Investment Section

Report on Investment Activity

June 9, 2026

Board of Trustees
Texas Municipal System
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Austin, Texas 78714-9153

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Dear Trustees:

The following is a report on the performance of the plan for the fiscal year ended December 31, 2025, with background on the underlying capital market environment.

Market Review for the Year Ended December 31, 2025

Calendar year 2025 was characterized by strong, broad-based gains across asset classes. International equity markets, as measured by the MSCI ACWI-ex U.S. Index, returned 32.4% for the year, significantly outperforming U.S. stocks, which returned 17.9%, as measured by the S&P 500 Index. International equity markets were driven by a weaker U.S. dollar and favorable valuations. Within the U.S., the breadth of performance expanded beyond mega-cap growth companies, with value stocks and smaller company stocks also seeing strong performance for the year. Interest sensitive fixed income delivered positive returns in 2025, with the Bloomberg U.S. Aggregate Bond Index returning 7.3%, its largest gain since 2020. The Federal Reserve reduced interest rates by a cumulative 75 basis points in 2025, bringing the target range for the federal funds rate to 3.50%-3.75%. Key economic data showed a growing and resilient U.S. economy despite recession fears early in the year. The U.S. real GDP grew by 2.1% in 2025, supported by strong consumer spending and private investments. The year ended with inflation levels moderating with the CPI posting a year-over-year increase of 2.7%.

The TMRS Investment Portfolio

As of December 31, 2025, the fair value of the TMRS total investment portfolio was $49.3 billion and its one-year return, net-of-fees, was 13.8%. In the same period, the median fund in the InvMetrics peer group of Public Defined Benefit plans greater than $10 billion in assets returned 13.4%. TMRS's five-year annualized return net-of-fees for the period ended December 31, 2025, was 8.0%, outperforming the Trust Fund Benchmark by 1.6% and the Board's Actuarial Return Assumption of 6.75%.

All asset class allocations remain in compliance with the targeted ranges as outlined by the Investment Policy Statement as of December 31, 2025. In September 2024, the Board of Trustees approved updates to the asset allocation, which included reducing the number of asset classes and adopting new target allocations, allocation ranges, and benchmarks. The changes went into effect as of January 1, 2025.

NEPC, LLC serves as TMRS's independent investment consultant, providing TMRS with asset allocation guidance, quarterly economic and investment market updates, and performance reviews, together with investment manager monitoring and selection advice. In preparing our performance analysis for the plan, we rely on the accuracy of financial data and performance provided by TMRS's custodian bank, State Street. Performance is calculated using a time-weighted rate of return methodology based upon fair values. The money-weighted rate of returns presented in the Financial Section of this Report is calculated using a different methodology. TMRS's goals are measured against stated policy objectives, appropriate benchmarks, and comparative universes over multiple time periods. This review process allows TMRS to evaluate whether established goals are being achieved on an absolute, relative, and risk-adjusted basis.

Best Regards,

Samuel Austin, III, Partner, NEPC

To: The Trustees, Members, Retirees, Beneficiaries, and Participating Cities of the Texas Municipal Retirement System

Investment performance has continued to contribute positively to the financial objectives of TMRS. Key performance highlights are:

- *Trust Fund Growth*. In 2025, the Trust Fund grew $6B (from $43.3B to $49.3B).
- *Actuarial Return Target Outperformance*. Performance over the 1-, 3-, 5-, 10-year periods exceeded the 6.75% actuarial return target with returns of 13.75%, 12.01%, 8.00%, and 8.07%, respectively.
- *Benchmark Outperformance*. Performance has exceeded benchmarks over the 1-, 3-, 5-, and 10-year time periods by 0.84%, 0.52%, 1.61%, and 0.93%, respectively. Additionally, in 2025, all five of TMRS' asset classes outearned their benchmarks.
- *Positive Peer Performance Trend.* Since the Board's adoption of a new asset allocation in 2021, performance relative to peers has significantly improved. As of December 31, 2025, TMRS' 5-year relative-to-peer performance was in the 38th percentile.

Supporting TMRS investment reporting efforts are TMRS' custodian bank, State Street, who independently calculates performance and TMRS' general investment consultant, NEPC, who provides further performance verification. Additional performance details can be found in NEPC performance reports available on TMRS' website.

Additionally, TMRS claims compliance with the Global Investment Performance Standards (GIPS®). Performance for each of the 2021-2025 performance periods has been independently verified. GIPS® is registered trademark of the CFA Institute. CFA Institute does not endorse or promote TMRS, nor does it warrant the accuracy or quality of the content contained herein. A copy of the 2025 GIPS Asset Owner report can be obtained by emailing invrisk@tmrs.com.

Sincerely,

Tom Masthay
Chief Investment Officer
June 9, 2026

The TMRS Board of Trustees (Board) adopts an Investment Policy Statement (IPS) that governs the management of Trust Fund investments. The IPS describes investment objectives, beliefs, benchmarks, asset allocation and responsibilities of the Board, staff, and investment managers and consultants. The Board reviews the IPS annually.

Investment Program Objective

TMRS' investment program objective is to ensure that members, retirees and beneficiaries receive the benefits they have accrued through their employment with participating cities at a reasonable and predictable cost to those cities. To achieve this objective, the Board, in consultation with its Consulting Actuary, adopts an Actuarial Return Assumption (ARA). Trust Fund assets will be invested to achieve a total return that meets or exceeds the current ARA of 6.75%.

Standards of Care

A. Standard of Care. As fiduciaries, the Board and staff must:

1. Exercise the degree of judgment and care, under the circumstances that persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering the probable income and safety of their capital.
2. Evaluate investment decisions in the context of the entire Trust Fund portfolio and with appropriate risk and return objectives.

B. Conflict of Interest Prohibited. The Board, staff, and investment managers and consultants will refrain from any activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial recommendations and decisions. These parties are required to disclose, in writing, any known relationships that could create, or appear to create, a conflict of interest.

C. Decisions in the Best Interest of TMRS. The Board and staff are required to make all investment decisions in the best interest of TMRS and shall comply with applicable TMRS policies on personal investment activities.

Investment Management

The Board is responsible for the administration of TMRS and its investment program, and the Board must discharge its duties solely in the interest of providing benefits to members, retirees and beneficiaries.

The Board adopts investment beliefs based on capital market theories and other investment management principles generally accepted by long-term focused institutional investors.

Asset Allocation

One of the Board's investment beliefs is that the primary determinant of portfolio risk and return is TMRS' strategic, long-term asset allocation. The Board's Asset Allocation includes asset classes, strategic target allocations with minimum and maximum allocation ranges, and benchmarks to measure investment performance. The Asset Allocation is based on an Asset Allocation Study that includes expectations for long-term return and risk, and is intended to produce investment returns equal to or greater than the actuarial return assumption (ARA) at a level of risk acceptable to the Board. In adopting the Asset Allocation, the Board considers TMRS' assets and liabilities, risk and return trade-offs, the ability to deliver on promised benefit payments at a reasonable and predictable cost to participating cities, the risk of permanent loss of capital, Trust Fund liquidity, and the ability to maintain a long-term strategy during sustained periods of market volatility.

The Board has adopted the following long-term Asset Allocation as part of its Investment Policy Statement as of January 1, 2025:

Table I-1

Asset Allocation

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Public Equity	25%	35%	45%	MSCI All Country World Investable Market Index ex-China ex-Hong Kong Net
Private Equity	10%	20%	25%	Cambridge Global Private Equity & Venture Capital
Tactical Opportunities	0%	6%	11%	HFRI Asset Weighted Composite
Credit	16%	21%	26%	40% ICE BofA 1-3 yr. A-BBB US Corporate Index 60% CS Leverage Loans Index + 100 bps
Real Assets	13%	18%	23%	50% Cambridge Infrastructure 50% NCREIF NFI-ODCE (net)
Cash Equivalents		0%		FTSE 1 Month US T-Bill
Total		**100%**		

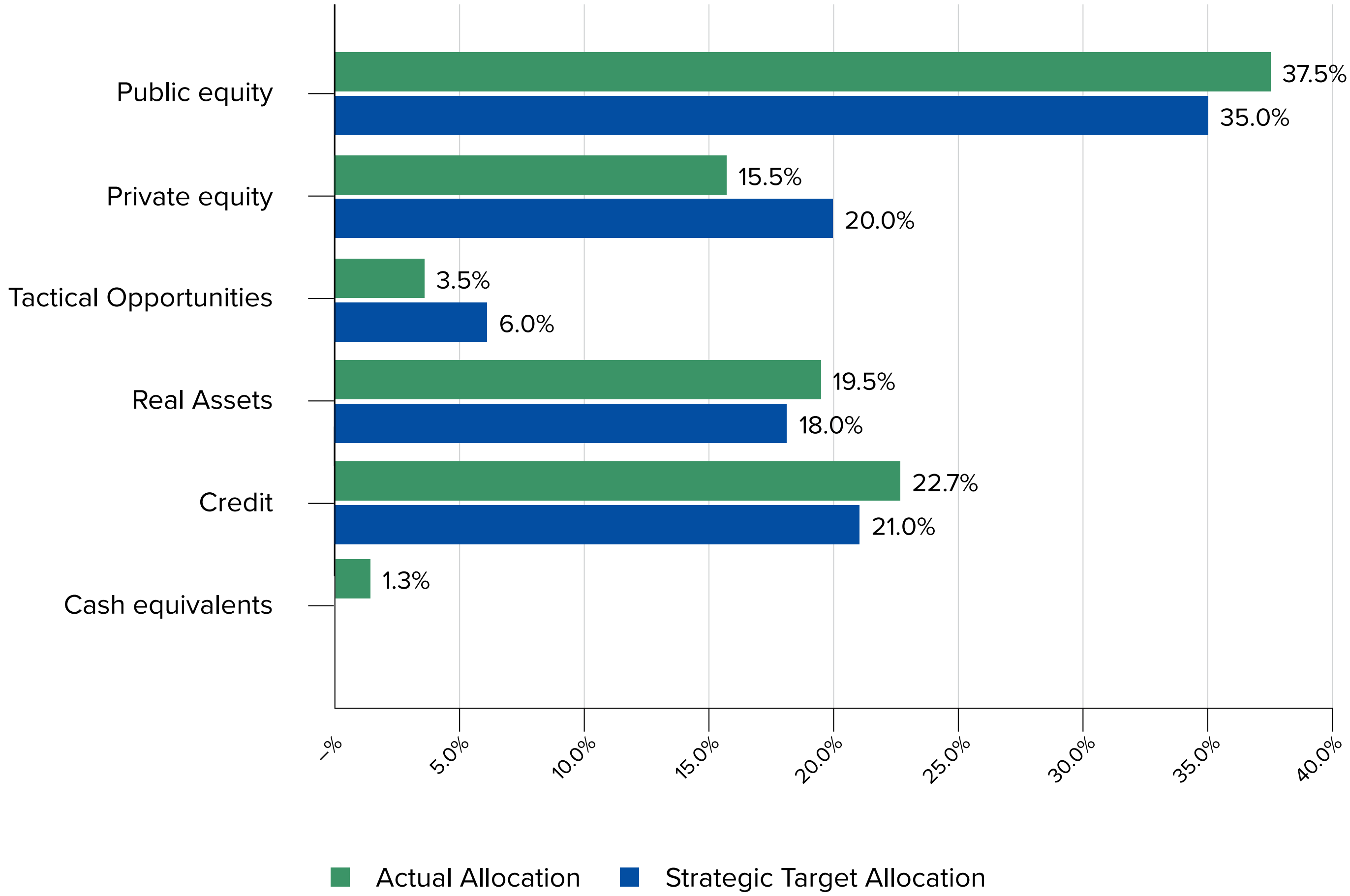
The Asset Allocation is reviewed at least annually for reasonableness, taking into consideration current capital markets and economic conditions and the Board's views regarding long-term investment goals and objectives.

An Asset Allocation Study that comprehensively reviews the Asset Allocation is completed at least every four years. The Board verifies or amends its Asset Allocation upon review of an Asset Allocation Study.

An Asset-Liability Modeling Study is conducted at least every four years.

The Board assesses the Asset Allocation's performance over five-year rolling periods compared to the ARA and asset class benchmarks.

Actual Allocation compared to Strategic Target Allocation
As of December 31, 2025



The following summary of investments presents the investment values categorized by asset class and is therefore not consistent with the categorization on the Statement of Fiduciary Net Position.

Table I-2

Investment Summary by Asset Class
As of December 31, 2025

		Fair Value	Percent of Total
Public Equity			
Domestic public equity securities	$	5,033,932,827	10.2 %
International public equity securities		5,710,371,790	11.6
REITS		163,532,991	0.3
Commingled public equity funds		7,498,444,401	15.2
Total public equity		18,406,282,009	37.5
Private Equity			
Private equity funds		7,630,924,944	15.5
Total private equity		7,630,924,944	15.5
Tactical Opportunities			
Tactical opportunities		1,713,238,279	3.5
Total tactical opportunities		1,713,238,279	3.5
Real Assets			
Real assets		9,596,101,075	19.5
Total real assets		9,596,101,075	19.5
Credit			
Credit		11,162,909,261	22.7
Total credit		11,162,909,261	22.7
Cash equivalents			
Short term investments		616,742,158	1.3
Total cash equivalents		616,742,158	1.3
Total Investments	**$**	**49,126,197,726**	**100.0 %**
Other investment-related items			
Custodial cash		68,709,080	
Interest and dividends receivable		66,282,682	
Unsettled trades receivable		9,372,669	
Management fees payable		(8,552,419)	
Unsettled trades payable		(10,613,139)	
Trust fund net assets value	**$**	**49,251,396,599**	

Table I-3

Largest Holdings – Public Equities As of December 31, 2025					
Ranking	**Security Name**	**CUSIP Number**	**Shares/Units**	**Fair Value**	**Fund**
1	NVIDIA CORP	67066G104	1,686,911	$ 314,608,902	NGCO
2	APPLE INC	037833100	1,030,221	$ 280,075,881	NGCO
3	MICROSOFT CORP	594918104	490,199	$ 237,070,040	NGCO
4	TAIWAN SEMICONDUCTOR MANUFAC	688910900	4,114,000	$ 202,947,121	NGUQ/NGNM
5	AMAZON.COM INC	023135106	666,304	$ 153,796,289	NGCO
6	ALPHABET INC CL A	02079K305	403,920	$ 126,426,960	NGCO
7	BROADCOM INC	11135F101	311,430	$ 107,785,923	NGCO
8	ALPHABET INC CL C	02079K107	339,126	$ 106,417,739	NGCO
9	META PLATFORMS INC CLASS A	30303M102	150,621	$ 99,423,416	NGCO
10	TESLA INC	88160R101	196,211	$ 88,240,011	NGCO

Table I-4

Largest Holdings – Fixed Income Securities As of December 31, 2025				
Description	**Coupon**	**Maturity**	**Par Value**	**Fair Value**
US TREASURY NOTE/BOND	3.875%	7/15/2028	$ 406,121,000	$ 409,706,285
US TREASURY NOTE/BOND	3.750%	4/15/2028	$ 233,000,000	$ 234,287,870
US TREASURY NOTE/BOND	3.750%	5/15/2028	$ 35,000,000	$ 35,202,344
SYNCHRONY CARD ISSUANCE TRUST	5.540%	7/15/2029	$ 28,155,000	$ 28,396,592
VOLKSWAGEN AUTO LOAN ENHANCED	5.020%	6/20/2028	$ 27,092,521	$ 27,250,449
CHASE ISSUANCE TRUST	5.160%	9/15/2028	$ 25,100,000	$ 25,341,382
COLT FUNDING LLC	5.949%	7/25/2069	$ 17,964,847	$ 18,175,251
COMM MORTGAGE TRUST	6.999%	8/10/2044	$ 16,510,000	$ 17,571,874
PARKER HANNIFIN CORP	4.250%	9/15/2027	$ 15,960,000	$ 16,067,444
ASHTEAD CAPITAL INC	4.375%	8/15/2027	$ 15,550,000	$ 15,548,451

Note: The tables above list the top ten direct holdings of public equity and fixed income securities, and do not include securities held in commingled funds.

Total Trust Fund and Asset Class returns for the year ended December 31, 2025 are provided in Table I-5.

Table I-5

Total Trust Fund and Asset Class Returns	1 Year	3 Years	5 Years	10 Years
Total fund	**13.75 %**	**12.01 %**	**8.00 %**	**8.07 %**
Benchmark	12.68 %	11.49 %	6.39 %	7.14 %
Public equity	**22.61 %**	**20.36 %**	**10.69 %**	**11.33 %**
Benchmark	21.77 %	19.88 %	10.69 %	11.58 %
Private equity	**14.45 %**	**11.08 %**	**14.88 %**	**16.16 %**
Benchmark	12.60 %	13.86 %	8.38 %	11.44 %
Tactical opportunities	**12.09 %**	**10.98 %**	**6.77 %**	**6.44 %**
Benchmark	9.66 %	7.42 %	5.71 %	5.06 %
Credit	**6.77 %**	**8.19 %**	**4.40 %**	**4.82 %**
Benchmark	6.35 %	6.92 %	1.91 %	3.30 %
Real assets	**7.74 %**	**3.60 %**	**8.21 %**	**8.22 %**
Benchmark	5.95 %	3.00 %	5.28 %	5.38 %
Cash equivalents	**4.23 %**	**5.15 %**	**3.42 %**	**2.26 %**
Benchmark	4.35 %	4.95 %	3.25 %	2.17 %

Rates of return. Returns are calculated from December 31, 2025 values, net of external investment management fees through December 31, 2020, and net of external and internal investment management fees from January 1, 2021 to December 31, 2025, using time-weighted rate of return.

Benchmarks. Total fund active weighted benchmark return is the weighted-average of the asset class composite benchmarks associated with each fund. Please refer to Table I-1 for asset class benchmark detail.

Table I-6

Schedule of Investment Expenses For the Year Ended December 31, 2025	
Staff salaries and payroll taxes	$ 7,071,993
Employee benefits	1,404,852
Custodial and banking services	1,515,000
Investment consulting	2,102,378
Legal	780,286
Information technology	1,349,468
Other administrative	324,716
Management fees paid from Trust Fund	28,649,483
Total investment expenses	**$ 43,198,176**

Table I-7

Schedule of External Investment Fees
For the Year Ended December 31, 2025

Asset Class	Management Fees Paid From Trust Fund	Management Fees Netted from NAV	Total Investment Management Fees	Brokerage Fees / Commissions	Performance Fees / Carried Interest Netted from NAV	Total Direct / Indirect Fees and Commissions
	(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (3)+(4)+(5)
Global equity	$ 20,368,029	$ 141,667	$ 20,509,696	$ 2,297,909	$ 8,570,198	$ 31,377,803
Fixed income	—	97,214,356	97,214,356	—	114,208,992	211,423,348
Real assets	—	24,209,133	24,209,133	—	72,623,964	96,833,097
Alternative/other	8,281,454	51,544,326	59,825,780	124,635	16,928,824	76,879,239
Alternative/other	—	112,388,650	112,388,650	—	85,719,030	198,107,680
Cash equivalents	—	497,004	497,004	—	—	497,004
Totals	**$ 28,649,483**	**$ 285,995,136**	**$ 314,644,619**	**$ 2,422,544**	**$ 298,051,008**	**$ 615,118,171**

Fees for private investments are not reflected as investment expenses in TMRS' financial statements but are included in the net appreciation/(depreciation) in fair value of investments as reported in the Statement of Changes in Fiduciary Net Position.

Investment Managers

Pursuant to Texas Government Code 802.103, Table I-8 discloses all investment managers engaged by TMRS.

Table I-8

Investment Managers As of December 31, 2025
Acadian Asset Management LLC
Arrowstreet Capital L.P
Columbia Threadneedle Investments
Dimensional Fund Advisors LP
Ellington Management Group LLC
Jacobs Levy Equity Management Inc
LibreMax Capital LLC
Northern Trust Corp
Oak Hill Advisors LP
Wellington Management Group LLP
William Blair & Co LLC

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