



INVESTMENTS

- SECTION 3 -

CULTIVATE

Creating a
Better Future



HMEPS
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

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

PURPOSE

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

INVESTMENT OBJECTIVES

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

The System’s investment performance is compared to a policy portfolio comprised of market indices, which are consistent with the overall investment policy. The policy portfolio reflects a passive implementation of the target investment policy. Effective July 1, 2023, the Board approved an updated asset allocation for the System’s investment portfolio, along with an updated policy portfolio

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

ASSET ALLOCATION

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

The System’s current asset allocation, became effective July 1, 2023. This Investment Section reflects the asset allocation in effect during FY2023.

DIVERSIFICATION

The System invests in seven major asset classes (Global Equities, Fixed Income, Real Estate, Private Credit, Private Equity, Inflation-Linked, and Absolute Return) as a method to maximize overall fund diversification. Further, the System engages the services of numerous professional investment managers (including in both public markets and private partnerships) with demonstrated skills and expertise in managing portfolios within each asset class. The managers retained are expected to utilize varied investment approaches that, when combined, will exhibit return characteristics that are similar to the asset class proxy utilized in the strategic asset allocation plan. As of June 30, 2023, the System utilized 83 investment managers, several of which manage multiple mandates. Cash inflows and outflows are directed within the targeted asset class to the various managers so that actual characteristics of the portfolio will be consistent with the strategic plan. Excluding passive strategies, no investment manager is permitted to manage more than 20% of the fair value of the System’s assets.

REBALANCING

The IPS requires a periodic adjustment, or rebalancing, of assets be made to ensure conformance with policy target levels. Such rebalancing is necessary to reflect sizable cash flows and performance imbalances among the various asset classes that may occur over time. During fiscal year 2023, Staff directed the rebalancing of assets within the asset allocation targets in response to market dynamics and the System’s liquidity needs.

INVESTMENT MANAGER GUIDELINES – PUBLIC MARKETS

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

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

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

MANAGER EVALUATION

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

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

INVESTMENT PERFORMANCE EVALUATION

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

PROXY VOTING

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

INVESTMENT

LONG-TERM RESULTS

The 10-year period ended June 30, 2023 encompassed the 2020-2022 Covid pandemic and recovery followed by geopolitical volatility in the wake of the Russian invasion of Ukraine. These catalysts have produced volatile returns for financial markets as a whole. The System performed well, outperforming its peer group in seven of those ten years. Due to the diversification of assets, the System's 5-year annualized return is 10.5%. The 10-year return stands at 9.5%.

As shown in the investment results (Table 2), HMEPS' total fund performance compares very favorably to the median public fund, as represented by the Wilshire TUCS Master Trusts – Public Universe. Over the three-, five- and ten-year periods, HMEPS is in the top 5% of funds in the Wilshire TUCS Master Trusts – Public Universe.

FISCAL YEAR 2023 RESULTS

For the fiscal year ended June 30, 2023, the System's investment portfolio returned 6.2%.

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

TABLE 1: ASSET ALLOCATION SUMMARY

Period ending June 30, 2023

Asset Class	Assets		Performance			
	(\$ Millions)	(%)	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
Total Global Equity¹	1,178.1	29.0	13.0%	9.4%	6.8%	8.2%
Global Equity Policy			13.5%	9.7%	7.2%	8.3%
Global Low Volatility Equity	276.8	6.8	6.2%	6.1%	5.8%	n/a
MSCI ACWI Min Vol (Net)			5.8%	5.7%	5.4%	n/a
Domestic Equity	520.3	12.8	14.3%	15.4%	9.7%	11.2%
Wilshire 5000			19.1%	14.2%	11.7%	12.5%
International Equity	381.0	9.4	16.7%	4.5%	3.9%	4.7%
MSCI ACWI ex US (Net)			12.7%	7.2%	3.5%	3.6%
Global Fixed Income	231.1	5.7	5.3%	0.8%	2.7%	3.6%
Global Fixed Income Policy ²			3.9%	-0.4%	2.1%	3.0%
Real Estate	404.9	10.0	5.4%	12.0%	7.7%	9.1%
NCREIF Property			-6.6%	6.8%	5.9%	7.8%
Private Equity	1,147.6	28.2	-5.3%	24.0%	17.6%	15.2%
S&P 500 + 3%			22.6%	17.6%	15.3%	15.9%
Absolute Return	133.3	3.3	6.2%	9.2%	5.8%	4.3%
LIBOR 3 Month Yield + 4%			8.8%	5.9%	6.0%	5.4%
Inflation Linked	687.1	16.9	17.3%	30.8%	10.4%	6.3%
CPI + 4%			7.0%	9.8%	7.9%	6.7%
Private Credit	152.3	3.7	11.7%	14.0%	10.9%	n/a
CSFB Leveraged Loan Index			10.1%	6.2%	4.0%	n/a
Cash / Liquidation	133.7	3.2	n/a	n/a	n/a	n/a
Total Fund	4,068.1	100.0	6.2%	15.7%	10.5%	9.5%
Policy Benchmark			10.4%	9.6%	8.1%	8.3%
Median of Wilshire Public Fund Universe/TUCS ³			72 (87)	1 (81)	1 (63)	4 (61)

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

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

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

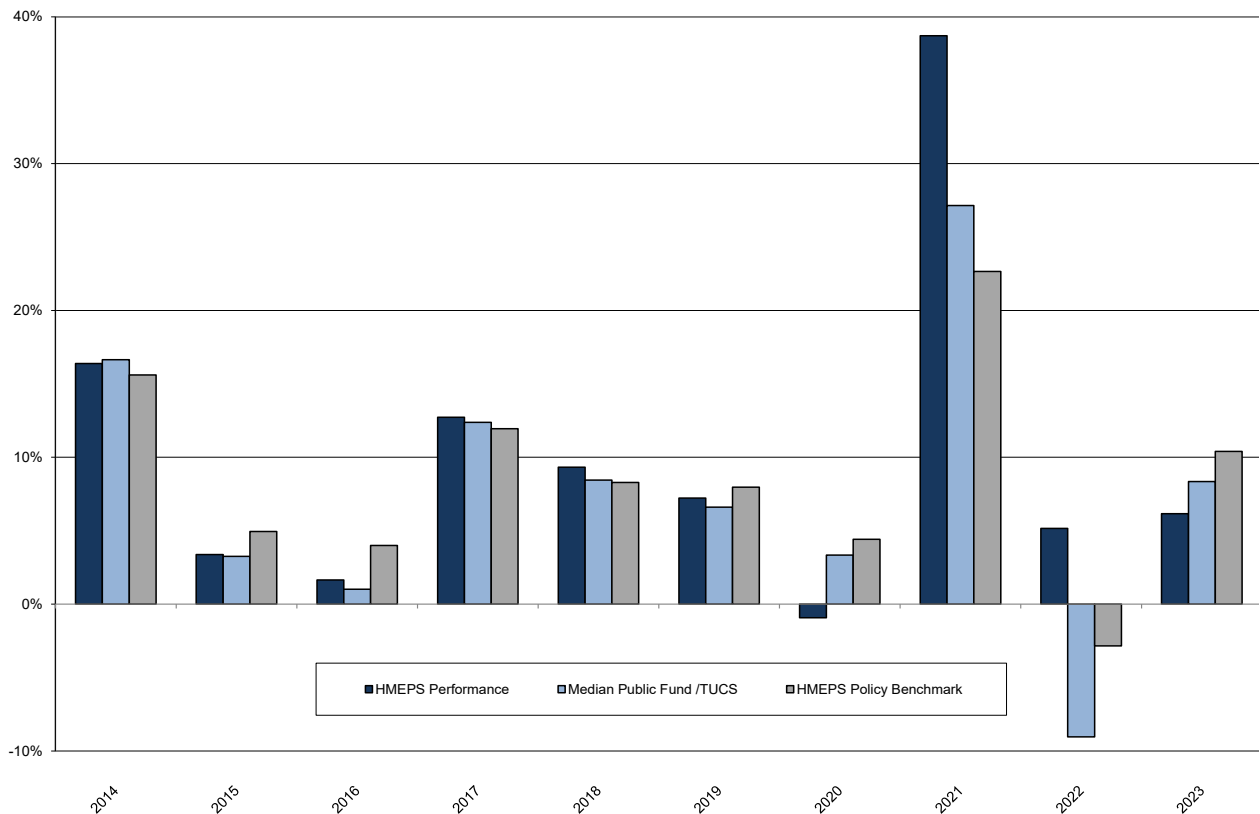
3 Wilshire TUCS: Total returns of all public DB plans in the Master Trusts Public composite, as of date noted; ranking is based on a percentile within the universe. Number in parentheses is number of observations for period.

SCHEDULE OF TOP INVESTMENTS AS OF JUNE 2023

Name of Investment	Fair Value
BlackRock MSCI ACWI Minimum Volatility Index Fund	\$ 276,797,877.58
BlackRock S&P 500 Index Fund A	239,616,032.59
SSgA REIT Index Fund	134,399,438.45
SSgA Global Natural Resources Index	89,018,308.71
Valor M33 III, LP	54,437,013.99
Valor Equity Partners IV, LP	43,048,706.43
AG Direct Lending Fund IV, LP	38,976,132.50
Summit Partners Growth Equity Fund IX A, LP	37,770,419.05
New Enterprise Associates 14, LP	35,336,924.22
The Resolute Fund IV, LP	33,239,423.76

PERFORMANCE BY FISCAL YEAR

Last Ten Years



**TABLE 2: COMPARISON OF INVESTMENT RETURNS
YEARS ENDED JUNE 30**

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

Period Ending 06-30	HMEPS Total Fund	HMEPS Policy Portfolio	Median of Wilshire Public Fund Universe/ TUCS	HMEPS Global Equity	MSCI ACWI IMI (Net)	MSCI ACWI Min Vol	HMEPS Fixed Income	Bloomberg U.S. Aggregate Bond Index
2014	16.39%	15.61%	16.83%	21.92%	20.92%	13.84%	9.22%	4.37%
2015	3.38%	4.96%	3.38%	2.22%	0.81%	6.59%	1.13%	1.86%
2016	1.65%	4.02%	1.07%	-0.31%	-3.87%	11.55%	3.33%	6.00%
2017	12.73%	11.95%	12.41%	16.34%	19.01%	6.05%	7.80%	-0.31%
2018	9.33%	8.29%	8.45%	9.81%	11.14%	7.33%	1.50%	-0.40%
2019	7.22%	7.97%	6.62%	6.05%	4.56%	13.00%	6.77%	7.87%
2020	-0.93%	4.42%	2.95%	0.00%	1.17%	-2.50%	4.33%	8.74%
2021	38.71%	22.66%	27.14%	36.97%	40.94%	19.35%	10.20%	-0.34%
2022	5.16%	-2.84%	-9.04%	-15.32%	-16.52%	-6.40%	-11.87%	-10.29%
2023	6.16%	10.43%	8.35%	13.02%	12.72%	5.79%	5.35%	-0.94%
3 Yrs.	15.69%	9.60%	8.42%	9.44%	7.22%	5.72%	0.77%	-3.97%
5 Yrs.	10.47%	8.07%	6.91%	6.80%	3.52%	5.42%	2.65%	0.77%
10 Yrs.	9.51%	8.31%	7.66%	8.23%	4.75%	7.21%	3.60%	1.52%

Discussion of Investment Policies and Activities

Period ending 06-30	ICE BofAML U.S. High Yield Master II Index	HMEPS Private Equity	S&P 500 Index	HMEPS Real Estate	NCREIF Property Index	HMEPS Inflation-Linked	Consumer Price Index	HMEPS Absolute Return	LIBOR
2014	11.80%	14.31%	24.61%	9.11%	11.21%	22.33%	2.07%	7.28%	0.24%
2015	-0.55%	10.36%	7.42%	10.88%	12.96%	-9.14%	0.12%	2.65%	0.25%
2016	1.71%	7.05%	3.99%	12.95%	10.64%	-12.18%	1.01%	-6.92%	0.51%
2017	12.75%	16.02%	17.90%	9.15%	6.98%	8.24%	1.63%	7.13%	1.02%
2018	2.49%	17.22%	14.38%	9.87%	7.20%	5.78%	2.87%	4.65%	1.36%
2019	7.60%	14.05%	10.42%	7.68%	6.50%	2.05%	1.65%	3.27%	2.55%
2020	-1.10%	3.44%	7.51%	-4.03%	2.69%	-28.17%	0.71%	-1.42%	1.50%
2021	15.62%	64.56%	40.79%	17.83%	7.37%	52.77%	5.32%	22.06%	0.20%
2022	-12.69%	22.39%	-10.62%	13.45%	21.45%	24.92%	9.06%	0.46%	0.66%
2023	8.87%	-5.31%	19.59%	5.40%	-6.60%	17.32%	3.09%	6.22%	4.58%
3 Yrs.	3.21%	24.01%	14.60%	12.10%	6.79%	30.82%	5.74%	9.21%	1.79%
5 Yrs.	3.18%	17.61%	12.31%	7.80%	5.90%	10.42%	3.89%	5.80%	1.89%
10 Yrs.	4.34%	15.24%	12.86%	9.08%	7.82%	6.26%	2.71%	4.30%	1.32%

ASSET CLASS FEES AND COMMISSIONS

Asset Class	Investment Management Fees	Profit Share/Carried Interest	Brokerage Fees/Commissions
Absolute Return	\$ 1,866,002	\$ 1,171,582	\$ -
Cash	256,596	-	-
Fixed Income	892,846	-	-
Inflation-Linked	6,034,397	6,040,102	-
Private Credit	3,219,636	2,932,964	-
Private Equity	12,335,539	8,271,062	-
Public Equity	3,736,150	-	405,878
Real Estate	5,285,005	(8,394,041)	-
Total	\$ 33,626,171	\$ 10,021,668	\$ 405,878

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

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

SCHEDULE OF FEES AND COMMISSIONS PAID

In Fiscal Year 2023

Broker Name	Number of Shares	Commissions (\$)	Cents/Share
Northern Trust Company, The	1,442,732	\$ 33,563.53	2.33
Stifel Nicolaus + Co Inc	828,133	24,834.25	3.00
Jefferies LLC	2,993,153	23,264.15	0.78
J P Morgan Securities Inc	1,287,785	21,339.13	1.66
UBS Securities LLC	3,337,545	20,853.83	0.62
Capital Institutional Svcs Inc Equities	886,716	17,734.32	2.00
Instinet LLC	3,881,426	17,561.95	0.45
RBC Capital Markets LLC	1,222,362	15,718.44	1.29
Morgan Stanley Co Incorporated	839,782	15,482.51	1.84
Citigroup Global Markets Inc	821,814	13,518.09	1.64
Merrill Lynch International	551,552	11,502.96	2.09
Goldman Sachs + Co LLC	675,446	11,357.70	1.68
Wells Fargo Securities, LLC	549,574	10,991.74	2.00
Macquarie Capital Securities	2,390,807	10,480.46	0.44
Maxim Group	564,459	10,351.39	1.83
Barclays Capital	748,245	8,340.35	1.11
Caceis Bank	189,063	8,268.41	4.37
Hsbc Bank Plc	908,323	8,133.48	0.90
Piper Jaffray & Co.	250,728	7,736.39	3.09
Virtu Americas LLC	852,459	6,798.03	0.80
Cowen And Company, LLC	334,854	6,233.79	1.86
Sanford C. Bernstein And Co. LLC	366,366	6,005.81	1.64
Canaccord Genuity Inc.	185,928	5,563.14	2.99
Investment Technology Group Inc.	419,405	5,308.63	1.27
Robert W. Baird Co. Incorporated	137,093	5,112.41	3.73
Pershing LLC	172,242	5,067.08	2.94
Parel	201,897	4,950.72	2.45
Evercore Group L.L.C.	215,477	4,270.81	1.98
Credit Suisse International	493,723	4,097.31	0.83
North South Capital LLC	91,713	3,426.98	3.74
Jones Trading Institutional Services LLC	125,282	3,317.09	2.65
Daiwa Securities Company Ltd	89,914	3,290.20	3.66
Redburn (Europe) Limited	201,890	3,189.80	1.58
National Financial Services LLC	164,395	3,136.81	1.91
Kepler Cheuvreux	101,815	3,128.24	3.07
Wedbush Securities Inc	73,060	2,922.40	4.00
Stephens Inc	67,050	2,677.50	3.99
Needham And Company LLC	60,890	2,304.24	3.78
Joh. Berenberg, Gossler & Co. Kg	75,503	2,245.47	2.97
Exane S.A.A.	65,370	2,238.50	3.42
Bnp Paribas Securities Services.A.	289,167	2,099.27	0.73
Banco Pactual S.A..A.	347,828	2,097.88	0.60
National Bank Financial Inc..A.	73,995	2,034.79	2.75
Others	1,577,165	23,328.49	1.48
TOTAL	31,154,126	\$ 405,878.47	1.30

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