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

Thursday, March 26, 2026 – 9:00 a.m.

The Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with the following Trustees present: Chair Jim Parrish, Vice Chair Tommy Gonzalez, Bryan Langley, Jaime Reyes, Isaac Tawil and Pamela Williams.

Staff present included: Debbie Muñoz, Anali Alanis, Colin Davidson, Cindy Demers, Jac Greene, Leslee Hardy, Nick O'Keefe, Kristyn Scoggins, Christine Sweeney, Tom Masthay, Frank Atkins and Madison Jechow. Consultants present included: Joe Newton, Janie Shaw and Bob Klausner.

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

1. Consider and Act on Consent Agenda.

Mr. Tawil moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the February 18-19, 2026 Board of Trustees Retreat. Mr. Langley seconded the motion, which passed 6-0.

2. Executive Director's Report.

Ms. Muñoz presented a member spotlight on Gary Smith, retiree and former City Attorney for the City of Richmond, and recognized Lorraine Moreno, retired former TMRS Regional Education Manager, and Leslee Hardy, Director of Actuarial Services who will retire in April. At its February meeting, the Board adopted the TMRS Strategic Plan for 2026. Updates to TMRS Values will be presented at the June Board meeting. The Trust Fund grew by $5.6 billion in 2025, and TMRS returns have been verified through the Global Investment Performance Standards. Benefit Administration has maintained a 100% completion status for its weekly work queues. TMRS welcomed the Cities of Malone and Appleby and now has 945 participating cities. TMRS received a 38th consecutive certificate of achievement from the Government Finance Officers Association for the 2024 TMRS Annual Comprehensive Financial Report. TMRS publications highlighted the 2026 City Training Conference, which will be the first live conference since 2019. Ms. Muñoz recognized TMRS employees who received professional education awards.

3. Receive Senior Staff Quarterly Reports.

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

4. Report on Audit Committee Meeting.

Mr. Gonzalez said the Audit Committee met on March 25 to review the Audit Committee Charter for alignment with TMRS statutes and Bylaws and adjust the Audit Plan. Ms. Scoggins said Bruce Mills with Weaver and Tidwell presented the Committee with an investments risk assessment. The Committee voted to recommend to the Board that it approve proposed changes to the 2025 – 2026 Audit Plan.

5. Present Risk Assessment and Audit Plan to the Board.

Ms. Scoggins reviewed the risk assessment and 2025-2026 Audit Plan and discussed the proposed changes to the plan after Weaver's risk assessment. The proposed changes include changing an audit of investment operations to an audit of private market investments; changing the audits of non-routine benefits payments and records management to performing an advisory review of selected strategic plan initiatives and governance practices; and adding a review of conflicts of interest in investments.

7. Consider and Act on Revisions to 2025-2026 Audit Plan.

Agenda item 7 was taken out of order because of its relationship to Agenda Item 5.

Mr. Tawil moved that the Board approve the revised 2025-2026 Audit Plan. Mr. Gonzalez seconded the motion, which passed 6-0.

6. Consider and Act on Selection of Auditor for Private Markets Investment Audit.

Mr. Tawil moved that the Board select Weaver and Tidwell as the auditor for the Private Markets Investment Audit and perform a review of conflicts of interest in investments. Mr. Langley seconded the motion, which passed 6-0.

8. Report on Budget and Compensation Committee Meeting.

Ms. Demers said the Budget and Compensation Committee met on March 25, 2026 and reviewed its Committee Charter but proposed no changes. The Committee reviewed a 2025 budget comparison to actual expenses. It also reviewed the 2026 budget reallocation and capitalized expenditures from the last several years. Joe Rice from CBIZ presented a status report for its compensation study. Committee discussion regarding that study focused on peer comparisons, position matches and an incentive compensation plan. The Committee discussed moving forward with a potential Director of Governmental Affairs position and ratification of the CBIZ contract. Mr. Tawil said Ms. Demers did an excellent job reformatting the budget to ensure there is transparency.

9. Report on Stakeholder Advisory Committee Meeting.

Mr. Reyes said this Committee met on March 25, 2026, and that Mr. Davidson provided the Committee with an overview of 2025 legislation affecting TMRS and noted there had been a lot of education regarding cost-of-living adjustment (COLA) options. Mr. Reyes said the Committee has great representatives for its groups of stakeholders, and the Committee is the right venue for discussions regarding benefit options. Mr. Davidson said he received great feedback about the meeting from Committee members, and a good takeaway was the importance of Committee members as conduits between their stakeholder groups and TMRS. Mr. Davidson said the Committee briefly discussed the idea of whether legislative proposals in the future should separate COLA matters from other benefit and administrative matters. Ms. Williams said engaging with this group will be essential moving forward.

10. Discuss Potential Topics for 2027 Legislative Session.

Ms. Muñoz said there are no critical needs from TMRS staff's perspective for 2027 legislation. However, if the Board desires to pursue legislative changes, the sooner decisions are made , the better. She reviewed the process for proposing draft legislation through sponsors and the Legislative Council. The 2027 bill filing window is November 9, 2026 through March 12, 2027, but earlier submissions reduce the risk of delay.

Ms. Muñoz reviewed the history of TMRS legislation since 2018. She provided a summary of changes made by SB 1337 passed in 2019. In 2021, SB 1105 changed the TMRS Act to allow retirees to return to work without suspension of their benefit after a one-year break in service. In 2023, TMRS did not propose legislation, but HB 2464 added a non-retroactive COLA option to the TMRS Act for a limited period of time. In 2025, after review by the Stakeholder Advisory Committee (SAC), TMRS proposed six topics for legislation that became HB 4609, including making the non-retroactive COLA a permanent option. While HB 4609 passed the House, it died in the Senate, and the non-retroactive COLA option from HB 2464 expired on December 31, 2025. An external bill, HB 3161, passed in 2025 to add an 8% employee contribution rate to the TMRS Act effective September 1, 2025. Ms. Muñoz noted that the SAC Charter provides that the Board assigns topics to the SAC and asked that the Board assign topics if it wishes to recommend legislation in 2027. Ms. Muñoz discussed the need for a Director of Governmental Affairs regardless of whether TMRS proposes legislation.

11. Consider and Act on Topics for Stakeholder Advisory Committee.

Mr. Parrish asked Ms. Muñoz if staff recommended pursuing legislation in 2027. Ms. Muñoz said no; some items from HB 4609 in 2025 proposed administrative improvements, but there are no critical needs from staff's perspective for 2027 legislation. Mr. Langley asked for a list of topics that staff would see not as critical but possibly beneficial, listed in order of priority. Mr. Tawil and Mr. Gonzalez commented on the importance of having a Director of Governmental Affairs, including to review others' legislative proposals affecting TMRS and to build relationships. Mr. Parrish commented on the importance of the Stakeholder Advisory Committee in building relationships. Mr. Reyes and Mr. Parrish recommended that the Committee review TMRS's prior proposals from 2025.

Mr. Gonzalez moved that the Stakeholder Advisory Committee review TMRS's prior proposals from 2025 for possibly pursuing them during the 2027 Legislative Session, with final review by the Board. Ms. Williams seconded the motion, which passed 6-0.

12. Review and Discuss TMRS Actuarial Funding Policy.

Mr. Newton provided an overview of TMRS actuarial policies. Contributions and investment returns must cover TMRS's defined benefits. Under a typical funding policy, the total contribution requirement equals the normal cost (new accruals) and amortization of any unfunded liability (for past debt). He said funding policy is a plan of action based on decisions involving trade-offs, like benefit security versus short-term budget impacts. Texas law and Pension Review Board guidelines call for TMRS, and other statewide pensions, to have an objective of being "well-funded" with a target of a 100% funded ratio. Mr. Newton discussed intergenerational equity, or each generation of taxpayers paying the cost of their own public employees' benefits, rather than passing the costs to future generations. He noted that the longer monies can be invested and remain in the Trust Fund, the more earnings are generated, and the less contributions are needed, and these principles are optimized when a plan is 100% funded. Future volatility should be anticipated. Mr. Newton reviewed potential elements, like asset smoothing and contribution stabilization techniques, of a funding policy. Current TMRS funding policy calculates the required contribution for each city based on:

- closed amortization of the current unfunded accrued actuarial liability (UAAL)
- 20-year layered, closed amortization for any new loss
- combination of 10-year and three-year asset smoothing
- both asset and amortization methods allow for offsetting gains and losses to reduce volatility, and
- perpetual amortization credit of any surplus.

Mr. Newton discussed the impact of offsetting in TMRS's funding policy and industry recommendations for model amortization periods for benefits and certain benefit changes. He commented many pension plans use asset smoothing over a five-year period. TMRS uses a 10-year period for asset smoothing, but that is accelerated to three years if market value gets more than 12% away from smoothed value. This combination, which has been used by TMRS for at least 15 years, provides much less volatility and a more realistic contribution rate pattern for employers. Mr. Newton said the Board decided to go to 20-year amortization in 2019, and combined with asset smoothing, this gives better downside protection with lower volatility. TMRS is among about 60 plans in the nation receiving actuarially determined contributions and currently experiencing positive amortization.

13. Consider and Act on 2025 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account.

Leslee Hardy said staff and GRS recommend maintaining the $340 million target interest reserve account, after allocating the 5% statutory credits to the Supplemental Death and Supplemental Disability Funds, which would allow a 13.54% credit to the cities' Benefit Accumulation Fund (BAF) based on 2025 investment returns. Ms. Shaw said the 13.54% credit was determined after all administrative and investment expenses were paid. Ms. Shaw reviewed BAF credits over the last 15 years, which average 7.03% compound credit. For 2027 city contribution rates, after applying the smoothing method $359 million in earnings will be recognized, which will reduce rates on average by about 0.27% of pay (but impact will vary by city). The remaining $3.2 billion of earnings will be deferred for future valuations, to be recognized as gains or to offset future losses.

Mr. Tawil moved that effective December 31, 2025:

1. The Board allocate a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and a credit of 13.54% interest to the Benefit Accumulation Fund, as well as target the initial Interest Reserve Account balance at $340 million, and

2. The Board approve that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments, as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2025 and considered in the 2026 BAF interest credit determination.

Mr. Reyes seconded the motion, which passed 6-0.

18. <u>Executive Session</u>.

Mr. Parrish took Agenda Item 18 out of order, and the Board went into Executive Session at 10:58 a.m. The meeting reconvened in Open Meeting at 11:46 a.m. Mr. Parrish stated all members of the Board who were present before the Executive Session were present for the Open Meeting and no action was taken in Executive Session.

14. <u>Review and Discuss Board's Bylaws</u>.

Ms. Muñoz said Mr. Gonzalez requested this item for consideration of possible changes to the Board's Bylaws. The current Bylaws were extensively reviewed and adopted in May 2020, with minor clarifying amendments then adopted in September 2020. Current categories covered by the Bylaws are:

1. Board Organization
2. Board Meetings
3. Board Committees
4. Responsibilities of the Executive Director
5. Miscellaneous Organization Provisions

Ms. Muñoz said staff has been planning to review and present an update to the Bylaws for Board approval and will note Trustee topics for consideration. Mr. Gonzalez said this matter was discussed in the Audit Committee, with input from Weaver and Tidwell. Mr. Klausner said he also reviewed the Bylaws, and TMRS operates in accordance with its fiduciary responsibilities. But he noted his review found that the Bylaws are due to be updated to reflect some changes in statutes and operations, and he will propose revisions to the Bylaws for Board consideration at the June Board meeting.

15. Report on Investment Committee Meeting.

Mr. Langley reported on the Investment Committee meeting held March 25, 2026 and said a lot of topics were covered that got the Committee off to a good start. A few topics discussed by the Committee are the subject of action in upcoming Board Agenda items. The Committee approved recommending to the Board that it adopt the proposed IPS amendments presented at the Committee meeting, with certain changes requested by the Trustees.

16. Consider and Act on Possible Amendments to the Investment Policy Statement.

Mr. Masthay presented the proposed amendments to the Investment Policy Statement, which included:

- incorporating the role of the new Board Investment Committee,
- clarifying staff fiduciary duties and updating the role of Chief Investment Legal and Compliance Officer,
- striking an investment belief related to environmental, social and governance matters,
- clarifying delegation of authority to the Executive Director or the Executive's designee,
- incorporating the Investment Guidelines into the IPS, and
- removing duplicative language regarding proxy voting from the Investment Guidelines.

Mr. Langley moved that the Board approve the proposed amendments to the Investment Policy Statement effective as of April 1, 2026. Ms. Williams seconded the motion, which passed 6-0.

17. Board Education: Public Equity Annual Review.

Mr. Masthay introduced this item, stating that Investments staff historically have done one education session on each investment class annually. TMRS Investment Guidelines for each asset class guide how risk is taken within the asset classes. For Public Equity, active versus passive management is an important risk management consideration.

Mr. Atkins presented the item and reviewed the role of Public Equity in TMRS's portfolio. This asset class provides significant capital appreciation over time, serves as source of liquidity and is designed to be risk aware. He said that while the public equity asset class is about 38% of total assets, it is about 60% of the total volatility in the TMRS Trust Fund. Mr. Atkins presented a dashboard of key performance indicators for the asset class and said it outperformed by 84 basis points in the past year with a trend of improvement over the last five years. Public Equity was the best performing asset class in 2025. It is a large opportunity set of approximately $100 trillion in market capitalization, and it is liquid, transparent and allows for daily pricing. The asset class includes 7,338 companies diversified by sector and country, and Mr. Atkins presented a breakdown of TMRS investments in Public Equity by sector. Mr. Atkins said TMRS uses as its benchmark for the asset class the index MSCI ACWI (All Country World Index) IMI Ex-China Ex-Hong Kong. This index has a long history, is measurable and is investable. TMRS's Public Equity holdings are closely aligned with the benchmark. Mr. Atkins presented an overview of TMRS investments in Public Equity by country.

Portfolio construction in Public Equity focuses on three key risks: macroeconomic risks, benchmark risks, and manager specific risks. TMRS's public equity portfolio currently is 27% actively managed and 73% passively managed, and this blend has resulted in significant improvement in performance since 2022 and a blended cost of about 12 basis points. Mr. Masthay said portfolio construction has improved in recent years, allowing the outperformance by TMRS active managers to be better demonstrated in portfolio level performance results. A significant portfolio construction improvement which contributed to recent outperformance was the decision to add a passive large cap US stock account. Mr. Gonzalez and Mr. Masthay discussed comparisons with other Texas pension systems. Looking forward, Mr. Atkins said staff intend to continue to selectively add active management, deepen ties with a select set of strategic fund partners while seeking new exceptional partnerships, and continue to align the portfolio with the benchmark risk profile.

19. Call for Future Agenda Items.

There being no further business, Mr. Parrish adjourned the meeting at 12:18 p.m.

Debbie J. Muñoz	Jim Parrish
Executive Director	Chair, Board of Trustees