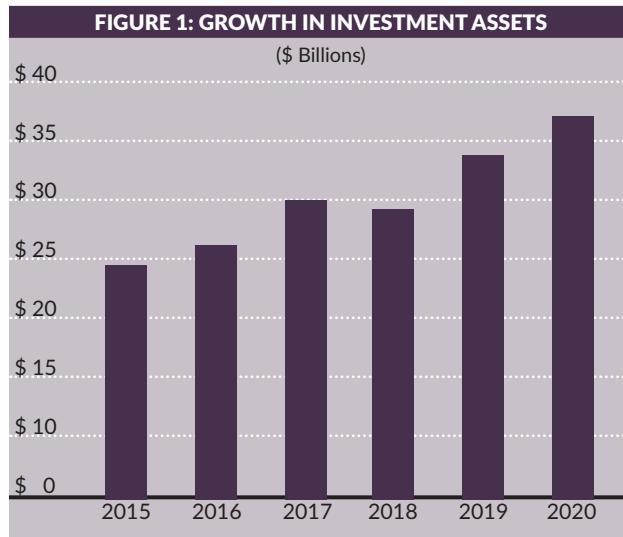
Management fees typically range from 1.5% to 2% of the value of invested assets (hedge funds and strategic credit) or committed capital (private equity, private real estate, distressed debt and direct

lending) and are intended to compensate the general partner for its costs in operating the partnership.

Profit sharing or carried interest incentivizes and aligns the general partner's interest with TCDRS' interest. The carried interest represents the general partner's share of the partnership's profits, typically 20%, with 80% going to the limited partners such as TCDRS. Carried interest earned by hedge funds and strategic credit funds is generally accrued monthly and paid annually since the underlying investments are relatively liquid and more easily valued. Due to the long-term nature of private equity, private real estate, distressed debt and direct lending partnerships (typically 8 to 12 years) and the illiquidity associated with the underlying investments, carried interest is accrued over the life of the partnership but is usually not finalized until the fund is fully liquidated. Generally, an agreed rate of return, or preferred return, must first be surpassed before carried interest is earned by the general partner. To incentivize general partners to maintain performance over the life of a partnership, periods of negative performance may result in previously accrued carried interest being reduced or "clawed back". During such periods, negative carried interest expense would be reported.

The fees reported in Table 8 are those that directly impact TCDRS' various partnership investments.





General partners may receive additional economic benefits from their management of the partnerships in accordance with the partnerships' governing documents.

Table 9 presents the commissions paid to brokers by the system's equity managers. The managers executed trades of 124.1 million shares through 50 brokers. The \$1,686,000 in commissions earned by these brokers represents a cost of \$.01 per share traded.

### I: ASSET GROWTH OF THE SYSTEM

As shown in Figure 1, the total value of TCDRS' investment assets, including accrued interest and dividends, has increased by \$12.6 billion over the past five years (from \$24.4 billion at Dec. 31, 2015 to \$37 billion at Dec. 31, 2020). The increase of investment assets in 2020 was attributable to a 10.5% investment return along with net cash outflows as the system has reached a stage in its maturity where cash flow from employee deposits and employer contributions is slightly less than the amounts required to meet annual benefits, withdrawals and administrative expenses.

### J: INVESTMENT SUMMARY

The total value of the portfolio and each asset class at Dec. 31, 2020, is shown in Table 10 on page 61 and is composed of the fair value of the underlying investments plus the amount of accrued interest and dividends, if any. The values shown in each asset class under the column labeled "Fair Value" are the investment amounts presented in the Statements of Fiduciary Net Position shown on page 26 in the Financial Section of this annual report.

**TABLE 9: BROKER COMMISSIONS PAID BY EQUITY MANAGERS**

Year Ended Dec. 31, 2020

Brokerage Firm	Shares Traded (Thousands)	Commissions	
		(Thousands)	Per Share
B Riley and Co LLC, New York	17,258	\$ 518	\$ 0.03
Goldman Sachs & Co, NY	8,866	128	0.01
Credit Suisse, New York (CSUS)	7,150	116	0.02
RBC Capital Markets LLC, New York	13,524	114	0.01
Jefferies & Co Inc, New York	15,075	92	0.01
National Finl Svcs Corp, New York	2,764	84	0.03
Citigroup Global Markets, Inc, New York	5,906	71	0.01
J.P. Morgan Securities LLC, New York	8,236	65	0.01
Merrill Lynch Pierce Fenner Smith Inc NY	1,923	62	0.03
Morgan Stanley & Co Inc, NY	5,833	50	0.01
Bernstein Sanford C & Co, New York	1,027	50	0.05
Wells Fargo Securities, LLC, New York	8,729	44	0.01
Barclays Capital Inc, New York	2,088	42	0.02
Liquidnet Inc, New York	1,962	41	0.02
Citigroup Global Markets, Inc, New York Total	1,812	40	0.02
Summary of Remaining Firms	21,899	171	0.01
<b>Totals</b>	<b>124,052</b>	<b>\$ 1,686</b>	<b>\$ 0.01</b>

**TABLE 10: INVESTMENTS BY ASSET SUBCLASS**

Dec. 31, 2020

Type of Investment	Fair Value	Interest, Dividends and Other Receivables	Total Value	% of Total Value
<b>Equities</b>				
US Equities	\$ 5,238,105,367	\$ 583,167	\$ 5,238,688,534	14.2%
International Equities	5,056,361,309	0	5,056,361,309	13.7%
Global Equities	1,272,403,121	0	1,272,403,121	3.4%
<b>Hedge Funds</b>	3,473,720,461	0	3,473,720,461	9.4%
<b>Credit Investments</b>				
Strategic Credit	4,434,191,947	1,989,522	4,436,181,469	12.0%
Distressed Debt	971,188,855	0	971,188,855	2.6%
Direct Lending	3,436,040,627	0	3,436,040,627	9.3%
<b>Private Equity</b>	7,849,596,739	0	7,849,596,739	21.2%
<b>Real Assets</b>				
REITs	1,038,345,623	3,689,930	1,042,035,553	2.8%
Private Real Estate Partnerships	1,185,948,582	0	1,185,948,582	3.2%
MLPs	1,001,465,179	1,044,122	1,002,509,301	2.7%
<b>Investment-Grade Bonds</b>	1,059,415,046	4,889,897	1,064,304,943	2.9%
<b>Cash and Cash Equivalents</b>	987,458,437	6,591	987,465,028	2.7%
<b>Total Investments Shown on Statements of Fiduciary Net Position</b>	<b>\$ 37,004,241,293</b>	<b>\$ 12,203,229</b>	<b>\$ 37,016,444,522</b>	<b>100.0%</b>

**READER'S NOTES**



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# Staying strong

At TCDRS, we spend most of our time thinking about the future. Fulfilling our mission to provide reliable benefits to hardworking Texans means we must evolve and innovate to keep our plans strong and sound.



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May 19, 2021

Board of Trustees  
Texas County & District Retirement System  
Austin, Texas

Dear Trustees:

In accordance with the Texas County & District Retirement System (TCDRS) Act, the annual actuarial valuation of the assets and liabilities of TCDRS has been completed as of December 31, 2020. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2017, with updates to the economic assumptions adopted by the Board in March 2021.

We believe the assumptions individually and collectively represent reasonable expectations of experience over the long-term future and that all methods and assumptions used for funding and financial reporting are in compliance with the relevant Actuarial Standards of Practice. Nevertheless, the emerging costs of the TCDRS employers will vary from those presented to the extent that actual experience differs from that projected by the actuarial assumptions.

To test how well the financing objective for each plan is being achieved, annual actuarial valuations are made. These valuations recognize differences in the past year between the actuarial assumptions and the actual experience, and any benefit changes for each plan.

The financing objective for each TCDRS plan is to provide retirement, death and disability benefits for a county's or a district's employees financed by an employer contribution rate. This rate is determined annually and is designed to remain approximately level from year to year as a percent of the employer's covered payroll. The employer contribution rate consists of the normal cost contribution rate plus the unfunded actuarial accrued liability (UAAL) contribution rate. The UAAL as of December 31, 2020 and any subsequent gains and losses are amortized over closed 20-year periods (open 30-year period if the employer is in an overfunded position). In some cases, the initial closed period for the December 31, 2020 UAAL is amortized over a period shorter than 20 years. Benefit increases are amortized over closed 15-year periods. The methods for calculating the required contribution rates are specified in the funding policy which has been adopted by the Board.

A separate actuarial valuation for each participating county and district was performed based on the plan benefits in effect on January 1, 2021. The aggregate results of the actuarial valuation of system-wide assets and liabilities are presented in the Actuarial Section in the Summary Actuarial Valuation Results schedule. The assumptions and methods used in this valuation are summarized in the actuarial section. The member, annuitant and asset data used in the valuation were all prepared and furnished by TCDRS. We relied on that data after examining it for general reasonableness and year-to-year consistency. Please refer to the December 31, 2020 System-wide Actuarial Valuation Report for further disclosures.

Milliman provided the information that TCDRS used in preparing the following tables and figures:

- Financial Section – Table 1: Membership
- Financial Section – Notes to the Financial Statements: TCDRS Bridge Program Health Reimbursement Arrangement
- Actuarial Section – Table 1: Select Termination Rates
- Actuarial Section – Table 2: Rates of Withdrawal Upon Termination
- Actuarial Section – Table 3: Disability Rates
- Actuarial Section – Table 4: Service Retirement Rates
- Actuarial Section – Table 5: Annual Rate of Salary Increase
- Actuarial Section – Summary Actuarial Data (Funding Status and Funding Progress)





- Actuarial Section – Table 6: Funding Progress
- Actuarial Section – Table 7: Employer Contributions
- Actuarial Section – Table 8: Retiree and Beneficiary Data – Accounts
- Actuarial Section – Table 9: Retiree and Beneficiary Data – Amounts
- Actuarial Section – Table 10: Solvency Test
- Actuarial Section – Table 11: Contribution Rate Information for Participating Employers
- Actuarial Section – Table 12: Participating Employers and Depositing Members
- Actuarial Section – Table 13: Analysis of Financial Experience
- Actuarial Section – Table 14: Summary Actuarial Valuation Results
- Statistical Section – Table 3: Average Benefits
- Statistical Section – Table 4: Average Benefit Profile by Employer Type
- Statistical Section – Table 5: Annuitants by Type of Benefit
- Statistical Section – Figure 4: Number of Annuitants Grouped by Age

Sincerely,

Mark C. Olleman, FSA, EA, MAAA  
Consulting Actuary

Nick J. Collier, ASA, EA, MAAA  
Consulting Actuary

# RETIREMENT PLAN: SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

## A: ACTUARIAL ASSUMPTIONS

Except as indicated below, the actuarial assumptions for funding valuation purposes described below were developed from an actuarial experience investigation of TCDRS over the years 2013-2016. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2017 and first used in the Dec. 31, 2017 actuarial valuation. For new plans joining TCDRS, employer-specific assumptions for termination rates and payroll increases are assigned based on the size of the employer and other relevant factors.

There were two assumptions that changed for the Dec. 31, 2020 actuarial valuation, the investment return assumption and the price inflation assumption. The change in the price inflation assumption also impacted the salary increases assumption and the payroll growth assumption. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in Mar. 2021 and first used in the Dec. 31, 2020 actuarial valuation. More detail can be found in the explanation of the individual assumptions that follows.

### Termination Rates

The termination rates are used to estimate future terminations of employment for reasons other

than death, disability or retirement. The rates vary by length of service, entry-age group (age at hire), gender and termination group assignments, and do not apply after an employee is eligible for retirement. Sample rates for three of the seven termination groups are shown in Table 1.

Each employer was assigned to a termination group based primarily upon the termination characteristics of the members of that employer's plan during the years 2013-2016 relative to the termination characteristics of TCDRS membership system-wide during the same period.

For plans that have adopted the partial lump-sum payment option, adjustments are made to the termination rates. Rates are reduced at ages near retirement as it is anticipated that if the partial lump sum is available, members are less likely to terminate employment so they can withdraw their accounts.

### Withdrawal Rates

Members who terminate employment with the county or district may either elect to leave their accounts with TCDRS or withdraw their accounts. The likelihood that an active member who terminates employment will elect to withdraw varies by length of service and vesting requirement. Sample withdrawal rates are shown in Table 2.

Members who have already terminated employment and are neither vested nor active with another TCDRS employer are assumed to withdraw their accounts. Otherwise, they are assumed to defer their benefit until retirement eligible.

### Disability Rates

There are two types of disability rates, occupational disability rates (predicts disabilities that occur during the performance of job duties) and all-other-causes

**TABLE 1: SELECT TERMINATION RATES**

Entry Age	Years of Service	Male			Female		
		Low	Mid	High	Low	Mid	High
20 to 29	0	.267	.334	.401	.290	.362	.434
	3	.108	.135	.162	.117	.146	.175
	6	.070	.088	.106	.076	.095	.114
	9	.050	.062	.074	.054	.067	.080
	12	.035	.044	.053	.038	.047	.056
	15	.024	.030	.036	.026	.033	.040
30 to 39	0	.222	.278	.334	.242	.302	.362
	3	.092	.115	.138	.100	.125	.150
	6	.062	.077	.092	.066	.083	.100
	9	.045	.056	.067	.048	.060	.072
	12	.032	.040	.048	.035	.044	.053
	15	.023	.029	.035	.025	.031	.037
40 to 49	0	.190	.237	.284	.205	.256	.307
	3	.078	.098	.118	.085	.106	.127
	6	.052	.065	.078	.057	.071	.085
	9	.038	.047	.056	.041	.051	.061
	12	.027	.034	.041	.030	.037	.044
	15	.019	.024	.029	.022	.027	.032

**TABLE 2: RATES OF WITHDRAWAL UPON TERMINATION**

Years of Service	Vesting Requirement		
	5 Years	8 Years	10 Years
0	100%	100%	100%
4	100	100	100
6	49	100	100
8	47	47	100
10	45	45	45
15	40	40	40
20	28	28	28
25	18	18	18
30 and over	0	0	0

## RETIREMENT PLAN: SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

**TABLE 3: DISABILITY RATES**

Age	Male and Female Occupational	Male and Female All Other Causes
35	.00001	.00018
40	.00002	.00042
45	.00004	.00069
50	.00010	.00125
55	.00018	.00222
60 and above	.00018	.00000

disability rates (predicts all disabilities that are not occupational). Sample disability rates are shown in Table 3. Before a member is vested, only the occupational disability rates are applicable. For members who are vested, but not eligible for service retirement, the rate of disablement is the sum of the occupational rate and the all-other-causes rate. Rates are assumed to be zero after the member is eligible for service retirement.

### Service Retirement Rates

Retirement rates predict when active retirement eligible members will commence receiving benefit payments and are based on age. Retirement eligible members age 75 or older are assumed to commence receiving benefits immediately. Sample rates are shown in Table 4, and vary by age.

Non-depositing members are assumed to retire at the later of first retirement eligibility or age 60.

### Mortality Rates

Depositing members:

90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, both projected from 2014 using 110% of the MP-2014 Ultimate scale.

Service retirees, beneficiaries and non-depositing members:

130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected from 2014 using 110% of the MP-2014 Ultimate scale.

Disabled retirees:

130% of the RP-2014 Disabled Mortality Table for males and 115% of the RP-2014 Disabled Mortality Table for females, both projected from 2014 using 110% of the MP-2014 Ultimate scale.

**TABLE 4: SERVICE RETIREMENT RATES**

Age	Male and Female
40-44	0.045
45-49	0.090
50	0.100
51-53	0.090
54-57	0.100
58-61	0.120
62	0.200
63-64	0.150
65-66	0.250
67	0.220
68-69	0.200
70-74	0.220
75 & Over	1.000

**TABLE 5: ANNUAL RATE OF SALARY INCREASE**

Years of Service	Entry-Age Group			
	< 30	30-39	40-49	> 50
1	7.4%	6.9%	6.3%	5.8%
3	6.6	6.1	5.6	5.1
5	6.0	5.6	5.2	4.8
10	5.1	4.8	4.4	4.1
15	4.5	4.3	3.9	3.8
20	4.1	3.9	3.7	3.6
25	3.9	3.6	3.5	3.5

### Investment Return

A 7.50% annual discount rate is used in the valuation based on the expected long-term investment return of 7.50%. The components of the 7.50% investment return assumption are a 2.50% rate of price inflation and a 5.00% real rate of return. This rate of 7.50% is net of investment and administrative expenses.

### Salary Increases

The salary increase assumption predicts salary increases for individuals over their projected careers. These rates vary by the employee's service and age at hire (entry age). Annual increase percentages consist of a general wage inflation component of 3.00% and a merit, promotion and longevity component that varies from 0.50% to 5.00% based on entry age and service. The 3.00% wage inflation component is based on the underlying price inflation assumption of 2.50% and 0.50% for assumed increases in productivity. The salary scale varies by entry age, with an approximately 4.65% average annual increase over a typical employee's entire career. Because the TCDRS benefit is not based on final average salary, this assumption is generally not as significant as for other defined benefit retirement systems. Refer to Table 5 for sample salary increase rates.

## RETIREMENT PLAN: SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

### Payroll Increase

The payroll increase assumption projects the rate of growth of the employer's aggregate payroll. The rate varies by employer, with a maximum of 3.00%, or a smaller percentage as considered appropriate based on the employer's number of employees and prior experience. It also assumes no future growth in the number of employees.

### Cost-of-Living Adjustment

An annual increase of 0% cost-of-living adjustment for retirees and beneficiaries is assumed. Within certain parameters, employers may elect cost-of-living adjustments for retirees and beneficiaries on an ad hoc basis.

## B: ACTUARIAL METHODS

### Actuarial Cost Method

For funding calculations, TCDRS uses an entry-age actuarial cost method assuming the current plan provisions have always been in place. The goal of this cost method is to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin. Under this approach, benefits are funded in advance as a level percentage of pay. This part of the contribution rate is called the normal cost rate and generally remains stable from year to year. A portion of the normal cost rate is paid by the employee (employee deposit rate) and the remainder is paid by the employer (employer-paid normal cost rate).

### Amortization Policy

The portion of the contribution rate that funds any remaining unfunded amounts for benefits that are not covered by the normal cost is called the unfunded actuarial accrued liability (UAAL) rate. UAAL amounts occur when benefit enhancements are adopted, when actual investment or demographic experience varies from the actuarial assumptions (actuarial gains and losses), or when there are changes in actuarial assumptions or methods.

In general, UAAL amounts are amortized on a level-percentage-of-covered-payroll basis over a closed period with a layered approach. The closed periods ensure all unfunded liabilities are financed over no more than a 20-year period. Each year, new layers are established to amortize changes in the UAAL due to actuarial gains or losses, as

well as any plan benefit changes elected by an employer for that year.

Benefit enhancements are amortized over a 15-year closed period. All other changes in the UAAL except for changes due to scheduled amortization are amortized over 20-year closed periods.

For newly participating districts that have five or fewer employees who are all within five years of retirement eligibility, any initial UAAL and any subsequent adoption of prior service credits are amortized over a five-year closed amortization period. This ensures that benefits are appropriately funded over the current generation of employees.

Extra contributions may be made by employers by choosing to pay an elected rate that is greater than the required funding rate or making ad hoc lump-sum contributions. Any extra contributions made as lump sums are first used to offset the UAAL increase, if any, related to plan changes elected during the current year. Any extra contributions from an elected rate or remaining extra contribution amounts from lump sums are then used to pay down existing loss bases, in the order of oldest to most recent. After all existing loss bases have been paid off, any remaining extra contributions are incorporated into the actuarial gains or losses for the current year.

Notwithstanding the layered approach, the total UAAL payment may not be less than the required payment obtained by amortizing the entire UAAL over a 20-year period.

If a plan is overfunded, the overfunded actuarial accrued liability (OAAL) is calculated annually using a 30-year open amortization period.

For the Dec. 31, 2020 actuarial valuation there was a one-time adjustment to the amortization policy to help mitigate increases in employer rates resulting from the change in the investment return assumption and the price inflation assumption. Any UAAL amount from the Dec. 31, 2020 actuarial valuation was re-amortized over a 20-year closed period. The resulting required employer rate was then compared with what would have been the required rate using the same assumptions and methods used in the Dec. 31, 2019 actuarial valuation. If the resulting required rate was less, the closed period to re-amortize the UAAL was reduced from 20 years until the resulting required employer rate was greater than or equal to what would have been required using the Dec. 31, 2019 actuarial valuation assumptions and methods.

## RETIREMENT PLAN: SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

### Asset Valuation Method

When determining the actuarial value of assets used for determining required plan funding, TCDRS smooths each year's actuarial investment gains and losses in the following manner. First, any remaining unrecognized asset gains or losses from the previous year are updated to the current year to account for the time value of money using the investment return assumption. Then to the extent that there is a loss for the year and there are unrecognized gains from previous years, or to the extent that there is a gain for the year and there are unrecognized losses from previous years, the gain or loss for the year shall be used to offset unrecognized gains or losses from previous years in the order of oldest to most recent. Any remaining gain or loss for the year is recognized over a five-year period. This better reflects the system's long-term investment horizon and keeps employer contribution rates more stable. As actuarial asset investment gains and losses are recognized, they become part of the actuarial gains and losses for the year and are funded according to the amortization policy. This method ensures that an investment gain and loss for a year will be recognized within five years, helping to stabilize employer rates while still resulting in rates that are reasonably reflective of current market conditions. In addition, the board has the ability to set aside reserves from investment earnings that are used to help offset future negative economic cycles. These reserves are held separately and are not counted as part of a participating employer's plan assets until they are passed through to employers when determined necessary by the board. Reserves help maintain rate stability for employers. In addition, reserves ensure that employers do not adopt benefit increases based on a temporarily lower plan cost at a high point in a market cycle and, conversely, are not as pressured to immediately reduce benefit levels during a low point in a market cycle.

### C: CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

There were changes in both assumptions and methods reflected in the Dec. 31, 2020 actuarial valuation. The investment assumption was lowered from 8.0% to 7.5%, and the price inflation assumption was lowered from 2.75% to 2.5%. The lowering of the price inflation assumption impacted both the salary scale assumption and the payroll growth assumption. The details of these changes are as follows:

#### Investment Return

	Dec. 31, 2019	Dec. 31, 2020
Price Inflation	2.75%	2.50%
Real Rate of Return	5.25%	5.00%
Investment Return	8.00%	7.50%

#### Salary Increases and Payroll Growth

	Dec. 31, 2019	Dec. 31, 2020
Price Inflation	2.75%	2.50%
Increases in Productivity	0.50%	0.50%
General Wage Inflation (also Maximum Payroll Growth)	3.25%	3.00%
Merit and Longevity	Unchanged	
Approximate Average Career Annual Increase	4.90%	4.65%

There was one method change reflected in the Dec. 31, 2020 actuarial valuation. A one-time adjustment was made to the amortization policy. Please see the Actuarial Methods section above for more detail.



## RETIREMENT PLAN: SUMMARY ACTUARIAL DATA

### SUMMARY ACTUARIAL DATA

#### Funded Status and Funding Progress

##### Pension Trust Fund

The funded status of the pension plan as of Dec. 31, 2020, the most recent actuarial valuation date is:

	(\$ Millions)
Actuarial Value of Assets (a)	\$ 36,017.0
Actuarial Accrued Liability (AAL) – Entry Age (b)	\$ 41,294.8
Unfunded AAL (UAAL) (b-a)	\$ 5,277.8
Funded Ratio (a/b)	87.2%
Covered Payroll (c)	\$ 7,908.8
UAAL as a Percentage of Covered Payroll [(b-a) / c]	66.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation for the retirement plan follows:

<b>Valuation Date:</b>	Dec. 31, 2020
<b>Actuarial Cost Method:</b>	Entry age
<b>Amortization Method:</b>	Level percent
Unfunded AAL	Closed
Overfunded AAL	Open
<b>Remaining Amortization Period:</b>	
Unfunded AAL	20 years or less (varies by plan)
Overfunded AAL	30 years
<b>Asset Valuation Method:</b>	
SAF	5-year smoothed value
ESF	Fund value
CSARF	Fund value
<b>Actuarial Assumptions:</b>	
Investment Return	7.50%
Career Average Projected Salary Increases	4.65% avg. <sup>1</sup>
Payroll Increase (varies by plan)	3.00% or less
Inflation	2.50%
Cost-of-Living Adjustments	0.0%

<sup>1</sup> Includes inflation at the indicated rate

## RETIREMENT PLAN: SUMMARY ACTUARIAL DATA

**TABLE 6: FUNDING PROGRESS**

(\$ Millions)

Actuarial Valuation Date <sup>1</sup>	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) <sup>2</sup> (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll <sup>3</sup> (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/11	\$ 19,016.4	\$ 21,409.5	\$ 2,393.1	88.8%	\$ 5,205.5	46.0%
12/31/12	20,250.2	22,953.0	2,702.7	88.2	5,283.6	51.2
12/31/2013 <sup>4</sup>	21,912.7	24,514.8	2,602.1	89.4	5,483.8	47.5
12/31/14	23,751.8	26,252.8	2,501.0	90.5	5,779.0	43.3
12/31/15	25,398.8	28,632.5	3,233.7	88.7	6,122.3	52.8
12/31/16	26,951.9	30,473.9	3,522.0	88.4	6,378.4	55.2
12/31/2017 <sup>4</sup>	28,975.7	32,539.9	3,564.3	89.0	6,676.5	53.4
12/31/18	30,553.9	34,541.2	3,987.3	88.5	6,921.0	57.6
12/31/19	32,789.7	36,670.2	3,880.4	89.4	7,342.6	52.8
12/31/2020 <sup>5</sup>	36,017.0	41,294.8	5,277.8	87.2	7,908.8	66.7

<sup>1</sup> Each county and district participating in TCDRS is financially responsible for its own plan. Therefore, the aggregate numbers shown above reflect only the aggregate condition of TCDRS and are not indicative of the status of any one plan. The valuations above reflect changes in benefits elected by individual employees.

<sup>2</sup> The entry-age actuarial cost method is used for all plans. Each valuation above reflects the actuarial cost method, assumptions and benefits in effect as of the valuation date.

<sup>3</sup> The annual covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.

<sup>4</sup> Revised economic and demographic assumptions due to an experience review were first used in this valuation.

<sup>5</sup> Revised economic assumptions due to an experience review were first used in this valuation.

**TABLE 7: EMPLOYER CONTRIBUTIONS**

(\$ Millions)

Plan Year Ended Dec. 31	Actuarial Determined Contributions (ADC)		Actual Contributions		Percentage of ADC Contributed
	Average Rate*	Dollar Amount	Average Rate*	Dollar Amount	
2010	10.20%	\$ 531.8	10.55%	\$ 550.1	102%
2011	9.89	514.6	10.97	570.6	109
2012	10.32	545.2	11.05	583.9	106
2013	10.93	599.4	11.75	644.5	106
2014	11.36	656.7	11.84	684.2	103
2015	11.42	699.0	12.14	743.1	104
2016	11.20	714.2	12.10	771.7	108
2017	11.36	758.4	12.33	823.5	109
2018	11.68	808.1	12.56	869.6	108
2019	11.58	850.4	12.79	939.0	110
2020	12.14	959.8	13.08	1,034.4	108

\* System average weighted by payroll

## RETIREMENT PLAN: SUMMARY ACTUARIAL DATA

**TABLE 8: RETIREE AND BENEFICIARY DATA – ACCOUNTS\***

Year Ended	New Accounts Added	Accounts Removed	Net Change in Accounts	Total Number of Accounts	Percent Change in Number of Accounts
12/31/10	3,654	797	2,857	40,836	7.5%
12/31/11	3,682	883	2,799	43,635	6.9
12/31/12	4,099	933	3,166	46,801	7.3
12/31/13	3,961	942	3,019	49,820	6.5
12/31/14	4,504	1,155	3,349	53,169	6.7
12/31/15	4,277	1,084	3,193	56,362	6.0
12/31/16	4,783	1,160	3,623	59,985	6.4
12/31/17	4,689	1,046	3,643	63,628	6.1
12/31/18	5,024	1,223	3,801	67,429	6.0
12/31/19	4,588	1,165	3,423	70,852	5.1
12/31/20	5,299	1,536	3,763	74,615	5.3

\* Accounts reflect the total number of members being paid by separate employers.

**TABLE 9: RETIREE AND BENEFICIARY DATA – AMOUNTS**

Year Ended	New Annual Benefits Added	Annual Benefits Removed	Net Change in Annual Benefits Amount	Annual Benefits	Percent Change in Annual Benefits	Average Annual Benefit*
12/31/10	\$ 86,661,972	\$ 11,490,572	\$ 75,171,400	\$ 672,251,562	12.59 %	\$ 16,464
12/31/11	83,906,489	8,997,023	74,909,466	747,161,028	11.14	17,124
12/31/12	94,155,638	10,559,930	83,595,708	830,756,736	11.19	17,748
12/31/13	91,413,679	10,968,524	80,445,155	911,201,891	9.68	18,288
12/31/14	114,372,968	13,737,044	100,635,924	1,011,837,815	11.04	19,032
12/31/15	108,470,125	12,908,359	95,561,766	1,107,399,581	9.44	19,644
12/31/16	129,666,055	13,856,779	115,809,276	1,223,208,857	10.46	20,388
12/31/17	125,169,416	15,890,364	109,279,052	1,332,487,909	8.93	20,940
12/31/18	162,174,909	18,552,675	143,622,234	1,476,110,143	10.78	21,888
12/31/19	138,210,299	17,155,446	121,054,853	1,597,164,996	8.20	22,548
12/31/20	168,256,759	24,199,586	144,057,173	1,741,222,169	9.02	23,340

\* The average annual benefits are based on the regular benefits paid in January following the valuation date.

**TABLE 10: SOLVENCY TEST**

(\$ Millions)

Valuation Date	Actuarial Accrued Liabilities for			Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Position		
	(1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)		(1)	(2)	(3)
12/31/10	\$ 4,810.3	\$ 6,459.3	\$ 8,661.6	\$ 17,808.6	100%	100%	75.5%
12/31/11	5,090.7	7,202.8	9,116.0	19,016.4	100	100	73.7
12/31/12	5,364.3	8,014.5	9,574.2	20,250.3	100	100	71.8
12/31/13	5,668.9	8,796.9	10,049.0	21,912.7	100	100	74.1
12/31/14	5,931.8	9,785.8	10,535.2	23,751.8	100	100	76.3
12/31/15	6,264.8	10,552.7	11,815.0	25,398.8	100	100	72.6
12/31/16	6,563.4	11,601.0	12,309.5	26,951.9	100	100	71.4
12/31/17	6,901.3	12,713.5	12,925.1	28,975.7	100	100	72.4
12/31/18	7,153.4	14,099.6	13,288.2	30,553.9	100	100	70.0
12/31/19	7,591.0	15,221.3	13,857.9	32,789.7	100	100	72.0
12/31/20	7,990.1	17,259.6	16,045.1	36,017.0	100	100	67.1

## RETIREMENT PLAN: SUMMARY ACTUARIAL DATA

**TABLE 11: CONTRIBUTION RATE INFORMATION FOR PARTICIPATING EMPLOYERS**

Distribution of TCDRS Plans by Year 2022 Employer Actuarially Determined Contribution Rate

Number of Depositing Members as of 12/31/2020	Year 2022 Employer Actuarially Determined Contribution Rate Based on the Plan of Benefits in Effect 1/1/2021						Total
	Under 5.00%	5.00% – 6.99%	7.00% – 8.99%	9.00% – 10.99%	11.00% – 12.99%	Over 12.99%	
1 – 5	26	16	24	20	22	33	141
6 – 15	24	24	22	39	29	43	181
16 – 30	13	11	11	17	12	21	85
31 – 50	8	12	7	20	10	27	84
51 – 85	10	9	20	20	11	12	82
86 – 150	16	8	11	15	20	15	85
151 – 250	3	6	13	13	14	15	64
251 – 500	1	3	9	10	12	13	48
Over 500	0	2	3	5	14	23	47
<b>Total</b>	<b>101</b>	<b>91</b>	<b>120</b>	<b>159</b>	<b>144</b>	<b>202</b>	<b>817</b>

**TABLE 12: PARTICIPATING EMPLOYERS AND DEPOSITING MEMBERS**

Valuation Date	Number of Participating Employers	Depositing Members		Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions <sup>1</sup>	Average Employer Rate Paid
		Number	Annual Payroll				
12/31/10	618	122,889	\$ 5,213,892,696	\$ 42,428	1.3%	\$ 550,102,572	10.55%
12/31/11	624	121,919	5,202,460,203	42,671	0.6	570,562,898	10.97
12/31/12	641	121,963	5,283,625,749	43,322	2.1	583,902,381	11.05
12/31/13	656	124,525	5,483,787,404	44,038	1.7	644,462,694	11.75
12/31/14	677	125,860	5,779,022,617	45,916	4.3	684,212,315	11.84
12/31/15	701	129,717	6,122,322,455	47,380	3.2	743,149,234	12.14
12/31/16	737	131,140	6,378,374,324	48,638	2.7	771,701,126	12.10
12/31/17	760	135,751	6,676,520,194	49,182	1.1	823,501,201	12.33
12/31/18	781	137,528	6,921,029,795	50,325	2.3	869,683,305	12.56
12/31/19	798	142,265	7,342,564,173	51,612	2.6	939,026,347	12.79
12/31/20	817	142,722	7,908,759,528	55,414	7.4	1,034,443,115	13.08

<sup>1</sup> Employer contributions include optional lump-sum contributions and elected rates.

**TABLE 13: ANALYSIS OF FINANCIAL EXPERIENCE**

Gains and Losses in Actuarial Accrued Liabilities During 2019–20  
Resulting from Differences Between Assumed Experience and Actual Experience  
(\$ Millions)

Source of Change	\$ Gain (or Loss) for Year	
	2020	2019
Age and Service Retirements	\$ 4.9	\$ 3.8
Death In-Service Benefits	6.5	7.2
Other Termination	(21.0)	27.2
Pay Increases	(0.5)	(2.6)
Contribution Income	(4.5)	4.1
Investment Income	5.7	6.4
Death After Retirement	34.1	(16.6)
Other	(12.1)	(7.3)
<b>Gain (Loss) During Year from Financial Experience</b>	<b>13.1</b>	<b>22.2</b>
Non-Recurring Items		
Plan Changes	(23.4)	(32.6)
Assumption and Method Changes	(1,603.2)	0.0
<b>Gain (or Loss) from Non-Recurring Items</b>	<b>(1,626.6)</b>	<b>(32.6)</b>
<b>Composite Gain (or Loss) for Year</b>	<b>\$ (1,613.5)</b>	<b>\$ (10.4)</b>
<b>Composite Gain (or Loss) as a % of Actuarial Accrued Liabilities</b>	<b>(3.9%)</b>	<b>(0.0%)</b>

# RETIREMENT PLAN: SUMMARY OF PLAN PROVISIONS

## A: ORGANIZATION

TCDRS is a statewide, agent multiple-employer, public-employee retirement system that provides the employees of participating counties and districts with retirement, disability and survivor benefits. Each county and district that participates in TCDRS maintains its own customized plan of benefits which may be changed annually. The governing body of each employer has the option to adopt or change plan provisions based on their needs and budget.

Each employer has a savings-based defined benefit plan where member benefits are based on each member's account balance at retirement and employer matching. All plan assets are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. This summary describes the plan provisions in general terms. Any questions related to the actual administration, provisions or policies of the retirement plans should be directed to TCDRS.

## B: MEMBERSHIP

All full- and part-time non-temporary employees become members in TCDRS, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

## C: TERMINATION OF MEMBERSHIP

TCDRS membership is terminated by a member's death, retirement, or withdrawal of a member's account.

## D: MEMBER DEPOSITS

TCDRS is a savings-based plan. Every paycheck, a portion of each employee's pay — from 4% to 7% as set by the employer — is deposited into his or her TCDRS account. By law, member accounts earn 7% interest annually.

## E: SERVICE

Members receive a month of service for each month that they make a deposit into their account. Service may also be granted for periods of employment prior to the employer joining TCDRS, and for military and certain other service.

Within TCDRS, all periods of service with any TCDRS participating employers are combined. Also, service periods with other Texas public retirement

plans participating with TCDRS in the Texas Proportionate Retirement Program are combined to satisfy TCDRS retirement eligibility and vesting requirements.

## F: ELIGIBILITY REQUIREMENTS

### Service Retirement Benefits

The amount of service a member needs to earn a future monthly benefit is called the vesting requirement. When a member is vested, he or she has the right to a monthly benefit at age 60 or older. Employers may choose 5-, 8- or 10-year vesting. In addition, members may retire before age 60 if they meet one of the following requirements, set by the employer:

- "Rule of" eligibility: Under these rules, vested members can retire if their age plus years of service time add up to at least 75 or 80.
- 20-year or 30-year retirement at any age: This lets members retire when they have at least 20 or 30 years of service time.

### Disability Retirement Benefits

A member who is vested and who is totally and permanently disabled is eligible for an immediate disability retirement benefit. A member who is not vested is eligible for an immediate disability retirement benefit if the total and permanent disability was a result of an on-the-job injury.

### Survivor Benefits

Benefits are payable to the beneficiaries or estate of a deceased member. The eligibility requirement for an employer-provided survivor benefit is four years of TCDRS service. Otherwise the survivor benefit is the deceased member's account balance.

## G: DETERMINATION OF RETIREMENT BENEFITS

The service or disability retirement benefit is calculated based on the member's account balance and employer matching as selected by the employer, and may include other employer provided funds. The employer matching can range from a "dollar for dollar," up to \$2.50 per \$1.00 in the member's account. The member's account and employer provided funds are combined and converted to a lifetime annuity. The retiree receives a payment every month for the rest of his or her life. Conversions to a lifetime annuity are based on a 7% discount rate and the following mortality assumptions:



## RETIREMENT PLAN: SUMMARY OF PLAN PROVISIONS

- The portion of the benefit that accrues before 2018, including member deposits made before 2018 and interest and employer matching on those deposits, shall be calculated based on the UP-1984 table with an age setback of five years for retirees and an age setback of 10 years for beneficiaries, with a 30% reserve refund assumption for the single life option.
- The portion of the benefit that accrues after 2017, including member deposits made after 2017 and interest and employer matching on those deposits, shall be calculated on a generational mortality basis using the RP-2000 Combined Mortality Table, with a one-year set-forward for males and no set-forward for females, projected to 2014 using Scale AA and for projections after 2014 using 110% of MP-2014 Ultimate Projection Scale, with a 32.79% reserve refund assumption for the single life option. Mortality assumptions for these calculations are blended 50% male and 50% female for retirees, and blended 30% male and 70% female for beneficiaries.

Retirees elect to receive their monthly lifetime benefit by choosing from one of the following seven actuarially equivalent payment options:

- **Single Life option** – Monthly payments cease upon death of the retiree. This option provides the highest monthly benefit.
- **Guaranteed Term Benefit options** – The two guaranteed term benefit options are 10-year guaranteed term and 15-year guaranteed term. These options provide a lifetime monthly benefit to the retiree. In addition, if the retiree passes away within 10 or 15 years of the retirement date, the beneficiary will receive the monthly benefit until the end of the guaranteed term.
- **Dual Life options** – The four dual life options are 100% to beneficiary, 75% to beneficiary, 50% to beneficiary and 100% to beneficiary with pop-up. Under each of these options, after the death of the retiree, the beneficiary receives a monthly lifetime benefit equal to the selected percentage of the retiree's benefit payment. Under the 100% to beneficiary with pop-up option, if the beneficiary dies before the retiree, the monthly benefit amount will "pop up" to a higher monthly amount, as if the retiree had retired under the single life option.

All options pay a death benefit equal to the excess of the person's account at retirement over the total monthly benefits that have been paid.

Each employer may allow partial lump-sum payments. This allows the retiring member to receive an

immediate lump-sum payment, not to exceed his or her account balance, and choose a reduced monthly lifetime benefit from any of the payment options.

### H: FUNDING PROVISIONS

Contributions are made monthly by both the employees and the employers based on covered payroll.

Each year the actuary determines the required contribution rate for the following year to adequately fund each employer's benefit plan using the actuarial methods described beginning on page 68. Employers may also elect to fund at a rate higher than the required rate, and may also make additional lump-sum contributions.

### I: CHANGES IN PROVISIONS

There were no system-wide changes in plan provisions reflected in the Dec. 31, 2020 actuarial valuation.

Effective each Jan. 1 and within the parameters described previously in the summary of plan provisions, each TCDRS plan may make certain changes to their benefit levels, vesting, retirement eligibility and other plan provisions. The Dec. 31, 2020 actuarial valuation reflects plan provisions in effect for each plan as of Jan. 1, 2021.

# RETIREMENT PLAN: SUMMARY ACTUARIAL VALUATION RESULTS

**TABLE 14: SUMMARY ACTUARIAL VALUATION RESULTS**

	Dec. 31, 2020	Dec. 31, 2019
<b>Valuation Results for Employer Plans</b>		
1 Actuarial present value of future benefits		
Annuitants	\$ 17,246,883,550	\$ 15,208,616,364
Members	33,845,519,339	29,512,979,352
Total	51,092,402,889	44,721,595,716
2 Actuarial present value of future normal cost contributions	9,810,259,885	8,064,132,162
3 Actuarial accrued liability [1 - 2]	41,282,143,004	36,657,463,554
4 Actuarial value of assets		
Employees Saving Fund	7,990,121,291	7,590,997,879
Subdivision Accumulation Fund	28,014,029,499	25,186,022,118
Total	36,004,150,790	32,777,019,997
5 Total unfunded actuarial accrued liability (UAAL)	5,319,119,667	3,934,424,372
6 Total overfunded actuarial accrued liability (OAAL)	(41,127,453)	(53,980,816)
7 Unfunded actuarial accrued liability (UAAL), net of overfunded actuarial accrued liability (OAAL) [5 + 6]. Also equals [3 - 4].	5,277,992,214	3,880,443,556
<b>Valuation Results for Pooled Benefits</b>		
8 Actuarial present value of future benefits from the Closed Subdivision Annuity Reserve Fund for annuities in effect	12,699,719	12,717,154
9 Actuarial value of assets of the Closed Subdivision Annuity Reserve Fund	12,885,004	12,724,845
10 Underfunded actuarial accrued liability (UAAL) [8 - 9]	(185,285)	(7,691)
<b>11 System-wide AAL [3 + 8]</b>	<b>\$ 41,294,842,723</b>	<b>\$ 36,670,180,708</b>
<b>12 System-wide actuarial value of assets [4 + 9]</b>	<b>36,017,035,794</b>	<b>32,789,744,843</b>
<b>13 System-wide UAAL [11 - 12]</b>	<b>\$ 5,277,806,929</b>	<b>\$ 3,880,435,865</b>
<b>14 System-wide Funded Ratio [12/11]</b>	<b>87.2%</b>	<b>89.4%</b>



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May 19, 2021

Board of Trustees  
Texas County & District Retirement System  
Austin, Texas

Dear Trustees:

The Group Term Life Fund (GTLF) is an optional cost-sharing multiple-employer defined benefit plan that is administered by the Texas County & District Retirement System. It provides death benefits to active and, if elected, retired employees of participating employers. The financing objective of the GTLF is to operate as a group term insured benefit, charging each employer its premium based on current actuarial assumptions and its own demographic membership (number of active and retired members covered by GTLF). The funding of the GTLF is in accordance with Section 845.406 of the TCDRS statute. Contribution rates are established as a percentage of pay.

Milliman annually determines contribution rates for those employers that elect to participate in the GTLF for the Group Term Life Fund (GTLF). Additionally, Milliman performs GASB 75 financial reporting valuations of employers participating in the GTL who have elected both active and retiree coverage. It is our understanding that GASB 74 reporting is not required for the GTLF as it is not an Other Post-Employment Benefit (OPEB) trust, because it covers both actives and retirees.

The GTLF provides death benefits to both active and retired members. Each participating employer can elect to cover just active members, or active and retired members. The required contribution rates for funding purposes are equal to a premium rate that is individually determined for each participating employer annually, and is based on the mortality and service experience of all employees and retirees covered by the fund and the demographics specific to the workforce of the participating employer. The rate is expressed as a percentage of the compensation of members employed by the participating employer. The required contributions are determined using a one-year term cost funding method.

Milliman provided the summarized information about the GTLF that TCDRS has used in preparing the following tables:

- Actuarial Section – Table 15: GTLF – Retirees Covered
- Actuarial Section – Table 16: GTLF – Retirees Coverage Amounts
- Actuarial Section – Table 17: GTLF Participating Employers and Covered Members

The assumptions and methods used in the funding calculations are also summarized in the actuarial section.

Sincerely,

Mark C. Olleman, FSA, EA, MAAA  
Consulting Actuary

Nick J. Collier, ASA, EA, MAAA  
Consulting Actuary

# **GTLF: SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS AND DATA**

## **A: ACTUARIAL ASSUMPTIONS AND METHODS**

The actuarial assumptions for funding valuation purposes described below were developed from an actuarial experience investigation of TCDRS over the years 2013-2016. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2017 and first used in the Dec. 31, 2017 actuarial valuation.

### **Mortality Rates**

Same as for retirement plan.

### **Actuarial Value of Assets**

All assets are valued at fund value. The fund's assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act.

### **Actuarial Cost Method**

For funding purposes, the term cost method is used for determining the cost of one-year term life insurance for both active employees and retirees. The only demographic assumptions used for determining funding requirements are active employee mortality rates and retiree mortality rates.

### **Changes in Actuarial Assumptions and Methods**

There were no changes in assumptions or methods reflected in the Dec. 31, 2020 actuarial valuation.

## **B: PLAN PROVISIONS**

### **Participation in the Group Term Life Plan**

Employers who participate in the TCDRS retirement plan may elect to participate in the Group Term Life plan. Employers may elect to cover members who are active employees only or both members who are active employees and retirees, and may elect to change or discontinue coverage annually.

### **Benefit Eligibility**

The county or district must have elected the applicable Group Term Life coverage for the calendar year in which a member who is an active employee or retiree dies.

### **Amount of Insurance Benefit**

If death occurs while the member is actively employed, the benefit is an amount equal to the employee's most recent regular annualized salary. The insurance benefit payable to retirees is \$5,000.

# GTLF: SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS AND DATA

**TABLE 15: GTLF – RETIREES COVERED**

Year Ended	New Retirees Added	Retirees Removed	Net Change in Retirees	Total Number of Retirees <sup>1</sup>	Percent Change in Number Covered
12/31/11	555	4,806	(4,251)	5,814	(42.2%)
12/31/12	623	136	487	6,301	8.4
12/31/13	618	196	422	6,723	6.7
12/31/14	676	183	493	7,216	7.3
12/31/15	639	203	436	7,652	6.0
12/31/16	797	254	543	8,195	7.1
12/31/17 <sup>2</sup>	652	542	110	8,305	1.3
12/31/18	799	232	567	8,872	6.8
12/31/19	756	943	(187)	8,685	(2.1)
12/31/20	740	345	395	9,080	4.5

<sup>1</sup> A single individual may have coverage with more than one participating employer.

<sup>2</sup> An adjustment is included to combine retirees with multiple benefits paid by a single employer.

**TABLE 16: GTLF – RETIREES COVERAGE AMOUNTS**

Year Ended	New Annual Coverage Added	Annual Coverage Removed	Net Change in Annual Coverage Amount	Annual Coverage Amount <sup>1</sup>	Percent Change in Annual Coverage	Average Annual Coverage Per Retiree
12/31/11	\$2,775,000	\$24,030,000	\$(21,255,000)	\$29,070,000	(42.2%)	\$5,000
12/31/12	3,115,000	680,000	2,435,000	31,505,000	8.4	5,000
12/31/13	3,090,000	980,000	2,110,000	33,615,000	6.7	5,000
12/31/14	3,380,000	915,000	2,465,000	36,080,000	7.3	5,000
12/31/15	3,195,000	1,015,000	2,180,000	38,260,000	6.0	5,000
12/31/16	3,985,000	1,270,000	2,715,000	40,975,000	7.1	5,000
12/31/17 <sup>2</sup>	3,260,000	2,710,000	550,000	41,525,000	1.3	5,000
12/31/18	3,995,000	1,160,000	2,835,000	44,360,000	6.8	5,000
12/31/19	3,780,000	4,715,000	(935,000)	43,425,000	(2.1)	5,000
12/31/20	3,700,000	1,725,000	1,975,000	45,400,000	4.5	5,000

<sup>1</sup> A single individual may have coverage with more than one participating employer.

<sup>2</sup> An adjustment is included to combine retirees with multiple benefits paid by a single employer.

**TABLE 17: GTLF PARTICIPATING EMPLOYERS AND COVERED MEMBERS<sup>1</sup>**

Valuation Date	Number of Participating Employers	Covered Members		Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions	Average Employer Rate
		Number	Annual Payroll				
12/31/11	269	32,499	\$2,064,853,871	\$39,190	(10.5%)	\$5,927,549	0.29%
12/31/12	276	32,579	1,293,840,378	39,714	1.3	3,949,356	0.31
12/31/13	279	33,118	1,343,369,311	40,563	2.1	4,203,456	0.31
12/31/14	289	33,394	1,419,012,335	42,493	4.8	4,510,866	0.32
12/31/15	298	34,548	1,502,084,556	43,478	2.3	4,766,129	0.32
12/31/16	312	34,800	1,561,487,281	44,870	3.2	4,962,423	0.32
12/31/17	318	35,934	1,605,566,274	44,681	(0.4)	4,467,382	0.28
12/31/18	329	36,693	1,693,759,626	46,160	3.3	4,518,735	0.27
12/31/19	336	35,975	1,702,168,008	47,315	2.5	4,357,410	0.26
12/31/20	357	36,080	1,816,641,615	50,350	6.4	4,647,511	0.26

<sup>1</sup> Includes only employers that participate in the Group Term Life program.



**READER'S NOTES**

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# Protecting data

To provide secure and reliable retirement benefits, we must constantly examine our information security practices with good stewardship and safety in mind. We rigorously test our cybersecurity defenses to make sure we're doing everything in our power to protect customer data.

## INTRODUCTION

The Statistical Section provides additional detail to assist you in interpreting the information in the Financial Statements, Notes to Financial Statements and Required Supplementary Information. The information is presented in two main categories: Financial Trends Data and Demographic and Operating Information.

The Financial Trends Data illustrates how TCDRS' financial position has changed over time. The changes in net position for the last 10 fiscal years show additions by source, deductions by type and the total change in Pension Trust Fund and Group Term Life Fund (GTLF) net position for each year. The pension benefit expenses by type gives data on benefits paid and withdrawal deductions for the last 10 fiscal years.

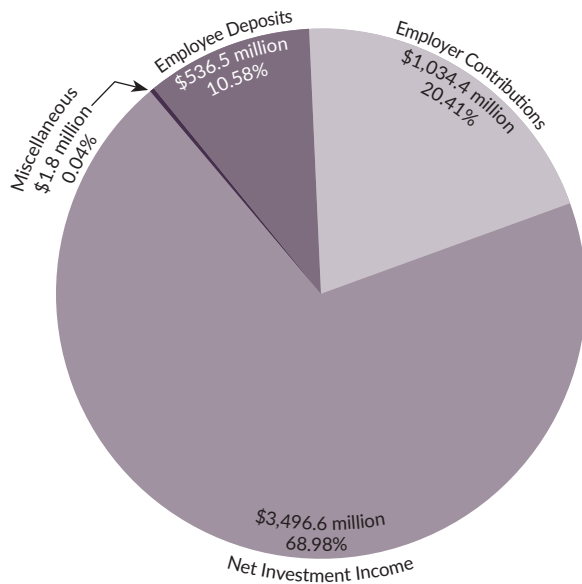
The Demographic and Operating Information provides details about TCDRS' operations and membership. The schedule of New Retiree Average Benefits gives the average monthly benefit and number of retired members, organized by five-year increments of credited service, for the last 10 fiscal years. Data is given for both pension benefits and for GTLF benefit payments. This section also includes information on the number of annuitants grouped by age and by type of benefits, along with a description of the retirement payment options. The schedule of largest participating employers compares the number of current members for those employers for the most recent year end and as of nine years ago.

TABLE 1: CHANGES IN NET POSITION, LAST TEN FISCAL YEARS

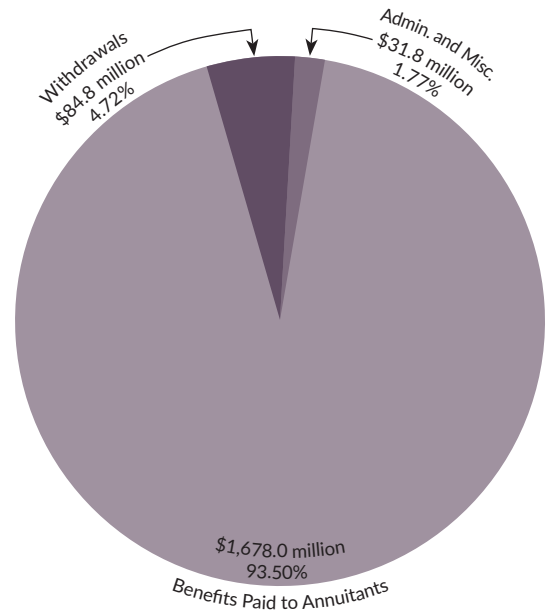
Pension Trust Fund	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Additions</b>										
Employee Deposits	\$ 347,995,322	\$ 353,349,948	\$ 367,313,130	\$ 383,186,524	\$ 414,806,917	\$ 432,765,143	\$ 453,435,928	\$ 469,786,710	\$ 498,343,448	\$ 536,458,089
Employer Contributions	570,562,898	583,902,381	644,462,694	684,212,315	743,149,234	771,701,126	823,501,201	869,683,305	939,026,347	1,034,443,116
Total Net Investment Income (Loss)	(208,287,663)	2,212,163,773	3,239,794,960	1,568,660,707	(172,638,528)	1,816,576,383	3,837,061,315	(558,892,357)	4,807,071,981	3,496,597,429
Other Additions	1,402,399	1,465,105	1,524,722	1,588,730	2,475,483	1,858,748	1,957,900	1,871,879	1,976,896	1,818,132
<b>Total Additions</b>	<b>711,672,956</b>	<b>3,150,881,207</b>	<b>4,253,095,506</b>	<b>2,637,648,276</b>	<b>987,793,106</b>	<b>3,022,901,400</b>	<b>5,115,956,344</b>	<b>782,449,537</b>	<b>6,246,418,672</b>	<b>5,069,316,766</b>
<b>Deductions</b>										
Benefits Paid:										
Service Retirements	701,095,589	774,927,826	864,546,467	948,890,194	1,053,112,636	1,149,053,001	1,276,444,848	1,392,219,836	1,534,633,593	1,661,524,380
Disability Retirements	14,702,551	15,112,328	15,400,094	15,566,244	15,996,931	16,069,755	16,363,172	16,499,057	16,523,966	16,512,662
Total Benefits Allowances	715,798,140	790,040,154	879,946,561	964,456,438	1,069,109,567	1,165,122,756	1,292,808,020	1,408,718,893	1,551,157,559	1,678,037,042
Withdrawals:										
Separation	79,979,067	80,628,521	89,227,565	81,243,255	80,373,804	74,737,725	84,208,957	84,596,757	90,484,037	83,338,482
Death / Ineligible	1,203,984	1,321,511	1,791,138	959,497	1,685,020	1,845,188	1,446,916	1,056,035	1,300,467	1,425,161
Total Withdrawals	81,183,051	81,950,032	91,018,703	82,202,752	82,058,823	76,582,913	85,655,873	85,652,792	91,784,504	84,763,643
Administrative and Building Operations Expenses	17,009,339	18,116,762	19,816,891	20,048,081	20,215,681	21,592,272	21,909,103	25,374,075	27,759,303	28,970,894
Interest Allocation to Group Term Life Fund	1,376,030	1,524,820	1,625,589	1,738,911	1,889,834	2,132,226	2,359,682	2,527,808	2,715,200	2,856,996
Payments to Terminating Employers	—	—	46,835	—	—	—	2,186	92	37,835	838
<b>Total Deductions</b>	<b>815,366,560</b>	<b>891,631,768</b>	<b>992,454,579</b>	<b>1,068,446,182</b>	<b>1,173,273,905</b>	<b>1,265,430,167</b>	<b>1,402,734,864</b>	<b>1,522,273,660</b>	<b>1,673,454,401</b>	<b>1,794,629,353</b>
<b>Change in Net Position</b>	<b>\$ (103,693,604)</b>	<b>\$2,259,249,439</b>	<b>\$3,260,640,927</b>	<b>\$ 1,569,202,094</b>	<b>\$ (185,480,799)</b>	<b>\$ 1,757,471,233</b>	<b>\$ 3,713,221,480</b>	<b>\$ (739,824,123)</b>	<b>\$ 4,572,964,271</b>	<b>\$ 3,274,687,413</b>
<b>Group Term Life Fund</b>										
<b>Additions</b>										
Employer Premiums	\$ 5,927,549	\$ 3,949,356	\$ 4,203,456	\$ 4,510,866	\$ 4,766,129	\$ 4,962,423	\$ 4,467,382	\$ 4,518,735	\$ 4,357,410	\$ 4,647,511
Income Allocation from Pension Trust Fund	1,376,030	1,524,820	1,625,589	1,738,911	1,889,834	2,132,226	2,359,682	2,527,808	2,715,200	2,856,996
<b>Total Additions</b>	<b>7,303,579</b>	<b>5,474,176</b>	<b>5,829,045</b>	<b>6,249,777</b>	<b>6,655,963</b>	<b>7,094,649</b>	<b>6,827,064</b>	<b>7,046,543</b>	<b>7,072,610</b>	<b>7,504,507</b>
<b>Deductions</b>										
Insurance Benefits	4,852,898	3,878,859	4,318,663	4,637,239	3,404,592	3,123,197	4,345,197	4,398,477	4,453,463	6,279,423
<b>Total Deductions</b>	<b>4,852,898</b>	<b>3,878,859</b>	<b>4,318,663</b>	<b>4,637,239</b>	<b>3,404,592</b>	<b>3,123,197</b>	<b>4,345,197</b>	<b>4,398,477</b>	<b>4,453,463</b>	<b>6,279,423</b>
<b>Change in Net Position</b>	<b>\$ 2,450,681</b>	<b>\$ 1,595,317</b>	<b>\$ 1,510,382</b>	<b>\$ 1,612,538</b>	<b>\$ 3,251,371</b>	<b>\$ 3,971,452</b>	<b>\$ 2,481,867</b>	<b>\$ 2,648,066</b>	<b>\$ 2,619,147</b>	<b>\$ 1,225,084</b>

# FINANCIAL TRENDS DATA

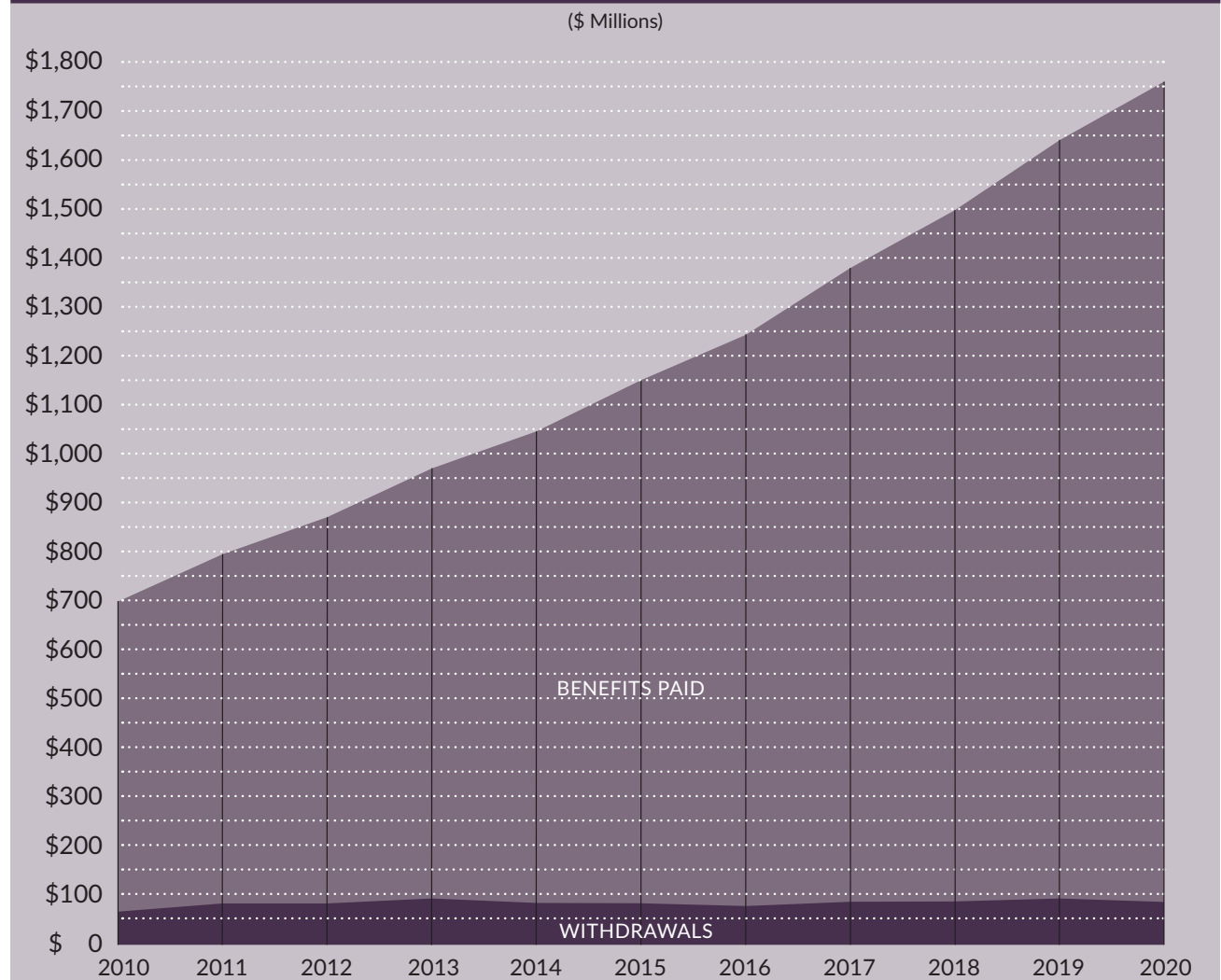
**FIGURE 1: ADDITIONS BY SOURCE – 2020**



**FIGURE 2: DEDUCTIONS BY TYPE – 2020**



**FIGURE 3: BENEFIT EXPENSES BY TYPE**





## DEMOGRAPHIC AND OPERATING INFORMATION

**TABLE 2: BENEFIT AT RETIREMENT FOR RECENT RETIREES**

This schedule reports the number and average monthly benefit at retirement for recent retirees grouped by years of credited service and year of retirement.

	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
2011							
Average Monthly Benefit	\$256	\$683	\$1,064	\$1,558	\$2,376	\$3,206	\$4,712
Number of Annuitants	412	569	651	546	652	477	356
2012							
Average Monthly Benefit	\$253	\$649	\$1,125	\$1,626	\$2,250	\$3,220	\$4,841
Number of Annuitants	484	687	717	590	700	508	411
2013							
Average Monthly Benefit	\$235	\$668	\$1,210	\$1,648	\$2,247	\$3,396	\$4,735
Number of Annuitants	449	671	684	575	642	462	415
2014							
Average Monthly Benefit	\$253	\$708	\$1,228	\$1,707	\$2,423	\$3,691	\$5,002
Number of Annuitants	459	782	761	677	745	599	512
2015							
Average Monthly Benefit	\$289	\$756	\$1,239	\$1,841	\$2,518	\$3,462	\$5,390
Number of Annuitants	450	733	741	626	674	495	492
2016							
Average Monthly Benefit	\$254	\$765	\$1,301	\$1,875	\$2,590	\$3,792	\$5,420
Number of Annuitants	483	786	891	722	735	608	593
2017							
Average Monthly Benefit	\$321	\$854	\$1,322	\$1,971	\$2,756	\$4,043	\$5,805
Number of Annuitants	480	744	833	658	700	583	503
2018							
Average Monthly Benefit	\$300	\$963	\$1,381	\$2,174	\$2,973	\$4,208	\$6,507
Number of Annuitants	582	743	959	817	710	688	663
2019							
Average Monthly Benefit	\$324	\$908	\$1,432	\$2,168	\$2,913	\$4,219	\$6,130
Number of Annuitants	504	738	871	704	671	609	505
2020							
Average Monthly Benefit	\$338	\$910	\$1,453	\$2,167	\$2,857	\$4,255	\$6,469
Number of Annuitants	608	852	985	823	825	688	701

Note: TCDRS is an account-based plan similar to a cash balance plan, and final average salary data is not used to determine benefits, therefore final average salary data is not presented.

**TABLE 3: AVERAGE BENEFITS**

This schedule reports the average benefit for retirees and for all retirees and beneficiaries.<sup>1</sup>

As of Dec. 31,	Retirees Only		All Payees	
	Monthly	Annually	Monthly	Annually
2011	\$ 1,526	\$ 18,312	\$ 1,427	\$ 17,124
2012	1,581	18,972	1,479	17,748
2013	1,629	19,548	1,524	18,288
2014	1,693	20,316	1,586	19,032
2015	1,752	21,024	1,637	19,644
2016	1,817	21,804	1,699	20,388
2017	1,897	22,764	1,745	20,940
2018	1,981	23,772	1,824	21,888
2019	2,039	24,468	1,879	22,548
2020	2,111	25,332	1,945	23,340

<sup>1</sup> In cases of retirees with multiple accounts from a single employer, the accounts are considered as a single benefit. Benefits from multiple employers to a single retiree are calculated as multiple benefits.

**TABLE 4: AVERAGE BENEFIT PROFILE BY EMPLOYER TYPE**

As of Dec. 31, 2020

	Retirees Only		All Payees	
	Monthly	Annually	Monthly	Annually
Counties	\$ 2,148	\$ 25,776	\$ 1,974	\$ 23,688
Districts	1,823	21,876	1,711	20,532

# DEMOGRAPHIC AND OPERATING INFORMATION

**TABLE 5: ANNUITANTS BY TYPE OF BENEFIT**

Amount of Monthly Benefit	Annuitants				Retirement Option Selected							
	Retiree	Beneficiary <sup>1</sup>	Single Life	100% to Beneficiary	100% to Beneficiary with Pop-up	75% to Beneficiary	50% to Beneficiary	25% to Beneficiary <sup>2</sup>	15-year Guarantee	10-year Guarantee	5-year Guarantee	
\$ 0 – 499	9,835	4,515	5,722	2,785	1,740	352	1,235	162	1,559	703	92	
500 – 999	11,981	3,211	6,092	2,935	2,098	466	1,441	55	1,231	770	104	
1,000 – 1,499	9,502	1,677	4,268	2,033	1,738	442	1,237	53	801	527	80	
1,500 – 1,999	7,104	943	3,122	1,350	1,211	438	951	36	487	396	56	
2,000 – 2,499	5,558	611	2,395	1,055	945	283	845	11	327	284	24	
2,500 – 2,999	4,131	378	1,727	762	731	211	628	7	253	170	20	
3,000 – 3,499	3,214	280	1,309	574	525	197	535	9	181	148	16	
3,500 – 3,999	2,451	161	1,040	416	380	126	371	3	143	121	12	
4,000 – 4,499	1,934	114	781	357	308	117	294	2	86	99	4	
4,500 – 4,999	1,423	60	585	226	216	86	244	2	64	56	4	
5,000 – 5,499	1,251	56	484	227	167	91	219	2	50	65	2	
5,500 – 5,999	899	37	350	166	125	80	145	0	33	37	0	
6,000 – 6,499	739	20	291	126	109	55	129	1	19	29	0	
6,500 – 6,999	496	18	193	87	57	45	76	0	29	26	1	
7,000 & Over	1,950	66	689	370	239	179	371	2	92	74	0	
Subtotals	62,468	12,147	29,048	13,469	10,589	3,168	8,721	345	5,355	3,505	415	
<b>Totals</b>	<b>74,615</b>						<b>74,615</b>					

<sup>1</sup> Includes Alternate Payees of Retirees.

<sup>2</sup> Retirement payment option is no longer available to new retirees.

## RETIREMENT BENEFIT PAYMENT OPTIONS

All options pay the retiree a monthly benefit for life and, when a retiree passes away, guarantee that the total benefit paid will equal, at a minimum, the total accumulated contributions of the retiree.

### Single Life

Payments cease upon the death of the retiree.

### 15-year Guaranteed Term

If the retiree dies within 15 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 15-year period, at which time payments cease.

### 10-year Guaranteed Term

If the retiree dies within 10 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 10-year period, at which time payments cease.

### 50% to Beneficiary

At the death of the retiree, the beneficiary will receive 50% of the retiree's monthly payment throughout the beneficiary's life.

### 75% to Beneficiary

At the death of the retiree, the beneficiary will receive 75% of the retiree's monthly payment throughout the beneficiary's life.

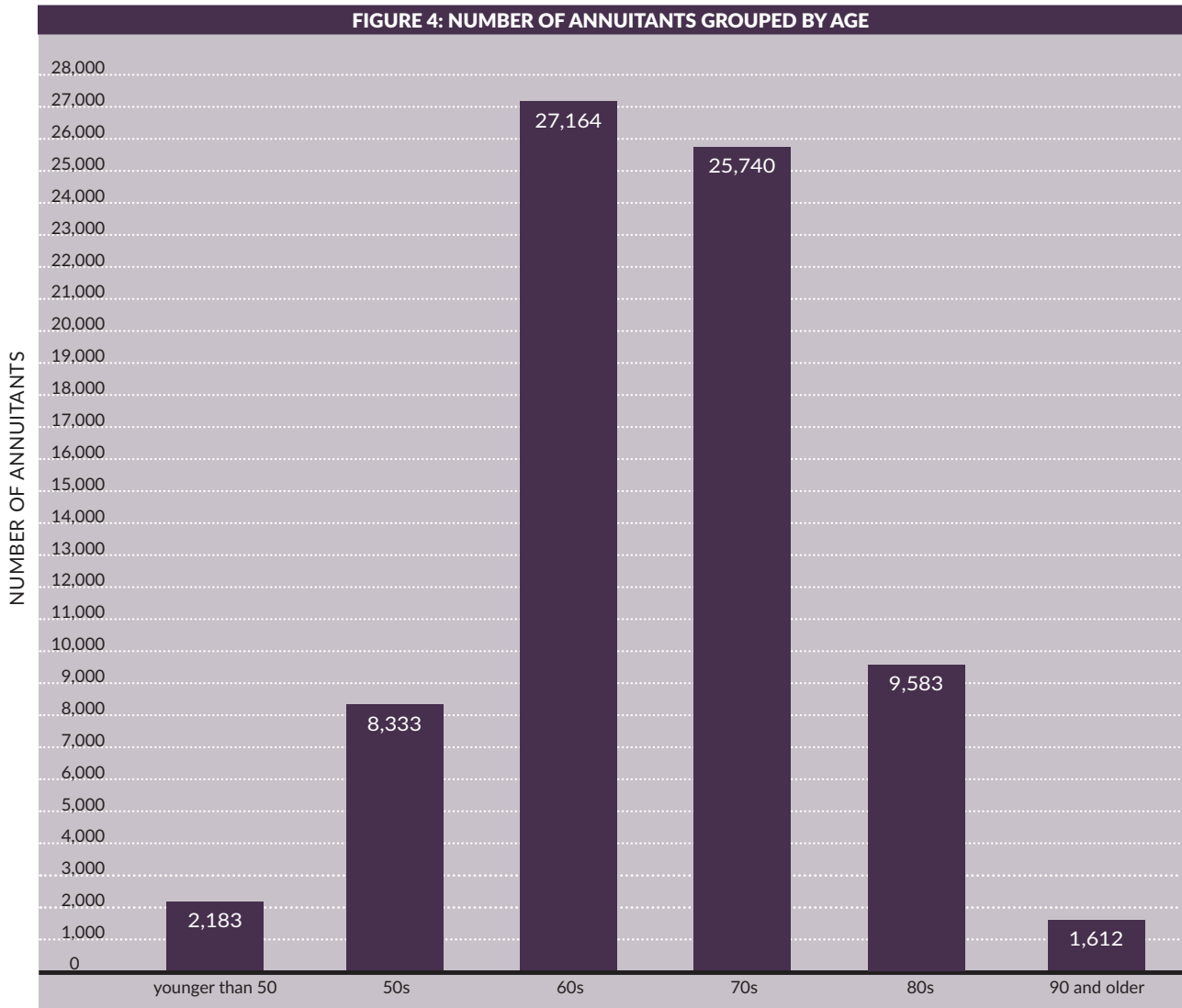
### 100% to Beneficiary

At the death of the retiree, the beneficiary will receive 100% of the monthly amount paid to the retiree throughout the beneficiary's life.

### 100% to Beneficiary with Pop-up

If the beneficiary survives the retiree, monthly payments equal to 100% of the monthly amount paid to the retiree continue to the beneficiary for life. If the retiree outlives the beneficiary, the monthly payment amount will increase (pop up) after the beneficiary's death to the higher amount of the Single Life option.

## DEMOGRAPHIC AND OPERATING INFORMATION



**TABLE 6: LARGEST PARTICIPATING EMPLOYERS — CURRENT YEAR AND NINE YEARS AGO**

Employer	2020			2011		
	Number of Current Employee Accounts	Rank	% of Total System	Number of Current Employee Accounts	Rank	% of Total System
Harris County	19,401	1	13.6%	14,650	1	12.0%
Dallas County	6,807	2	4.8%	6,763	2	5.5%
Bexar County	5,552	3	3.9%	4,871	4	4.0%
Travis County	5,253	4	3.7%	5,060	3	4.2%
Tarrant County	4,618	5	3.2%	4,394	5	3.6%
Hidalgo County	3,215	6	2.3%	2,990	6	2.5%
El Paso Co. Hospital District	3,025	7	2.1%	2,481	8	2.0%
Fort Bend County	3,014	8	2.1%	2,840	7	2.3%
El Paso County	2,961	9	2.1%	2,395	9	2.0%
Montgomery County	2,548	10	1.8%	2,091	10	1.7%
All others	86,328		60.4%	73,384		60.2%
<b>Totals</b>	<b>142,722</b>		<b>100.0%</b>	<b>121,919</b>		<b>100.0%</b>

## DEMOGRAPHIC AND OPERATING INFORMATION

**TABLE 7: GROUP TERM LIFE FUND –  
AVERAGE BENEFITS PAID**

This schedule reports the number of GTLF insurance payments and the average benefits paid.

	Active	Retirees
<b>2007</b>		
Average Benefit Payment	\$36,459	\$5,000
Number of Payments	89	267
<b>2008</b>		
Average Benefit Payment	\$37,068	\$5,000
Number of Payments	111	231
<b>2009</b>		
Average Benefit Payment	\$39,161	\$5,000
Number of Payments	93	261
<b>2010</b>		
Average Benefit Payment	\$36,918	\$5,000
Number of Payments	90	243
<b>2011</b>		
Average Benefit Payment	\$30,026	\$5,000
Number of Payments	113	292
<b>2012</b>		
Average Benefit Payment	\$35,890	\$5,000
Number of Payments	83	180
<b>2013</b>		
Average Benefit Payment	\$38,659	\$5,000
Number of Payments	83	222
<b>2014</b>		
Average Benefit Payment	\$41,205	\$5,000
Number of Payments	89	194
<b>2015</b>		
Average Benefit Payment	\$36,819	\$5,000
Number of Payments	63	217
<b>2016</b>		
Average Benefit Payment	\$38,763	\$5,000
Number of Payments	54	206
<b>2017</b>		
Average Benefit Payment	\$41,175	\$5,000
Number of Payments	81	202
<b>2018</b>		
Average Benefit Payment	\$43,446	\$5,000
Number of Payments	75	228
<b>2019</b>		
Average Benefit Payment	\$47,719	\$5,000
Number of Payments	69	233
<b>2020</b>		
Average Benefit Payment	\$49,441	\$5,000
Number of Payments	95	317

**ACTUARIAL ACCRUED LIABILITY**

The portion, as determined by the actuarial cost method, of the Actuarial Present Value of pension plan benefits and expenses that is not provided for by future Normal Costs.

**ACTUARIAL ASSUMPTIONS**

In order to estimate the cost of funding benefits, the actuaries use long-term assumptions. Examples include mortality, termination, disablement and retirement; changes in salary; payroll growth; investment returns and other relevant items. Actuarial assumptions are adopted by the board of trustees upon recommendation of the consulting actuaries. The assumptions are reviewed every four years.

**ACTUARIAL GAIN (LOSS)**

The difference between actual results and what was projected to happen based on Actuarial Assumptions during the period between annual Actuarial Valuations.

**ACTUARIAL PRESENT VALUE**

The calculated value of a series of projected cash flows expressed in present day dollars as of the valuation date using actuarial assumptions.

**ACTUARIAL VALUATION**

The process to calculate the employer contribution rate. This process determines the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and Actuarial Present Values.

**ACTUARIAL VALUE OF ASSETS**

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

**ACTUARIALLY EQUIVALENT PAYMENT OPTIONS**

Different benefit payment options that pay different amounts per month, but are of equal value at the time the option is selected.

**ALERIAN MLP INDEX**

This index is a benchmark for energy infrastructure Master Limited Partnerships that includes MLPs which earn the majority of their cash flow from midstream activities. The index is calculated using a capped, float-adjusted, capitalization-weighted methodology.

**BENCHMARK PORTFOLIOS**

Portfolios represented by specific indices that are created for the purpose of measuring the relative performance of investment managers, asset classes and, in the case of the Policy Benchmark Portfolio, the entire TCDRS portfolio. Data regarding performance of these benchmark portfolios during any period indicate the returns that were available during the period for comparable investments that were passively managed. Comparisons indicate the value added by each manager, if any, in excess of the performance that was experienced by the specific benchmark index.

**BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX**

This index incorporates all domestic debt issues with maturities greater than one year and in amounts greater than \$1 million. Included are publicly issued, nonconvertible, domestic debt issues of the U.S. government and its agencies and corporations in industrial, utility or financial segments.

**BLOOMBERG BARCLAYS U.S. 10-YEAR BREAKEVEN INFLATION INDEX**

This index is designed to provide access to 10-year breakeven inflation by capturing the returns of a simultaneous long position in 10-year inflation linked securities and a short position in suitable nominal comparator U.S. Treasury bonds.

**BLOOMBERG COMMODITIES INDEX**

This index is composed of futures contracts on physical commodities. It provides broad-based exposure to commodities, with no single commodity or sector dominating the index. The liquidity and diversity of the benchmark make it suitable for institutional investment.

**CAMBRIDGE ASSOCIATES DISTRESSED SECURITIES INDEX**

A custom benchmark index provided by Cambridge Associates based on data compiled from more than 300 distressed debt funds, including fully liquidated partnerships with first cash flows beginning in 2005. The benchmark return is net of fees, expenses and carried interest.

**CAMBRIDGE ASSOCIATES GLOBAL PRIVATE EQUITY & VENTURE CAPITAL INDEX**

A custom benchmark index provided by Cambridge Associates based on data compiled from approximately 2,950 global private equity and venture



## GLOSSARY

capital funds, including fully liquidated partnerships, with first cash flows beginning 2006. The benchmark return is net of fees, expenses and carried interest.

### **CAMBRIDGE ASSOCIATES REAL ESTATE INDEX**

A custom benchmark index provided by Cambridge Associates based on data compiled from approximately 690 global private real estate funds, including fully liquidated partnerships with first cash flows beginning 2007. The benchmark return is net of fees, expenses and carried interest.

### **COMMODITIES**

Investment in resources that can be perishable (grains, sugar, etc.) and non-perishable (metals, energy, etc.). Commodities provide protection against inflation and have low correlation to stocks and other asset classes.

### **DIRECT LENDING**

Privately originated debt made to small to medium-sized companies or to real estate investors in order to take advantage of disruptions in the banking system.

### **DISTRESSED DEBT**

Distressed debt investments are investments in partnerships that purchase the debt of companies experiencing financial distress ranging from deteriorating financial conditions to bankruptcy. Strategies employed include trading, participating in restructuring transactions and controlling bankruptcy proceedings.

### **DOW JONES U.S. TOTAL STOCK MARKET INDEX**

This index is one of the broadest measures of domestic equity performance since it is computed based upon all equity trades of U.S. stocks during any day. Each company included within the index is not equally weighted within the index, but rather is weighted according to its market value among the market values of all U.S. companies.

### **EMPLOYER REQUIRED CONTRIBUTION RATE**

The percentage of payroll the employer is required to contribute to fund future benefits for their current employees, former employees and retirees. It is the sum of the Normal Cost Contribution Rate and the Unfunded Actuarial Accrued Liability Contribution Rate.

### **ENTRY-AGE ACTUARIAL COST METHOD**

An actuarial cost method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is

allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a Valuation Date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

### **FOREIGN CURRENCY FORWARD CONTRACTS**

Forward contracts are over-the-counter agreements between two parties to buy and sell a currency at a set price on a future date. The contracts are marked-to-market on each valuation date with any resulting unrealized appreciation or depreciation recorded on such date. Realized gains or losses equal to the value of the contract when it was opened and the settlement amount at the time the contract is closed (or rolled) are recorded upon receipt of the currency.

### **FTSE HIGH-YIELD CASH-PAY CAPPED INDEX**

This index includes cash-pay bonds with a below-investment-grade rating by both Moody's Investor Services and Standard & Poor's. The bonds must have a maturity of at least one year and a minimum amount outstanding of \$100 million. The par value of individual issuers is capped at \$5 billion par outstanding.

### **FTSE NAREIT ALL EQUITY REIT INDEX**

This index gives a broad exposure to U.S. publicly traded equity REITs in every property sector.

### **FTSE NAREIT EQUITY REITS INDEX**

This index contains all Equity REITs across the U.S. economy not designated as Timber REITs or Infrastructure REITs.

### **GLOBAL EQUITY**

Investments in stocks included in all public markets, both domestic and international.

### **HEDGE FUND RESEARCH INSTITUTE (HFRI) FUND OF FUNDS COMPOSITE INDEX**

This index consists of funds that each manage a group of diverse hedge funds. Each fund of funds has at least \$50 million under management or has been actively trading for at least twelve months. The index includes both domestic and offshore funds that offer diverse strategies. All constituent funds report returns net of fees on a monthly basis.

**HEDGE FUNDS**

An investment strategy applied to a variety of different investments to help manage risk within the entire portfolio. Over a full market cycle, hedge funds produce risk-adjusted returns to help mitigate losses during market downturns.

**HIGH-YIELD BONDS**

Domestic fixed-income securities that have not been highly rated by national rating agencies, such as Moody's Investors Service (Moody's) or Standard & Poor's (S&P). A security is considered a high-yield bond if it is rated below Baa3 by Moody's or below BBB- by S&P. To pay for the risk, the interest rates earned are higher than investment-grade bonds.

**INVESTMENT-GRADE BONDS**

The investment-grade bonds portfolio consists of debt securities issued by the U.S. Treasury or an agency or government-sponsored entity (GSE) of the United States (U.S. governments); mortgage-related instruments, U.S. dollar-denominated fixed-income securities issued by U.S. and foreign corporations; and U.S. dollar-denominated debt issued by foreign governments and supranationals. Additionally, these portfolios may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock. The portfolio should exhibit an overall dollar-weighted average quality rating of AA.

**MASTER LIMITED PARTNERSHIPS (MLPS)**

Publicly traded partnership interests created by Congress to encourage investment in domestic energy infrastructure. At the entity level, these interests are tax free provided that 90% of their income comes from natural resources such as oil, natural gas, coal, timber and other depletable resources.

**MSCI EAFE INDEX (EUROPE, AUSTRALASIA, FAR EAST)**

This index, prepared by Morgan Stanley Capital International (MSCI), is designed to measure developed market large and mid-cap equity performance excluding the United States and Canada.

**MSCI EMERGING MARKETS (EM) INDEX**

This index, prepared by Morgan Stanley Capital International (MSCI), captures large and mid-cap equity performance across 26 emerging market countries with more than 1,400 constituents.

**MSCI WORLD EX U.S.**

This index, prepared by Morgan Stanley Capital International (MSCI), is designed to measure developed market equity performance excluding the United States.

**MSCI WORLD INDEX (NET)**

This index, prepared by Morgan Stanley Capital International (MSCI), is a broad global equity index that represents large and mid-cap equity performance across developed markets countries.

**NORMAL COST**

The portion of the Actuarial Present Value of pension plan benefits and expenses that is allocated to a valuation year by the actuarial cost method.

**NORMAL COST CONTRIBUTION RATE**

This is the rate required to fund current employees' benefits over their projected careers. It is equal to the Actuarial Present Value at hire of Projected Benefits divided by the Actuarial Present Value at hire of anticipated future compensation. It is calculated for each contributing member and the average is weighted by compensation.

**OPPORTUNISTIC CREDIT**

Comprises investments primarily in debt instruments that provide return opportunities resulting from dislocations in capital markets.

**OVERFUNDED ACTUARIAL ACCRUED LIABILITY (OAAL)**

The excess, if any, of the Actuarial Value of Assets over the Actuarial Accrued Liability.

**PLAN YEAR**

The period from Jan. 1 to Dec. 31 inclusive.

**PRIOR SERVICE**

Benefits attributable to an amount provided by the employer for service rendered by an employee prior to employer participation in TCDRS.

**PRIVATE EQUITY**

Private partnerships that (a) take public companies private in order to improve their operations and resell them in the future; (b) invest in start-up companies with new ideas or technologies; and (c) invest in both traditional and renewable energy discovery and production.

## GLOSSARY

### PRIVATE REAL ESTATE

Non-publicly traded vehicles that invest in a broad array of real estate properties and ventures. Private real estate investments are expected to be very illiquid and long term in nature. The vehicles for private real estate investments are typically partnerships, but may also include other entities such as limited liability companies or offshore corporations.

### PROJECTED BENEFITS

Retirement benefit amounts that are estimated to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such factors as the effect of advancement in age, and past and anticipated future compensation and service time.

### REITS

Real estate investment trusts are companies that own and operate income-producing real estate, such as commercial office buildings, apartments, malls, warehouses and storage facilities. Under provisions of the U.S. tax law, if REITs pay out most of their income, they do not pay income taxes. This means higher income earnings along with any increase in the value of the real estate.

### S&P GLOBAL REIT INDEX (NET)

This index serves as a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets.

### S&P/LSTA LEVERAGED LOAN TOTAL RETURN INDEX

This index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weights, spreads and interest payments.

### STRATEGIC CREDIT

Portfolio comprised of high-yield bond and opportunistic credit portfolios.

### TIPS

Treasury Inflation-Protected Securities are bonds issued by the U.S. Treasury just like other U.S. government bonds. However, the principal amount of TIPS increases with the rate of inflation so that inflation does not decrease the value of the bond. They provide a way to protect against inflation.

### UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

### UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE

The amount needed to amortize the Unfunded Actuarial Accrued Liability over a closed period of 20 years or less, expressed as a percent of payroll. If the plan has an Overfunded Actuarial Accrued Liability, it is amortized over an open period of 30 years, and the resulting negative Unfunded Actuarial Accrued Liability Contribution Rate is offset against the Normal Cost Contribution Rate.







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