



**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Meeting of the Board of Trustees**

**October 2, 2025 – 9:00 a.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at the TMRS office, located at 2717 Perseverance Drive, Suite 300, in Austin, Texas, with the following Trustees present: Chair David Landis, Vice Chair Jim Parrish, Tommy Gonzalez, Bill Philibert and Bob Scott.

Staff present included: Debbie Muñoz, Christine Sweeney, Anali Alanis, Jac Greene, Nick O’Keefe, Kristyn Scoggins, Leslee Hardy, Tom Masthay, Darren Schlissel, Tim Sweeney and Madison Jechow. Consultants present included: Tim Bruce, NEPC, and Joe Newton, GRS.

Mr. Landis called the meeting to order at 9:00 a.m.

**1. Consider and Act on Consent Agenda.**

Mr. Parrish moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the June 12, 2025 and August 28, 2025 Board of Trustees meetings. Mr. Scott seconded the motion, which passed 5-0.

**2. Executive Director’s Report.**

To highlight TMRS’ mission, Ms. Muñoz presented a video on Cody Baker, a recent retiree from the City of Pharr Fire Department. She reported that TMRS’ online retirement application went live on July 1, 2025. An investment industry organization, Allocate With, called Trinity River Holdings (TMRS’ co-investment partnership with GCM Grosvenor) a “novel investment vehicle” and selected it as one of three finalists for its Idea of the Year award, which will be announced by the end of October. The 2025 Texas Legislature approved a new 8% employee contribution rate option for the TMRS Act effective September 1; and, since September 1, a total of 342 cities have completed plan change studies for the new rate, and 35 cities have formally adopted the new rate. Chief Information Officer Jac Greene was selected to participate in the Governor’s Executive Development Program. TMRS Portfolio Directors Hester Cai and Monica Huffer were recognized by publishers Pensions & Investments and Women We Admire, respectively. The 2025 TMRS City Training Conference, to be held virtually, has already drawn 658 registrants. The City of Combine became TMRS’ 944<sup>th</sup> participating city. Staff development has included April Hernandez and Colin Davidson completing the Governor’s Senior Management Development Program at the University of Texas (UT) LBJ School, Natalie Garza completing the related Management Development Program, and Julia Paxton completing the UT post-graduate program in Artificial Intelligence and Machine Learning. Ms. Muñoz discussed staff’s personal efforts to provide

support for victims of the Kerr County floods and students of Austin's Travis High School. Benefit Administration continues to complete 100% of key processes weekly, and Senior Staff met offsite in September to start the process for the next TMRS strategic plan.

**3. Receive Senior Staff Quarterly Reports.**

Ms. Muñoz presented the Senior Staff Quarterly Reports to the Board.

**4. Consider and Act on Amendments to Board of Trustees Orientation and Education Policy.**

Ms. Sweeney proposed amendments to the Board of Trustees Orientation and Education Policy to reflect the Pension Review Board's amendments to its rules for public pension trustee training. Training requirement periods are now based on a calendar year rather than on each Trustee's appointment date.

Mr. Philibert moved that the Board adopt the amended Board of Trustees Orientation and Education Policy as presented. Mr. Parrish seconded the motion, which passed 5-0.

**5. Consider and Act Renewal of Board's Fiduciary Counsel Agreement.**

Ms. Muñoz said Bob Klausner, with Klausner, Kaufman, Jensen & Levinson, has provided legal and fiduciary counsel services to TMRS since 1999. The current contract for his services will expire December 31, 2025. Given his extensive experience with, and effective efforts for, TMRS, Ms. Muñoz proposed extending TMRS' agreement with Mr. Klausner and his law firm for an additional three years, with a TMRS option to renew for a fourth year.

Mr. Scott moved that the Board extend and renew the Board's Fiduciary Counsel Agreement for another three years, with the option to renew for an additional one year. Mr. Gonzalez seconded the motion, which passed 5-0.

**6. Report on Audit Committee Meeting.**

Ms. Scoggins said the Audit Committee met on September 11, 2025, and received two reports. The first was an audit of the city contributions portal, and the second was the confidential 2024 security assessment, which was presented by Mr. Greene. She then discussed the objectives for the audit of the portal, and said she found the portal achieved its stated objectives and functionality and that TMRS is implementing controls to ensure data is reported accurately. She noted there were two audit recommendations, both rated low risk, to enhance controls already in place and that Management adopted action plans to implement the recommendations. Ms. Scoggins said the Committee also heard survey results from staff members' assessment of TMRS' external auditor CLA, which results were positive. Ms. Scoggins presented updates to the Committee for the 2025-26 audit plan and stated she began the audit of contract monitoring activities and the annual risk assessment to update the audit plan. To assist with the risk assessment for TMRS Investments, TMRS has engaged consultant Weaver and Tidwell, LLP.

## **7. Report on Budget and Compensation Committee Meeting.**

Ms. Demers said the Budget and Compensation Committee met on September 23, 2025. The two main agenda items were a presentation about TMRS, as an employer, potentially adopting the new 8% employee contribution rate option and a review of the proposed 2026 operating and capital budgets. Staff received questions from the Committee and responded with additional information. Mr. Gonzalez said the budget proposes a 17% increase and his questions centered around how the investment in additional items proposed would align with TMRS' long-term strategy, and what improvements or outcomes should be expected from them.

Mr. Gonzalez commented he thought it appropriate to have additional discussion in a Board budget workshop, where all Trustees could learn more about the proposals. Mr. Parrish and Mr. Landis concurred with the idea of a workshop.

## **8. Discuss 2026 Proposed Operating and Capital Budgets.**

Ms. Demers reviewed a timeline for Committee and Board consideration of the proposed budgets, with approval to be requested at the December 11, 2025, Board meeting.

The proposed operating budget totals \$49.4 million and the proposed capital budget is \$1.1 million. The combined budget is funded by the Expense Fund within the TMRS Trust Fund.

Ms. Demers discussed the strategic objectives for the budget that were included in the Board's materials. She said the proposed budget would restore funding that was reduced in previous years, particularly in the staffing area, and that a recent change in TMRS' accounting software may cause some budget items to appear to be in different categories than in prior years. Ms. Demers reviewed increases proposed in three major categories of the operating budget: Personnel Services, Professional Services, and Software/Cloud Services. For 2026, the proposed operating budget represents 0.11% (or 11 basis points) of the total Trust Fund assets. To put that in context, a survey by the National Conference of Public Employee Retirement Systems showed that other public pensions systems' average operating cost was 18 basis points in 2024.

Personnel costs are 62% of the overall operating budget, and Ms. Demers noted that, in response to Committee questions, staff had provided additional information regarding these positions to each Trustee. The proposed budget includes the cost of adopting an 8% employee contribution rate for TMRS if the Board adopts that rate. Increases also relate to health insurance premium increases, merit pay and continuation of the bonus program at the same level as 2025.

Ms. Demers reviewed Professional Services budgeted items, which includes actuarial, audit, custodial, information, investment and legal services. Initiatives in this category include artificial intelligence (AI) and record-digitization initiatives, the Malcolm Baldrige award application, strategic planning, and staff recruiting. In these categories, some areas have been affected by the accounting software changes.

Ms. Demers next reviewed budgets for facilities, city and Member outreach, and information technology. Other administrative budget items increased, including Board costs and professional

development, and these items are also affected by the accounting changes so the categories may differ from prior years.

Ms. Demers then discussed the proposed capital budget, which includes four projects totaling \$1.1 million. The projects include updating technology in conference rooms, implementing Microsoft commercial cloud services, migration of Investments' data warehouse, and reconfiguring office space for additional staff.

Ms. Demers said that not everything requested by staff was included in the proposed budget, including employee positions, and that staff would schedule a Board workshop for the next step in reviewing the proposed budgets.

### **9. Consider and Act on Amendments to the Actuarial Funding Policy.**

Ms. Hardy explained that amendments are being proposed to TMRS' actuarial funding policy. She said that since 2007, the funding policy has helped TMRS climb from a funding level near 70% to approximately 90% funded. The goals for TMRS' funding policy, derived from Pension Review Board (PRB) guidance, are planning to achieve 100% funding, intergenerational equity (i.e., future generations should not bear the cost of this generation's benefits), and controlling the volatility of city contribution rates.

With the recent passage of House Bill 3161 and the possibility of an 8% employee contribution rate, Ms. Hardy said the Actuarial Funding Policy should be updated to address a potential financing deficiency concern. Under the current Funding Policy, there is a combination available to cities where they can increase benefits overall, but change from Repeating to Ad hoc for COLAs and/or Updated Service Credits, and end up with a net decrease in their city contributions, perhaps significantly. This scenario already exists, but with the addition of the 8% member contribution option, there is more incentive to do so and if enough cities do, it would negatively impact TMRS' cash flow and liquidity, and possibly portfolio construction.

Mr. Newton presented an example of the potential financing deficiency that could occur. He also explained that the total cost over time to finance annually adopted COLAs using an Ad hoc approach is three- to four-times more than the cost of providing Repeating COLAs, so that regularly providing COLAs under the Ad hoc approach costs future taxpayers more. Also, cities who finance COLAs based on Ad hoc actuarial assumptions are expected to never achieve 100% funded status.

Mr. Newton said the recommended Funding Policy changes distinguish between truly Ad hoc benefit changes, defined as no more than one benefit enhancement of the same type in four years, and Effectively Repeating benefit changes, where a city grants the same type of benefit enhancement (USC or COLA) on an ad hoc basis after already providing the same enhancement within the previous three years. Mr. Gonzalez said he feels like a forecast of 5 or 10 years is needed for cities to understand the impact on rates. Mr. Newton said staff has tools to provide cities those projections, separate from the new online calculator available to cities. Mr. Newton explained that under the recommendations:

- For a city with repeating benefits:
  - the city can only remove the repeating assumption if the city does not adopt an ad hoc benefit to replace the repeating benefit,
  - if the city grants an ad hoc benefit in the same year as, or in the next two years after, the city removed the repeating benefit, a full 100% effectively repeating assumption will be reflected in the funding cost, and
  - a three-year gap is needed for the city to adopt the same benefit ad hoc that previously had been provided on a repeating basis for the city to not trigger a full 100% effectively repeating assumption reflected in the funding cost.
- For cities with annual or consistent ad hoc benefits:
  - each time such a city triggers the effectively repeating condition, by adopting the same benefit ad hoc in the next three years after the same benefit's most recent adoption, an assumption will be reflected in the contribution rate equal to 20% of the repeating cost (in addition to the ad hoc cost), and
  - these additional costs will continue to stack to fully reflect the repeating cost once the conditions have been triggered 5 times.

Mr. Scott said that the proposed changes would allow cities to understand pros and cons of how they adopt benefits and the impact on city rates, that Trustee responsibilities include making sure TMRS is adequately funded, and that the PRB has a goal of 100% funded for public plans, so TMRS needs to work toward that goal.

Mr. Newton said that under the recommended policy changes, the effectively repeating assumption can be removed if:

- a city does not provide an ad hoc benefit enhancement for three consecutive years, or
- if the city formally requests that the assumption be removed with conditions that:
  - the city will not grant another ad hoc benefit enhancement within three years of last adoption, and
  - if the city grants another ad hoc benefit enhancement within the three-year period, the city's funding cost will be reflected as 100% effective repeating.

Ms. Hardy said that only 10 TMRS cities continue to annually adopt benefit changes on an Ad hoc basis. The policy changes will provide cities that do not have a USC and/or COLA now, but want to add them, a path for funding on a repeating basis. The policy changes, if approved, would be implemented in 2026 with the first impact on city rates in 2027 rates.

Mr. Parrish moved that the Board adopt the amendments to the Actuarial Funding Policy Effective January 1, 2026. Mr. Gonzalez seconded the motion, which passed 5-0.

#### **10. Board Education: Credit Asset Class.**

Mr. Masthay introduced an annual educational review on the Credit asset class. Investment guidelines detail the asset class limitations by stating the objectives, permissible investments and risk management limitations. Credit is composed of both Public Credit, which seeks to diversify risk, provide income and be a source of liquidity, and Private Credit, which seeks return enhancement relative to public credit.

Mr. Schlissel said the Credit asset class allocation changed between 2024 and 2025, resulting in a reduction from a target of 25% to 21% and that the portfolio is transitioning down toward the new target. Mr. Schlissel explained that, in Credit, various categories of returns and credit risks are stacked on top of each other. Other than core fixed income, the remainder of Public Credit is allocated to top tier managers pursuing strategies across high yield bonds, leveraged loans, multi-asset credit and asset-backed credit. In Public Credit, TMRS has access to the liquidity of publicly traded instruments. Public Credit is about 15.5% of the TMRS Trust Fund as of June 30, 2025.

Mr. Schlissel said Private Credit is about two-thirds committed to corporate opportunities in direct lending and opportunistic credit. The other third relates to credit that does not depend on a single company for repayment, which can include, as examples, a pool of loans or loans collateralized by real estate. This provides diversification for returns in a variety of market scenarios. Private Credit represents about 9.5% of the Trust Fund as of June 30, 2025. Mr. Schlissel reviewed different lending and security scenarios within Private Credit.

Mr. Schlissel noted that each Credit sub-asset class is performing in line with or better than its benchmarks. Performance has been strong, but as interest rates decline returns may do so as well. Goals for 2025 are on track for deployment of \$1.6 billion in capital, improving Public portfolio benchmark alignment and building the co-investment program. Looking forward, goals include reaching a 13% allocation to Private Credit, increasing co-investments, and increasing concentration with TMRS' strongest relationships.

#### **11. Board Education: Tactical Opportunities Asset Class.**

Mr. Masthay introduced an annual educational review for the Tactical Opportunities asset class. He shared that the asset class includes, but is not limited to, investments in instruments to the other asset classes in TMRS' portfolio: Public Equity, Private Equity, Real Assets and Credit. Under the Investment Guidelines, the objective is to diversify investment strategies and earn a long-term return greater than public equities. Mr. Masthay stated that the asset class contemplates investing in both public and private assets but that not more than two-thirds of the class (no more than 4% of the Trust vs. the 6% strategic target) may be invested in private market investments.

Mr. Tim Sweeney recounted the history of the Tactical Opportunities asset class. He stated the predecessor asset class (which was variably referred to as Hedge Funds and Absolute Return in the past) in 2016 had a target allocation of 10% and the effort's strategic purposes was to replace fixed income with a higher returning alternative. In 2021, the strategic allocation reduced the target to 5% and the target return profile was increased. At the time, investment staff, with support from consultant Albourne, reduced the portfolio by terminating lower-return managers and retaining their highest returning managers. Per the strategic asset allocation adopted by the Board in 2024 and effective January 1, 2025, the predecessor asset class (at the time referred to as Hedge Funds) was eliminated and Tactical Opportunities became a new asset class with a target allocation of 6%. The new asset class introduced the potential to invest in private assets. Investment staff set about implementing the public markets component of the asset class by transitioning the existing hedge fund portfolio to Tactical Opportunities, and then going about a similar exercise as in 2021, this time reducing the portfolio's hedge fund investments from 5% of the Trust to approximately 3%,

again by top-grading the portfolio through terminating lower-return managers and retaining the highest-return managers. Tim stated that that the public tactical opportunities portfolio today includes three key strategies:

- equity, with an emphasis on liquidity,
- hybrid, a mix of equities and fixed income, and
- relative value, a diverse source of return that has low correlation to global equity markets. An example of a transaction would be taking strategic positions in different maturity bonds given the expected reduction in near-term interest rates.

Tactical opportunities produced excess returns of more than 4% in the one- and three-year returns, and performance continues to be strong following the portfolio restructuring in 2022.

Mr. Scott asked how Tactical Opportunities are different from Hedge Funds. Mr. Masthay said Tactical Opportunities is a more expansive concept that can include more than Hedge Funds, and by allowing more equity in this class as compared to relative value, the expected return profile increased with the goal of at least earning the 6.75% actuarial return assumption. Mr. Sweeney said increasing the exposure to equity strategies was central to the efforts of increasing returns in the asset class. Managers within this asset class were reduced from 20+ to the top performing eight managers. Looking forward, the goals for this class are to achieve benchmark outperformance, to continue to scale relationships with high conviction managers, and to develop and communicate a plan for approaching private tactical opportunities investments.

## **12. Executive Session.**

The Board did not go into Executive Session.

## **13. Call for Future Agenda Items.**

Mr. Gonzalez asked about a Board workshop to review the proposed budget, and Mr. Landis said the Executive Director will put something together for that. Mr. Landis adjourned the meeting at 11:24 a.m.

  
Debbie J. Muñoz  
Executive Director

  
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Jim Parrish  
Vice Chair, Board of Trustees