

September 2022

GUIDING PRINCIPLES

Policy Committee Meeting



**Teacher Retirement System of
Texas**

1000 Red River Street
Austin, Texas
78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES
AND
POLICY COMMITTEE**

*(Committee Chair and Members: Mr. Elliott, Chair;
Mr. Corpus, Mr. Hollingsworth and Ms. Sissney)*

*All or part of the September 15, 2022, meeting of the TRS Policy Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

The open portions of the September 15, 2022, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at www.trs.texas.gov. A recording of the meeting will be available at www.trs.texas.gov.

AGENDA

September 15, 2022 – 10:00 a.m.

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the July 2022 committee meeting – Chair John Elliott.
3. Consider recommending to the Board adoption of the proposed amendments to the Investment Policy Statement – Katy Hoffman.
4. Review and consider recommending to the Board proposed amendments to the Bylaws of the Board of Trustees – Heather Traeger.
5. Review and consider recommending to the Board proposed amendments to the Corrections and Errors Resolution – Heather Traeger.
6. Review and consider recommending to the Board proposed amendments to the Benefit Counseling Policy – Barbie Pearson.
7. Review and consider recommending to the Board proposed amendments to the Pension Funding Policy – Caasi Lamb and Joe Newton, Gabriel, Roeder, Smith & Co.
8. Consider updates to the Policy Review Schedule – Katherine Farrell.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Policy Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

**Minutes of the Policy Committee
July 14, 2022**

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on July 14, 2022, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

Committee members present:

Mr. John Elliott, Chair
Mr. David Corpus
Mr. Jarvis V. Hollingsworth
Mr. James Dick Nance

Other TRS Board Members present:

Mr. Michael Ball
Mr. Christopher Moss
Ms. Nanette Sissney

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Jae Auby, TRS
Heather Traeger, TRS
Amanda Jenami, TRS
Barbie Pearson, TRS
Katrina Daniel, TRS
Kevin Wakley, TRS
Roberto Cortes Moreno, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Policy Committee Chair, Mr. John Elliott, called the meeting to order at 12:25 p.m.

1. Call roll of Committee members.

Ms. Farrell called the roll. A quorum was present, Mr. Walls was absent.

2. Consider the approval of the proposed minutes of the April 2022 committee meeting – Chair.

On a motion by Mr. Hollingsworth, seconded by Mr. Nance, the committee unanimously voted to approve the proposed minutes for the April 2022 Policy Committee meeting as presented.

3. Consider recommending to the Board proposed amendments to the Key Employee and General Authority Resolution – Heather Traeger.

Ms. Heather Traeger reviewed the purpose of the Key Employee and General Authority Resolution and the proposed amendment to update the deputy director's title.

On a motion by Mr. Hollingsworth, seconded by Mr. Nance, the committee unanimously voted to recommend to the Board approval of the proposed amendments to the Key Employee and General Authority Resolution, as presented by staff.

4. Consider recommending to the Board proposed amendments to the Investment Policy Statement including Private Equity Maximum Allocation – Jase Auby.

Mr. Jase Auby reported that the private equity allocation has experienced very strong performance resulting in a significant overweight in its neutral allocation in the Trust. He said the neutral level is 14 percent and the private equity is fluctuating between 18.2 and 18.9 percent with the policy limit being 19 percent. He noted while private equity did not exceed the limit an internal review has determined it would be prudent to raise the upper limit from 19 percent to 24 percent for one year. He noted the Board advisors, Aon, Dr. Brown and Cohen Milstein were consulted on this proposed amendment.

On a motion by Mr. Hollingsworth, seconded by Mr. Nance, the committee unanimously voted to recommend to the Board to adoption of the resolution approving the proposed amendments to the investment policy statement, as presented by staff:

RESOLUTION FOR MODIFICATION OF THE PRIVATE EQUITY MAXIMUM ALLOCATION IN THE INVESTMENT POLICY STATEMENT

WHEREAS, Texas Government Code §825.101 provides that the Teacher Retirement System ("TRS") Board of Trustees ("Board") is responsible for the general administration and operation of the retirement system;

WHEREAS, The Investment Policy Statement ("IPS") Article 1.3 provides the Board establishes investment objections and policy;

WHEREAS, The IPS Article 1.6 footnote 1 authorizes the Chief Investment Officer ("CIO") to increase the asset class maximum range by 5% if the CIO concludes in writing as delivered to the Executive Director and the Board stating the action has been taken and the reasons why the CIO believes the increase would be in the best interest of TRS;

WHEREAS, The CIO found it prudent to increase the Private Equity asset class maximum range to 24% due to the allocation approaching the existing 19% limit driven by the decline in the Trust's public market assets and delivered the required notice to the Executive Director, Board of Trustees and Chief Compliance Officer on June, 13, 2022;

WHEREAS, The IPS Article 1.6 footnote 1 requires the CIO to seek Board authorization at the next succeeding Board meeting to maintain the increased range and the CIO recommends the modification of the IPS to temporarily increase the Private Equity limit to 24% to enable the Investment Management Division ("IMD") to continue to commit to the asset class; Now, therefore be it

Resolved, That the Board finds the extension of the maximum range for Private Equity prudent and in the best interest of TRS;

Resolved, The Board approves the modification of the IPS as recommended by staff to add footnote 9 to Article 1.6 as follows;

⁹The Maximum Range for the Private Equity Asset Class will be 24% until July 31, 2023.

and

Resolved, That the Board hereby further directs staff to amend the IPS to include footnote 9 and make other administrative changes such as page numbers and the Table of Contents as required.

5. Consider recommending to the Board adoption of the notice of completed rule review for TRS Rules in Chapters 21 through 51 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and Nick Gonzalez.

Ms. Traeger announced that Mr. Kevin Wakley was joining in lieu of Mr. Nick Gonzalez. Mr. Wakley provided an overview of the four-year rule review. He said the kick-off of the review began at the April Board meeting. He reported there were 268 administrative rules and of those Staff recommends readoption of 262 and repeal of six rules relating to long-term care insurance which TRS no longer offers. He said 66 rules were identified as needing future revisions either due to statutory changes, obsolete references or amendments for organizational efficiency. Mr. Wakley concluded if the Committee and Board adopts the staff recommendation of the rule review, staff will then file notice with the Texas Register the conclusion of the four-year rule review.

On a motion by Mr. Nance, seconded by Mr. Hollingsworth, the committee unanimously voted to recommend to the Board adoption of the notice of completed rule review of TRS Rules in Chapters 21 through 51, as presented by staff.

6. Consider recommending to the Board adoption of the proposed amendments to TRS Rule 41.33, relating to Definitions Applicable to the Texas School employees Uniform Group – Heather Traeger, Roberto Cortes-Moreno and Katrina Daniel.

Mr. Roberto Cortes-Moreno provided an overview of the proposed rule amendments that was initially brought before the committee at the April meeting. He reported the proposed rule was published in the Texas Register on June 3, 2022, no comments were received. He reviewed the outreach to members if the proposed amendment were adopted by the Board.

On a motion by Mr. Corpus, seconded by Mr. Nance, the committee unanimously voted to recommend to the Board adoption of the proposed amendment to TRS Rule 41.33, relating to definitions applicable to the Texas School Employees Uniform group Health Coverage program as presented by staff.

With no further business before the Committee, the meeting adjourned at 12:44 p.m.

Approved by the Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas on September _____, 2022.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3

Investment Policy Statement Proposal

Katy Hoffman, Chief of Staff

September 2022



Modification

Change Emerging Markets Asset Class Benchmark

- **Proposal**

- Change benchmark from MSCI Emerging Market to 50% MSCI Emerging Markets/50% MSCI Emerging Markets ex China
- Establish a 6-month transition plan to implement new benchmark

- **Rationale**

- Reduce China allocation in the Strategic Asset Allocation by half given outsized weight in the benchmark
- Improves diversification of the Trust's emerging market benchmark
- Transition plan will help minimize adverse trading impacts

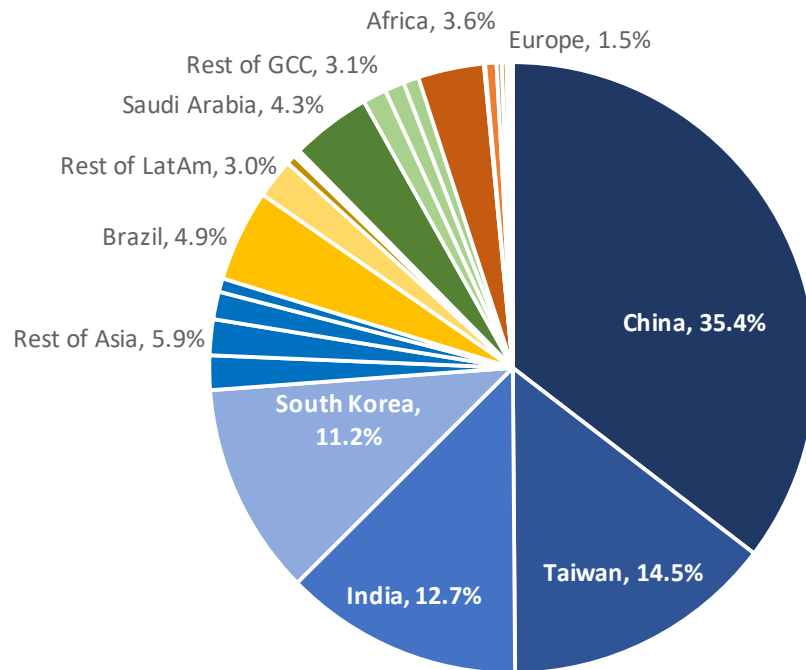
- **Background Information**

- IMD launched a cross-Trust task force in January which resulted in this recommendation
 - Team surveyed dozens of peers, managers and economists to augment their internal research
- Proposed change has an immaterial impact in Trust's expected return and volatility

Composition of the Emerging Market Benchmark

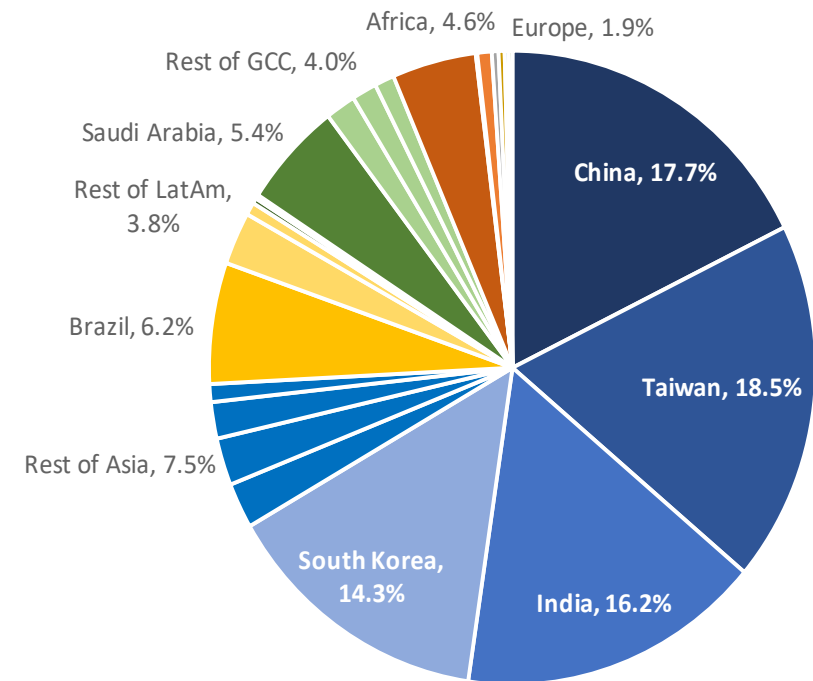
Current Benchmark

- China represents 35% of the index, more than double the next largest country, and approximately 3% of the TRS Total Fund Benchmark



Proposed Benchmark

- Changing the benchmark improves the diversification of the Trust's Emerging Markets allocation and the Trust's broader asset allocation





Memo

To Board of Trustees, Teacher Retirement System of Texas (“TRS”)

From Steve Voss; Mike McCormick

Date August 22, 2022

Re 2022 Review of Investment Policy Statement

Introduction

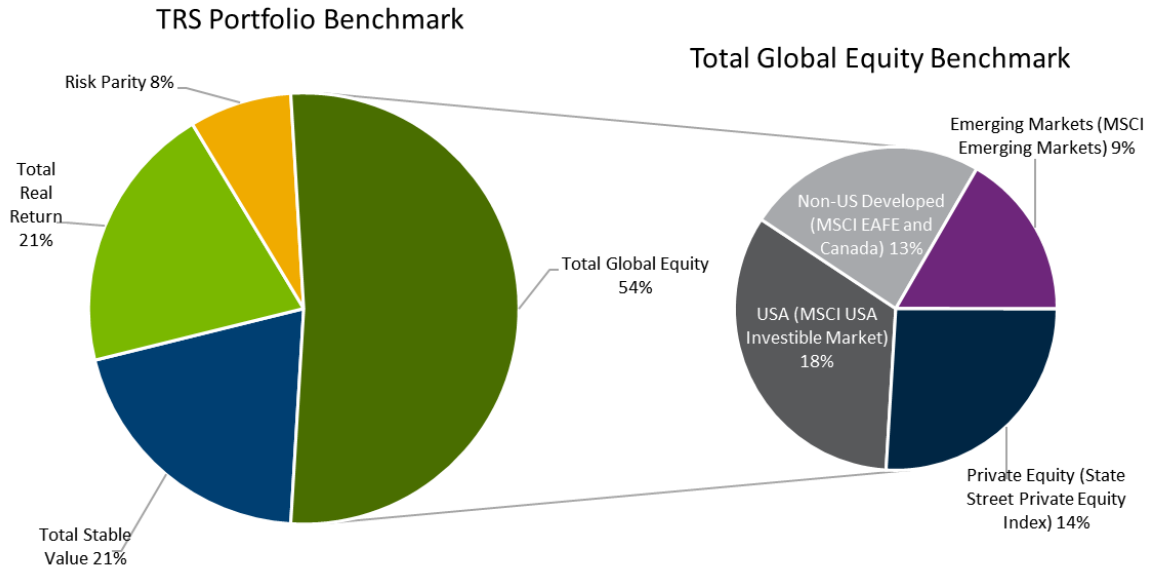
As we have discussed with the Board many times in the past, it is difficult to underestimate the importance of a well written and unambiguous Investment Policy Statement (IPS). The IPS provides the means for the Board to control various critical aspects of the investment portfolio, including: long-term asset allocation, rebalancing ranges, monitoring and reporting practices, risk limits, governance practices, and benchmarks.

The Board reviews the TRS IPS on a reoccurring basis. The purpose of such reviews is to ensure the document reflects desired long-term asset allocation, the evolving investment portfolio, legal and regulatory developments, current best practices, and that it reflects input from relevant parties both outside and within TRS. As an advisor to the Board, it is Aon’s responsibility to participate fully in dialogue with IMD and other internal and external stakeholder, as necessary, to ensure we understand the context of any and all suggested modifications to the IPS.

Over the years, this document has evolved to become quite comprehensive. This year there is only one proposed revision, and that is a change to one of the underlying components of the Total Global Equity Benchmark. While we believe the proposed modification is reasonable, it differs from our views on benchmarking and what we find to be current common practice among public pension funds. The remaining components of this memo review the proposed change further.

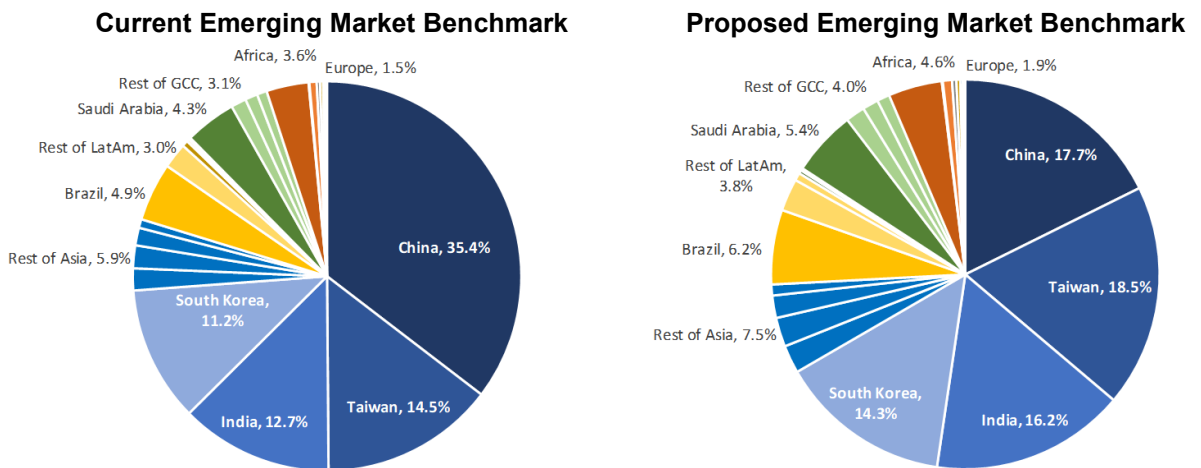
TRS Total Portfolio Benchmark

As we often discuss in meetings, the TRS strategic asset allocation is divided into four major components (Global Equity, Stable Value, Real Return, and Risk Parity). Within each component of the portfolio there are multiple sub asset classes. The change being proposed by IMD would impact the emerging market equity component within the Global Equity Benchmark. As shown on the next page, the Global Equity Benchmark is comprised of four sub asset classes (US Equity, Non-US Developed Equity, Emerging Markets Equity, and Private Equity).



Proposed Benchmark Change

The change proposed by IMD impacts the Emerging Markets component of the Global Equity Benchmark. The MSCI Emerging Markets Index has 35% of its exposure listed in China, and IMD is proposing a 50% reduction in that exposure within the Emerging Markets Benchmark. This is achieved by utilizing two emerging markets benchmarks, one with exposure to China and one without. The splitting of this benchmark represents an additional move away from market capitalization weighted benchmarking within the Global Public Equity Benchmark. We find the use of capitalization weighted benchmarks to be a best practice. The chart below sourced from the IMD materials shows the resulting impact of the proposed change.





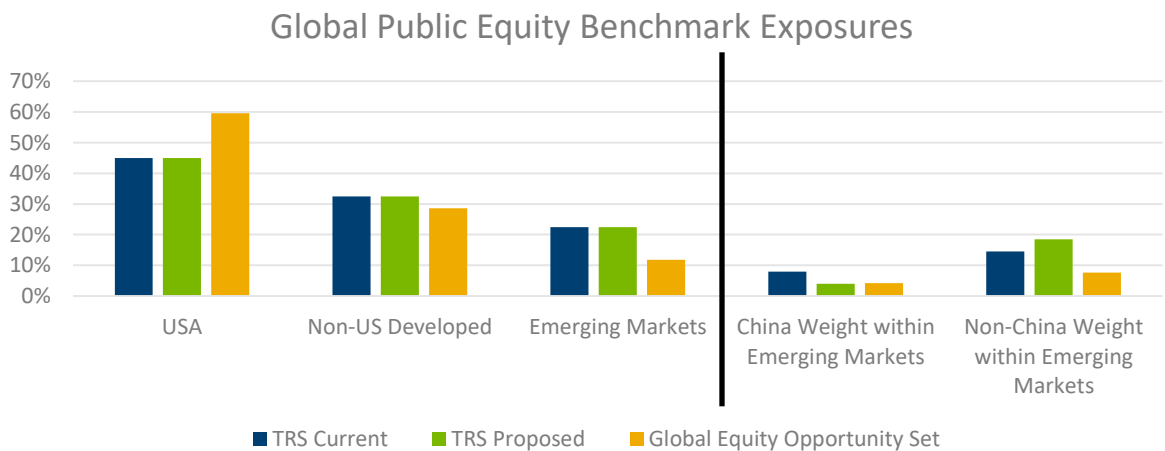
Aon's Views on Benchmarking

Aon believes the benchmark for any asset class should include all, or substantially all, the investment opportunities in that particular market and be constructed without bias (i.e. overweighting emerging markets). In identifying appropriate benchmarks, Aon Investments' recommendations revolve around the following attributes:

- **Broad coverage:** Benchmarks should be market capitalization based and attempt to include the widest available coverage of the opportunity set (countries, sectors, and holdings)
- **Investable:** Easily replicable and liquid; refers to investors' ability to secure the return through passive management
- **Transparent:** Rules-based methodology with transparency through to the benchmark's constituents and their weights and known in advance
- **Appropriate:** Portfolio's assets are similar to the benchmark's, minimizes tracking error and is used by similar institutions

Aon's Views Regarding the Proposed Benchmark Change

The current and the proposed benchmark for the Global Public Equity component (Global Equity Benchmark shown in our first chart, excluding private equity) generally meets all of the attributes we articulate with regards to a good benchmark. The one area of divergence is that the benchmark should be "market capitalization based and attempt to include the widest available coverage of the opportunity set". Global Public Equity is segmented into three components (US Equity, Non-US Developed Equity, Emerging Markets Equity), and the weights of each are not based on market capitalization (a long-standing practice of TRS). This results in a benchmark that looks different than global equity opportunity set. The result of the proposed change (segmentation within the emerging market component) represents further divergence. The table below shows the weight of the current and the proposed public equity benchmark relative to the global equity opportunity set.





The proposed change in the benchmark will move the China weight more in-line with the opportunity set but increases the overweight of the non-China emerging markets (i.e. Taiwan, India, South Korea, etc.). The aggregate weight of emerging markets within the benchmark will not change as a result of the proposed benchmark modification, as shown in the chart above.

Public Equity Benchmarking of Institutional Investors and Peer Public Funds

Across the institutional investor space and among peer public pension funds there is no industry standard for benchmarking public equity. However, there are two practices that are commonly utilized by investors.

1. Global Equity Opportunity Set (MSCI ACWI or MSCI ACWI IMI)
2. A weighted benchmark of All Cap U.S. Equity (similar to the MSCI USA Investible Market index utilized by TRS) and All Cap non-U.S. Equity (a market capitalization-based benchmark that encompasses the non-U.S. Developed and the Emerging Markets portions of the TRS Public Equity Benchmark)

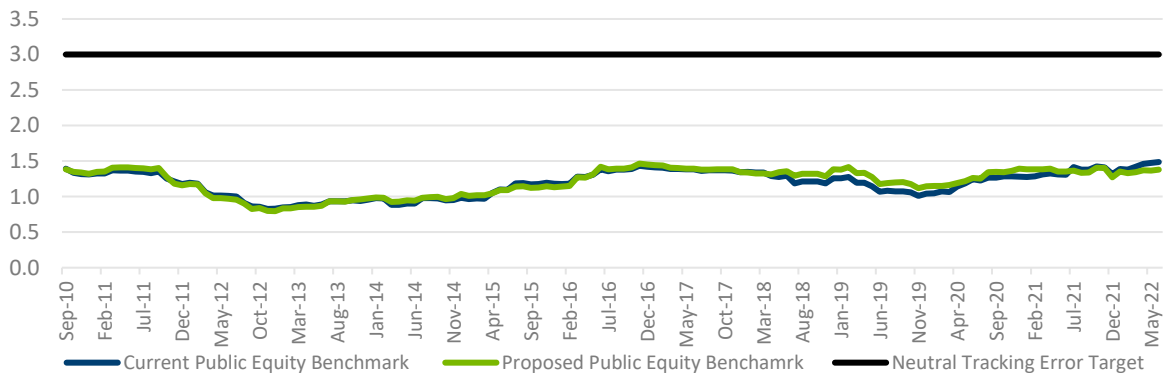
The TRS practice of partitioning the public equity benchmark into three components makes it slightly different than peers, and further partitioning the Emerging Markets benchmark would make TRS slightly more different than peers.

Tracking Error of the Current Implementation Relative to the Opportunity Set

A benchmarking alternative available to the Board is to utilize the global equity opportunity set (MSCI ACWI or ACWI IMI) as the benchmark and encourage IMD to implement the portfolio in-line with their investment views. Historically speaking, IMD has not taken significant tactical asset allocation bets within the portfolio and changing the benchmark would likely result in IMD investing in a manner more consistent with the new benchmark. The table below shows the 3-year rolling tracking error of the current Public Equity Benchmark as well as the proposed Public Equity Benchmark relative to the investible opportunity set (MSCI ACWI IMI).



Tracking Error vs. Opportunity Set (MSCI ACWI IMI) Rolling 3-years ending 6/30/22



The tracking error of the current and the proposed benchmark relative to the opportunity set are fairly consistent with each other over time, with both having a range generally between 1% and 1.5%. This level represents approximately half of the 3% neutral tracking error target articulated in the TRS IPS. However, if the Board were to change the Public Equity Benchmark to the MSCI ACWI IMI, we expect the assets would be managed more consistent with the benchmark and tracking error resulting from the allocation difference would be reduced.

Summary

As previously stated, the IPS is an important instrument related to the Board's delegation of authority to IMD, and it is also an important articulation of the high-level investment strategy to be used in the future. The proposed change will move the China component of the public equity benchmark more in-line with the opportunity set, which we see as a positive. However, it further segments the Emerging Market asset class benchmark and increases the overweight allocation to the remaining components of the emerging markets benchmark (i.e. Taiwan, India, South Korea, etc.). Ultimately, having a more segmented equity benchmark isn't an issue that gives us significant concern, but it is an area where TRS deviates from Aon's views and the practice of peers. We believe the Board should be cognizant of this difference and if they are comfortable with the difference Aon is supportive of the modification.

As in years past, IMD has led the review process and worked closely with other departments within TRS: namely, Legal, and Compliance. Lastly, feedback and input was solicited from Suzanne Dugan, external fiduciary counsel, Dr. Keith Brown, advisor to the Board, and from Aon.

We look forward to discussing this topic further with the Board.




DEPARTMENT OF FINANCE
THE UNIVERSITY OF TEXAS AT AUSTIN

1 University Station · B6600 · Austin, Texas 78712-0217
(512) 471-4368 · Fax: (512) 471-5073

MEMORANDUM

To: Board of Trustees
The Teacher Retirement System (TRS) of Texas

From: Keith C. Brown 
Advisor to the TRS Board

Re: Proposed Change to the TRS Investment Policy Statement

Date: August 25, 2022

I have reviewed the modification to the Investment Policy Statement (IPS) that the Investment Management Division (IMD) has proposed recently. *Overall, I endorse this modification and recommend its adoption*, subject to a few important clarifying remarks that I have listed in my comments.

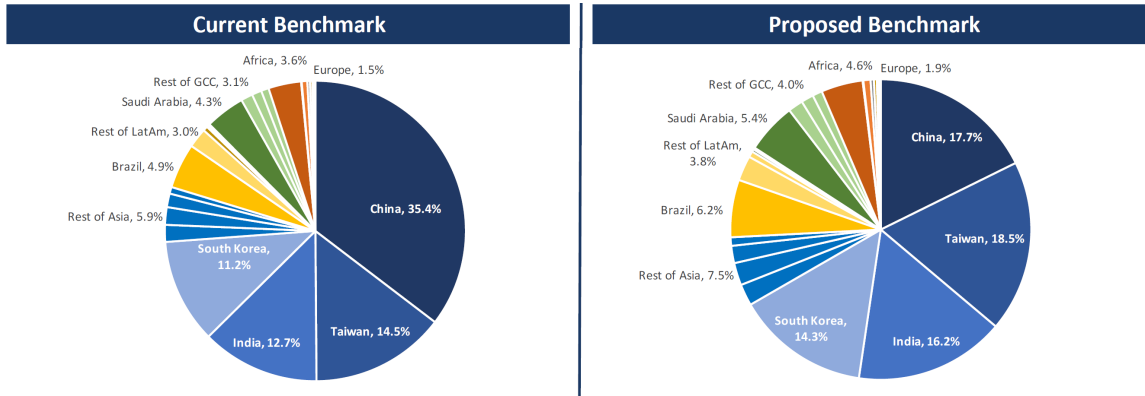
Below, I include discussion and analysis of the recommended change. Please note that, where relevant, I refer to the language and data used in IMD's "Investment Policy Statement Proposal" presentation to the Board of September 2022.

- *Change Emerging Markets Asset Class Benchmark*

The proposal under consideration would alter the benchmark used to assess the investment performance of TRS' Emerging Market Public Equity portfolio allocation from (i) 100% of the MSCI EM index, to (ii) a weighted average consisting of 50% of the MSCI EM index and 50% of the MSCI EM-ex China index.

The immediate effect of this adjustment—and, indeed, its clear intention—would be to substantially reduce the proportion of the EM benchmark allocated to Chinese investments. Currently, the MSCI EM index (i.e., the index that includes China in its set of emerging market countries) assigns a weight of more than 35% to Chinese securities, which is about two-and-a-half times as large as the next biggest country in the index. By creating a "customized" benchmark that mixes in another index that excludes Chinese holdings altogether, this proposal would effectively cut in half TRS' EM strategic benchmark

position to China, proportionally redistributing that reduced allocation across the remaining countries in the index. This is shown in the following “current-and-proposed” EM weighting scheme taken from IMD’s proposal document:



To evaluate whether this is a reasonable change to make to the Investment Policy Statement (IPS), it is useful for the Board to review what the inherent purpose of a benchmark is in the first place. In short, the Board uses the IPS to express to the IMD its vision of the most prudent way to invest the assets in the TRS portfolio, which it does by:

- (i) defining the permissible asset classes in which investments can take place,
- (ii) specifying the target investment allocations (and acceptable tactical deviations) in those asset classes, and
- (iii) designating the benchmarks that best define what those asset classes should look like.

To be useful, any designated benchmark should have several tangible qualities, chiefly that it offers the best characterization of what the Board considers to be the relevant *investable universe* for that particular asset class.¹

So, the relevant question for the Board to consider here is whether the adjusted country allocation scheme in the proposed benchmark (e.g., 17.7% in China, 18.5% in Taiwan, 16.2% in India, and so on) better reflects what it believes to be the true investable universe for the EM market than does the scheme currently represented in the MSCI EM index? In making this decision, keep in mind that IMD already has the ability to scale back its Chinese investments relative to the existing benchmark weight in accordance with its own economic and political analysis. However, in that case, such an adjustment to the public

¹ There is a well-established practitioner-oriented research literature on the topic of what makes an effective benchmark. For good summaries on the subject, see A. Bai-Marrow and S. Radia, 2017, *Benchmarks and Indices*, CFA Society of United Kingdom, and J. Bailey, J. Phillips, and T. Richards, 2011, *A Primer for Investment Trustees*, Research Foundation of CFA Institute.

equity portfolio would represent a significant tactical underweight to China, which could impact relative performance. By having the Board adopt the proposed benchmark, however, the downsizing of Chinese public equity investments would become a permanent strategic allocation change, rather than a temporary tactical one, that would not impact relative performance in the same way.

Two other points are worth considering. First, by design, this proposed benchmark will always lead to a target Chinese public equity allocation in the TRS portfolio that is exactly half of what China's country weight is in the MSCI EM index. Thus, if in the future the market capitalization of China falls relative to other EM countries—or if MSCI makes an adjustment not related to market capitalization—TRS' strategic China weight would automatically shrink even more, which may or may not be consistent with how the Board views the appropriate composition of the asset class.

Finally, the proposed change to the IPS refers to a transition period of several months for implementing the new benchmarking procedure. However, there is no explicit process established for how this migration will unfold, which means that it may not be clear in advance what the prevailing EM benchmark is at any time during the transition interval. Given that two of the characteristics of any effective benchmark are that it should be *unambiguous* and *specified in advance*, the Board needs to be comfortable that it always understands exactly how the IMD's investment performance is to be measured in this asset class.

MEMORANDUM

TO: Board of Trustees
Teacher Retirement System of Texas (“TRS”)
FROM: Suzanne M. Dugan
Fiduciary Counsel
DATE: August 26, 2022
RE: Proposed Revisions to the TRS Investment Policy Statement

At the September 2022 meeting, TRS staff will be proposing a change to the Investment Policy Statement (“IPS”) to adjust the Emerging Market benchmark. Staff advises that the proposal is the culmination of a year-long study by TRS staff and the work of an Investment Management Division (“IMD”) Task Force that was created in January to consider the issue. The proposal is intended to reduce the weight allocated to investments in China, and would move the benchmark used to assess the performance of TRS’ Emerging Market Public Equity portfolio allocation from the MSCI EM index to a weighted average consisting of 50% of the MSCI EM index and 50% of the MSCI EM-ex China index.

IMD staff has provided information regarding the proposed change to the IPS, the rationale for the proposal, and background information. In their respective roles as Advisors to the Board, both Dr. Keith Brown and Aon have reviewed and provided input on the proposal. In my role as Fiduciary Counsel to the Board, I have reviewed the proposed modification to the IPS and discussed the proposed changes with Aon, Dr. Brown, and TRS staff.

The memo provided by Aon states that they have often discussed with the Board the critical importance of a well written and unambiguous IPS. Aon concludes that the proposed modification is reasonable, but advises that the Board should be cognizant that the proposed modification does deviate from Aon’s views and the practices of peers, and explains that deviation in their memo.

In his memo, Dr. Brown highlights the role of the IPS as a Board-level policy that expresses to TRS staff the Board’s vision of the most prudent way to invest the assets in the TRS portfolio. Dr. Brown states that he endorses the modifications and recommends its adoption subject to a few important clarifying remarks that he has made in his comments. For example, Dr. Brown, in commenting that an effective benchmark should be unambiguous and specified in advance, notes that the Board needs to be comfortable that it always understands exactly how the IMD’s investment performance is to be measured.

I have often noted to the Board that fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process helps to demonstrate prudence. In reviewing the process that was undertaken with regard to the drafting of these proposed revisions to the IPS, it appears that the Board has sufficient information before it from staff as well as the advice of independent outside experts in order to enable it to engage in a rigorous

August 26, 2022

decision making process in a manner consistent with procedural prudence. The Board should take advantage of the opportunity to fully utilize in-house and outside experts in order to obtain answers to any and all questions they may have. Following this process will allow the Board to demonstrate that it has exercised appropriate fiduciary oversight should it choose to adopt the proposed revisions to the IPS.



INVESTMENT POLICY STATEMENT

(Adopted ~~July-September 165~~, 2022, to be effective ~~September 19, July 18,~~ 2022)

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EXECUTIVE SUMMARY

This Executive Summary is not intended to replace, and must be read in conjunction with, the Investment Policy Statement (the “Policy”). In the event of a conflict between the Executive Summary and the Policy, the Policy shall govern. Capitalized terms have the meanings assigned to them in the Policy.

Introduction / Background

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy. The Board also monitors the actions of the Investment Division to ensure compliance with its policies. The Board and Investment Division are assisted by outside Advisors, Consultants and internal and external legal counsel.

See “Section 1.3 – Roles of Board, Staff, Advisors, and Consultants.”

The Investment Policy Statement provides a formal plan for investing pension trust fund (the “Trust”) and health insurance program assets. The Policy defines the roles and responsibilities of the Investment Division and other parties granted and approved by the Board.

Objectives

The Trust’s objectives are to (a) control risk and (b) achieve a long-term rate of return that exceeds (i) the assumed actuarial rate of return adopted by the Board, (ii) inflation plus 5% and (iii) the Trust’s Policy Benchmark. The Trust is subject to a “prudent person” standard of care under the Texas Constitution.

Authority and Key Restrictions

The Board assigns implementation authority to the Investment Division and as such the Investment Division has created a committee to oversee and implement Board-approved investment policy. The Internal Investment Committee’s (IIC) authority is limited by the size of the investments it can approve without also obtaining approval from the Board. The Chief Investment Officer (CIO) has Special Investment Opportunity authority of up to \$1 billion.

See “Appendix B – IIC Approval Authority and Manager Organization Allocation Limits.”

Asset Allocation

Each broad asset class category outlined below provides a distinct and purposeful role within the Total Fund. The Board sets these asset class targets based on periodic asset allocation and asset/liability studies while seeking to achieve the Trust’s stated

Broad Asset Class Category	Target	Min	Max
Global Equity	54%	47%	61%
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	8%	0%	13%
Net Asset Allocation Leverage	-4%		
Total	100%		

objectives.

In addition to the target for each broad asset class category target, there are specific targets for subcategories with minimum and maximum ranges that are +/-5% around the target allocation, with certain exceptions.

See “Section 1.6 – Total Fund Asset Mix and Benchmarks.”

Measurement and Reporting

Investment performance, peer performance, policy compliance, asset allocation, external investments activities, derivatives usage, risk limits, liquidity, leverage, private markets strategy, staffing, board and board observer seats, use of placement agents and other information will be monitored and reported to the Board.

See “Section 1.7 – Total Fund Measurement and Reporting Criteria.”

Risk Management

The Investment Division will monitor and manage risk of the Total Fund Portfolio and report to the Board on a periodic basis. Key risks include, but are not limited to: Market Risk, Foreign Exchange Risk, Credit and Counterparty Risk, Leverage, Liquidity, and Tracking Error.

See “Article 10 – Risk Management and Oversight.”

Tracking Error

Neutral tracking error targets are established for certain portfolios of the Trust:

	Neutral	Max
Equity (US)	300 bps	
Equity (International; Non-US, EAFE)	300 bps	
Equity (International; Emerging Markets)	300 bps	
Equity (World Equity)	300 bps	
Stable Value Hedge Funds	400 bps	
Risk Parity	400 bps	
Government Bonds		300 bps
Total Public Fund	100 bps	300 bps

See “Appendix A – Tracking Error Neutral (in annualized basis points).”

ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN

1.1. Introduction

The Teacher Retirement System of Texas (“TRS”) administers a pension trust fund and other health insurance programs for retirees and certain active public education employees under State of Texas constitutional and statutory provisions. TRS is governed by a Board of Trustees (the “Board”). TRS provides service and disability retirement benefits and death and survivor benefits for Texas public education employees and their beneficiaries. Benefits are funded by state and member contributions and investment returns.

1.2. Purpose and Design

The purpose of this Investment Policy Statement (this “Policy”) is to provide a formal plan for investing pension trust fund and health insurance program assets to achieve defined investment objectives consistent with the TRS mission statement adopted by the Board and with applicable law.

This Policy also defines the roles and responsibilities of the various entities involved in the investment process and facilitates internal and external communication of investment policy.

The appendices to this Policy are incorporated into and form part of this Policy for all purposes.

Terms that are not defined within the body of this Policy have the meanings assigned to them in the “Definitions” at the end of this Policy.

Other policies relevant to this Policy and its subject matter include the Code of Ethics for Contractors, Employee Ethics Policy, Trustee Ethics Policy, Personal Trading Policy, Commission Credits Policy, Confidentiality Policy, Information Security Policy, Proxy Voting Policy, and Securities Lending Policy.

1.3. Roles of Board, Staff, Advisors, and Consultants

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff (the “Investment Division”) and Legal and Compliance. The Board also monitors the actions of staff to ensure compliance with its policies. The Board’s standing committees are charged with those responsibilities set forth in the bylaws of the Board. The Board and the Investment Division are assisted by outside investment Advisors, Consultants and internal and external legal counsel.

- a. The Board Investment Advisors (“Advisors”) are selected by the Board to provide education, advice, commentary, and discussion as requested at Board meetings, assist with development and review of investment policies and procedures, assist with the development of the strategic asset allocation, report on the progress of the Fund in meeting its investment objectives, compare the performance of the portfolio to established benchmarks, and perform additional duties as directed by the Board, such as due diligence or analysis of a manager or investment. The Investment Division and Advisors provide information as needed to assist the consulting actuary in performance of actuarial services.
- b. The Investment Division has fiduciary responsibilities delegated by the Board under applicable law. The Investment Division manages the Fund according to the Board's policies, advises and informs the Executive Director and the Board about investments, and recommends modifications to this Policy. The Investment Division executes all transactions, performs risk-management functions, and prepares investment reports.

- c. The Internal Investment Committee (the “IIC”) reviews, considers, and authorizes proposed investments and external manager engagements as required by this Policy. Additionally, the IIC will manage the currency hedge ratios (set forth in Appendix C) and review as needed.

A prudence or recommendation letter will be required in the following circumstances:

1. When the Board considers authorizing an external investment opportunity because the allocation or commitment exceeds the limits in Appendix B;
2. When the CIO, Executive Director or a Board member requests a letter for any external investment opportunity presented to the IIC; or
3. When an external investment opportunity presented to the IIC meets all three of the following criteria:
 - i. The investment will reside in the principal investment Private Markets Portfolio;
 - ii. The initial allocation or commitment exceeds 0.25% of the Total Fund value; and
 - iii. The investment is the first by TRS with a manager organization.

If a Board member desires that any investment opportunity scheduled for consideration by the IIC be submitted for Board consideration, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board and the appropriate Board committee, as applicable, before the anticipated closing date.

The permanent IIC membership consists of the CIO and the Chief Risk Officer (the “CRO”). There must be a minimum of five members on the IIC and, in addition to the CIO, at least two members must be Investment Division Senior Managing Directors (“SMDs”). The CIO will notify the Chairman of the Investment Management Committee in advance of any designation or removal of a SMD from the IIC. Termination of a member's TRS employment terminates IIC membership as of the date the employee or TRS gives notice of termination, as the case may be. The Investment Division shall notify the Board and the Executive Director if there is any change to the membership of the IIC. The IIC may delegate investment discretion to asset class investment committees as established in IIC procedures and guidelines.

The CIO will establish procedures and guidelines for the operations of the IIC. The IIC procedures and guidelines may provide that the CIO may designate and remove select Directors as non-permanent voting members to the IIC. The IIC procedures and guidelines will define a quorum and establish the vote required to authorize an investment or external manager engagement or, if required by this Policy, recommend an investment or external manager engagement to the Board, which vote may not be less than a majority of the then-incumbent IIC members present and voting at a meeting at which a quorum is present. The CIO shall have the power to veto any investment or delegation of investment discretion authorized or recommended by the IIC pursuant to a vote of its members.

The Executive Director or a designee may attend any meeting of the IIC, and the Investment Division shall deliver to the Executive Director copies of all IIC materials, analyses, correspondence, and agendas as and when delivered to the IIC members or other TRS employees. The Executive Director is not a member of the IIC, however, acting in his or her capacity as the chief executive officer and chief administrative employee of TRS as set forth in the Board’s bylaws, the Executive Director shall, after consultation with the CIO, have the power to veto any investment or delegation of investment discretion proposed for IIC consideration or authorized or recommended by the IIC pursuant to a vote of its members whenever he or she deems such veto to be in TRS’ best interest.

When this Policy requires that the Board authorize an investment or an engagement of an external manager, the IIC shall vote on whether to recommend such investment or engagement to the Board. The results of the vote shall be reported to the Board in the materials provided to the Board for consideration.

- d. All proposed changes to this Policy will be reviewed by Legal and Compliance for compliance with state and federal laws regarding fiduciary responsibility, investment prudence, regulatory compliance, ethics compliance, and other applicable standards or requirements before submission to the Policy

Committee. Except as authorized by the Executive Director, proposed changes to this Policy will first be presented to the Policy Committee, which will consider recommending the proposed changes to the Board. The Board may consider and adopt proposed changes that have not been considered by the Policy Committee. This Policy shall be reviewed at least once every three years.

- e. The Investment Division is authorized to engage qualified Consultants on an as-needed basis to assist the Investment Division with respect to investment opportunities and to provide other investment due diligence, analysis and advice.

1.4. Total Fund Objectives

In this Policy, the total investment portfolio includes all assets invested by TRS to provide retirement, death, health, and disability benefits administered by the system, including cash and cash equivalents (the “Total Fund” or the “Fund”) and will be structured and managed to achieve the following objectives:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. As applicable to the pension plan, achieve a long-term rate of return that:
 - i. Exceeds the assumed actuarial rate of return adopted by the Board;
 - ii. Exceeds the long-term rate of inflation by an annualized 5%; and
 - iii. Exceeds the return of the Fund Policy Benchmark.

1.5. Total Fund Investment Standard

Article XVI, Section 67(a)(3) of the Texas Constitution and Section 825.301, Texas Government Code, states that the standard of care for TRS investments is a “prudent person” standard. Section 825.301, Texas Government Code, provides that Section 117.004(b), Property Code, applies to TRS investment decisions. Section 117.004(b) generally states that the determination of the prudence of a single investment decision will be made taking into consideration the investment of all of the assets of the trust, or the assets of the collective investment vehicle, as the case may be, rather than a consideration as to the prudence of the single investment of the trust, or the single investment of the collective investment vehicle, as the case may be.

Environmental, social, and governance (ESG) factors influence the performance of TRS’s investments. In making investment decisions, the Investment Division will consider ESG factors that are material to long-term returns and levels of risk. Materiality of specific ESG factors vary across strategies, companies, sectors, geographies and asset classes.

All investments must be made prudently and in accordance with fiduciary and ethical standards, without promoting interests unrelated to the portfolio’s stated objectives of controlling risk and achieving a long-term rate of return.

All investments made by the Total Fund must be in “securities” as provided by Article XVI, Section 67 (a)(3) of the Texas Constitution and defined in Texas Government Code Section 825.301.

The Investment Division may engage External Managers to provide discretionary investment management services under Investment Management Agreements (“IMAs”) as needed.

1.6. Total Fund Asset Mix and Benchmarks

The Investment Division will assist the Board in engaging in an asset-liability study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent

portfolio exposures and a “long-term target” position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within the risk tolerances specified herein.

Each asset class allocation percentage has a “long-term target” position within the overall portfolio and a maximum and minimum range around that target allocation. All percentages refer to market value.

Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the table on the following page, and are referred to as the Policy Benchmarks.

The ultimate expression of risk tolerance by the Board to the Investment Division is the selection of the strategic asset allocation targets, permissible allocation ranges around those targets, and tracking error limits.

[Table appears on following page]

Asset Class	Benchmark	Reference Bloomberg Ticker	Minimum Range^{1,2}	Maximum Range^{1,2,9}	Target²
Global Equity:					
USA	MSCI USA Investible Market ³	MIMUUSAG	13%	23%	18%
Non-US Developed	MSCI EAFE and Canada ³	NDDUEC	8%	18%	13%
Emerging Markets	50% MSCI EM/50% MSCI EM ex China^{3,10}	NDUEEGF MICXBRV	4%	14%	9%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁴		9%	19%	14%
Total Global Equity	Target-weighted Blend		47%	61%	54%
Stable Value:					
Government Bonds ⁵	Bloomberg Barclays Long Treasury Index	LUTLTRUU	0%	21%	16%
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	20%	0%
Stable Value Hedge Funds	HFRI Fund of Funds Conservative	HFRIFOFC	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return:					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity:					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	13%	8%
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage ^{7, 8}	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
Net Asset Allocation Leverage					-4%
TOTAL FUND	Target-weighted Blend				100%

¹ With respect to the maximum range and minimum range, the CIO may increase any maximum range by 5% or decrease any minimum range by 5% (but may not decrease a minimum range below zero) if the CIO concludes in a writing delivered to the Executive Director and to the Board of Trustees stating the action taken and the reasons why the CIO believes that such increase or decrease would be in the best interests of TRS; provided, the maximum range for Total Global Equity may not be increased above 68%. Before taking action, the CIO must request comments from the Chairman of the appropriate Board Committee and TRS Advisors. The Board, at the next succeeding Board meeting, must authorize the increase or decrease if the CIO proposes that the changes continue in effect after such Board meeting. The CIO will notify the Chief Compliance Officer of any such change to a maximum or minimum range. If the Board does not authorize the continuation of the change to a maximum or minimum range after the next succeeding Board meeting, the Investment Division shall use best efforts to rebalance the portfolio to bring the asset classes within the ranges in the table above within 90 days.

² To calculate the Total Fund benchmark, the benchmark weight of each of Private Equity, Real Estate, and Energy, Natural Resources and Infrastructure, will be set each quarter as the ending actual weight from the prior quarter. Any difference in the calculated Private Equity, Real Estate and Energy, Natural Resources, and Infrastructure benchmark weights from the target benchmark weights will be offset using other asset classes with 25% of such difference applied to USA, 18% to Non- US Developed, 14% to Emerging Markets, 8% Stable Value Hedge Funds, 12% Risk Parity and 23% to Government Bonds.

The Investment Division does not normally manage the allocations to Private Equity, Real Estate and Energy, Natural Resources and Infrastructure on a tactical basis and will use its best efforts to achieve the Target allocation for these assets classes; provided, with notification to and comment sought from the Chairman of the appropriate Board Committee, the Investment Division may seek to achieve a higher or lower Target so long as such Target is within the Minimum Range and the Maximum Range.

³ Benchmarks will be adjusted for securities TRS is not authorized to own or buy because of this Policy or statutory provisions for which no fiduciary exemption has been exercised and have the Bloomberg Tickers of GU722807, NU722808 and NU722809.

⁴ The Customized State Street Private Equity Index is composed of the quarterly reported SSPEI, one quarter lagged and adjusted for the most recent quarter-end currency spot prices. Quarterly returns are geometrically linked for longer return horizons. The benchmark is adjusted in each quarter to remove any index constituents which did not provide a valuation statement as of the time of publication.

⁵ Global sovereign nominal and inflation-linked bonds may be held in the Government Bond portfolio.

⁶ Absolute Return is a broad category that includes all assets that have a high probability of generating a positive absolute return regardless of market conditions over a one- to three-year period.

⁷ “Asset Allocation Leverage” reflects any excess allocation to the combined cash and investment exposures that is greater than 100%. Asset Allocation Leverage does not include Strategy Leverage. “Strategy Leverage” is leverage used within an asset class to achieve similar return-risk characteristics as the benchmark.

⁸ The benchmark will be compounded daily using SOFRRATE index with a one-day lag, Actual/360, and Modified Following day count conventions.

⁹ The Maximum Range for the Private Equity Asset Class will be 24% until July 31, 2023.

¹⁰ The transition period to the new Emerging Markets benchmark will be October 1, 2022, through March 31, 2023 unless the CIO, upon notification to the Chairman of the Investment Management Committee, elects to terminate the transition period.

No later than two business days before the beginning of each month during the transition period, the CIO will notify the Chairman of the Investment Management Committee and Chief Compliance Officer of the designated weights for the two component indices of the Emerging Markets benchmark (MSCI EM and MSCI EM Ex-China) to be used for the following month. The CIO will also provide notice to the Board of the end of the transition period.

1.7. Total Fund Measurement and Reporting Criteria

The Investment Division will deliver reports to the Board (and the appropriate Board committee, as applicable) adequate to indicate whether the Total Fund is meeting its objectives and that will permit the Board to monitor each portfolio for compliance with this Policy. The Board will establish performance and risk measurement and attribution standards for the Total Fund, each asset class, and component portfolios.

The following comparisons and reviews will be performed quarterly (unless otherwise noted) and presented to the Board:

- a. **Investment Performance** – Investment performance for the Total Fund and each component portfolio, net of external management fees (if applicable), will be compared with their respective benchmark indices. Fund performance will be judged primarily by comparisons to long-term (3, 5 and 10 year) Policy Benchmark returns.
- b. **Monitoring of compliance with Policy** – Portfolios will be reviewed for compliance with the requirements set forth in this Policy. The Chief Compliance Officer will have overall responsibility for compliance monitoring. However, if considered necessary, TRS will hire external parties to obtain assistance regarding compliance monitoring. To ensure independence in compliance monitoring, the Chief Compliance Officer or external parties hired will not be given the authority to trade securities. To ensure ongoing compliance with this Policy and completeness of disclosures to the Board regarding compliance, the Chief Compliance Officer has authority to require certifications from applicable IIC members or Managing Directors disclosing known compliance violations. The Chief Compliance Officer reports all known compliance exceptions to the Board at the next meeting of the Board. The Chief Compliance Officer is authorized to execute and deliver compliance-related disclosures, reports, filings and certifications on behalf of TRS. The Chief Compliance Officer, with the CIO and Executive Director's approval, is also authorized to develop, disseminate and collect disclosure forms to monitor the requirements of this Policy.
- c. **Asset class exposures and weight** – The exposure of cash and derivative instruments to each asset class will be aggregated and compared with their respective benchmarks and with the authorized ranges around those benchmarks. The foregoing does not apply to those accounts designated as using Strategy Leverage to better align the investment with the characteristics of the policy benchmark. Hedge Fund exposure will be reported relative to its statutory limit, if applicable.
- d. **Investments under consideration** – For any external investment under consideration by the Investment Division (including Hedge Funds, External Managers, and private markets investments), the Investment Division will provide the Board the following information prior to the date of the applicable IIC meeting:
 - i. Name of the investment vehicle and investment manager;
 - ii. Total fund or strategy size;
 - iii. TRS investment amount under consideration;
 - iv. Investment strategy;
 - v. Names of the External Manager or fund principals;
 - vi. Projected TRS commitment or funding date;
 - vii. Placement agent or firm sponsoring the offering or engagement, if any;
 - viii. Prospective fees;
 - ix. Other TRS investments with the firm;
 - x. Historical fund or manager performance; and
 - xi. Type of investment representation contemplated and proposed individual to serve, if any.

For any internal investment under consideration, the Investment Division will provide the Board similar information prior to the date of the applicable IIC meeting.

- e. **External investments activities**– The Investment Division will provide the Board with a list of all external investments, including any additions, withdrawals, transfers or terminations, on at least a semi-annual basis.

- f. **Derivatives** – The Investment Division will provide a comprehensive report of all outstanding derivative applications (including derivative types, counterparties, notional amounts, and fair values) used by internal managers and External Managers under IMAs on at least a semi-annual basis.
- g. **Risk limits** – The Investment Division will report at least semi-annually the Total Fund and benchmark total estimated risk relative to the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- h. **Liquidity** – The Investment Division will report at least semi-annually to the Board the use of external liquidity funding mechanisms.
- i. **Leverage** – The Investment Division will report Gross Leverage, Net Asset Allocation Leverage, and Strategy Leverage for portfolios including, but not limited to, Risk Parity and Hedge Funds and leverage resulting from use of external liquidity funding mechanisms as outlined in Section 10.4 Liquidity Risk Management on at least a semi-annual basis.
- j. **Transparency report** – The Investment Division will provide a transparency report to the Board that may be used to disclose any of the required information described herein. This report may be delivered in electronic or physical formats.
- k. **Private Markets Long-Term Strategy** – The Investment Division will review with the Board its long-term strategy for each Private Markets Portfolio at least every three years. This review will include information on target sub- strategy allocation, return, risk and liquidity expectations. Tactical deviations from this long-term strategy will be reviewed with the Board on an annual basis.
- l. **Staffing** – The Investment Division will provide an update no less than annually reporting on key positions in the division, including turnover, transfers and the creation or elimination of key positions.
- m. **Investment Integrity Disclosures** – The Investment Division shall compile all responses to the Investment Integrity Questionnaire (Appendix E) for the purposes of Article 12 and report the results to the Board at least semi-annually. Each report shall include the questionnaire responses completed prior to IIC consideration or other investment authorization under this Policy, and which shall be affirmed as of the applicable closing date. Reports shall disclose whether a Placement Agent has been involved (even if TRS is not burdened by a Placement Fee) and include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Elected Official or Candidate, as applicable.
- n. **Board representation** – The Investment Division shall provide the Board with an annual report on all (i) private investment fund advisory committee positions and (ii) all seats and observer positions on company boards or other governing bodies held by employees or, if applicable, third-party representatives.
- o. **ESG** – The Investment Division will report at least annually to the Board on the Trust’s ESG efforts, methods and results.
- p. **Other information** – Any other information or reports as the Board may request or require from time to time.

1.8. Total Fund Portfolio Implementation and Design; Restrictions

- a. The Total Fund investment portfolio is characterized by the following functional portfolios that are charged with the implementation of day-to-day portfolio investment and management activity:
 - i. Public Markets Portfolios;
 - ii. Private Markets Portfolios; and
 - iii. Overlay Portfolios;

The objectives, authority and limitations of each of these portfolios, and the authorized uses of derivatives, are described throughout the remainder of this Policy.

- b. In no event shall the aggregate allocation to External Managers pursuant to IMAs exceed 30 percent (or a different percentage of not more than 50 percent, if a greater percentage is specified in the Texas Government Code) of the Total Fund at the time of investment. For avoidance of doubt, this restriction does not apply to assets held by funds (including Hedge Funds) which limit the liability of TRS to the capital contributed and any distributions that TRS might be legally obligated to contribute or repay to the fund.

By law, the Hedge Fund Portfolio may not exceed 10% of the Total Fund. Compliance with the statutory limit is determined at the time TRS executes the investment documents for each Hedge Fund investment or additional investment.

- c. Subject to Appendix F, the Investment Division is authorized to represent TRS on:
 - i. Advisory committees or boards and as board observers in investments in which TRS has an investment interest.
 - ii. After evaluation of the net benefit to TRS, employees in the Investment Division are authorized to represent TRS or to nominate or appoint third-party independent non-employees to represent TRS on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- d. Except as required by fiduciary duties created by the Texas Constitution or applicable law, each TRS investment portfolio, including separate account investments, will comply with prohibitions and restrictions on investments imposed on TRS by state law. For the avoidance of doubt, the Policy and its implementation are subject to all applicable state, federal and international laws where and to the extent that such laws are in force. The Board authorizes and requires compliance with such laws. No further action by the Board will be required to implement compliance with an applicable law.
- e. TRS will not invest directly in securities of any company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex through explicit depictions of sexual activity. These include sexually explicit films, videos, publications, and software; topless bars and strip clubs; and explicit sexually-oriented telephone and Internet services. The restriction does not apply to pooled investment vehicles, provided that the Investment Division shall engage with the managers of such vehicles and use commercially reasonable efforts during due diligence to determine whether such vehicles invest in any company that would not be eligible for direct investment by TRS.
- f. The General Authority Resolution adopted by the Board designating those employees authorized to execute documents and attached as Appendix D is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix D as of the effective date of the superseding resolution.

ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS

2.1 Public Markets Portfolios Objectives

The objectives of the Public Markets Portfolios are to invest in publicly traded and Restricted Securities to meet or exceed the performance of the relevant Policy Benchmarks or to manage the asset allocation and risk of the Trust. The Public Markets Portfolios will employ a wide variety of investment and trading strategies with varying levels of liquidity and leverage. It is expected that some strategies will involve more concentrated, shorter term investments as well as those that are longer term in nature and thus will generally have more tracking error, while other investments will have less correlation, beta and volatility and thus will offset the overall volatility of the Public Markets Portfolios and the Total Fund.

2.2 Public Markets Portfolios Authorized Investments

The Public Markets Portfolios are authorized to invest in the following:

- a. All securities in a Policy Benchmark, all securities that trade publicly (whether on an exchange or over the counter) or pursuant to SEC Rule 144A, and securities issued in underwritten initial public offerings (“IPOs”);
- b. Fixed income securities, whether publicly traded or restricted;
- c. Restricted Securities which are expected to become public or otherwise freely marketable within three years after the initial investment date pursuant to registration or an exemption from registration;
- d. Derivatives in accordance with Article 9;
- e. Private Investment Funds including Hedge Funds; and
- f. Cash and cash equivalents.

2.3 Public Markets Portfolios Restrictions

- a. Not more than 20% of the outstanding equity securities of a single class of any company may be purchased. Securities which are deemed to be beneficially held by TRS for purposes of Section 13 of the Securities Exchange Act of 1934 (including equity securities held in an IMA or a Private Fund in which TRS is deemed to be the beneficial owner for purposes of Section 13), shall be counted against the 20% limit.
- b. The Public Markets Portfolios shall conform to the tracking error targets prescribed in Appendix A.
- c. The Public Markets Portfolios that are managed directly by the Investment Division may hold short positions in securities listed in Section 2.2. The aggregate short positions exposure excluding derivatives of the portfolios may not exceed 25% of the market value of the internal equity portfolios of the Trust, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable securities are traded or listed.
- d. The market value of Restricted Securities purchased in Public Markets Portfolios pursuant to 2.2c will not exceed 2% of the market value of the Total Fund at time of investment.

2.4 External Public Markets Portfolios

The External Public Markets Portfolios (the “EPM Portfolios”) are:

- a. The External Manager Portfolio, which consists of:
 - i. Private Funds that are determined not to be Hedge Funds as defined by Section 2.5 of this Policy, and
 - ii. Separate accounts managed or advised by External Managers under an IMA with TRS.
- b. The Hedge Fund Portfolio.
- c. The Absolute Return Portfolio including credit sensitive investments.

2.5 Hedge Fund Defined

In this Policy, “Hedge Fund” means a Private Investment Fund with the following general characteristics, as set forth in Section 825.3012, Texas Government Code:

- a. Is not registered as an investment company;
- b. Issues securities only to accredited investors or qualified purchasers under an exemption from registration; and
- c. Engages primarily in strategic trading of securities and other financial instruments.

“Hedge Fund” includes a Private Investment Fund of funds or similar vehicle that itself invests in Hedge Funds. An investment in a Hedge Fund does not involve a delegation of investment discretion to an External Manager for purposes of the statutory limit on delegation to External Managers.

For the purposes of complying with Section 825.3012, Texas Government Code, the Investment Division shall use the following criteria to analyze and determine whether a Private Investment Fund is “primarily engaged in strategic trading” and should be classified as a hedge fund:

Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
1. Variability in Asset Class Concentration	Asset allocation typically stays the same throughout a market cycle, as shown by historical practice	Unconstrained; asset class mix can change dynamically in response to market conditions or as opportunities arise
2. Beta to underlying index specified for the particular mandate	Generally higher levels of beta (e.g., 0.75+)	Often less beta (e.g., <0.75)
3. Securities Traded	Primarily publicly-traded securities	Typically public or private instruments, and often with some illiquid (e.g., “side pockets”) investments segregated for accounting and incentive fee purposes
4. Leverage	Gross leverage less than 250% and net leverage 75% to 125%	Unconstrained by policy and practice – managers often unwilling to commit to constraints
5. Short sales of company-specific securities (i.e., non-derivatives)	Typically <50% gross short	Shorting of company-specific securities is integral to investment strategy or process, with gross short positions exceeding 50%
6. Use of Derivatives	Limited use of derivatives (notional value excluding derivatives used to hedge currency risk is less than 100% of net asset value)	Derivatives are integral to strategy or process (notional value excluding derivatives used to hedge currency risk is greater than 100% of net asset value)
7. Transparency	Generally position-level transparency for investor	Risk-level transparency, but little or no position-level transparency
8. Liquidity	Limited use of lock-ups, short or no notice period; frequent (e.g., monthly) or no redemption windows	Often lock-ups, withdrawal fees, notice periods exceeding 30 days and/or less frequent redemption windows than monthly; gates and ability to suspend redemptions can extend redemption for years or frustrate liquidity goals

Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
9. Performance Fees	May charge performance fees, but often over asset class hurdle	Generally, manager charges management and performance or incentive fees, or both, but usually with no asset class hurdle

In this Section 2.5:

Beta is a measure of an asset’s volatility in relation to a specific market or risk factor, as observed over a market cycle; the measure of an asset's risk in relation to the market (for example, the S&P500) or to an alternative benchmark or factors. Generally, the return of a security with a beta of 1.5 will be, on average, 1.5 times the market return.

Leverage is a condition in which the net potential monetary exposure of an obligation exceeds the value of the underlying assets supporting the obligation. **Net Leverage** is calculated as the difference between (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, and (B) the sum of (i) the absolute market value of all short cash market positions, and (ii) the absolute notional value of all short derivative positions divided by (C) the net market value of the fund. **Gross Leverage** is the total of (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, (iii) the absolute market value of all short cash market positions, and (iv) the absolute notional value of all short derivative positions divided by (B) the net market value of the fund. For option based instruments, notional value may be calculated using hedge ratios to derive a delta-equivalent exposure.

Proposed investments in funds classified as Hedge Funds will be reported to the Board (and appropriate Board committee, as applicable) quarterly. If the criteria examined do not clearly indicate, based on at least a preponderance of criteria, how a fund should be classified for statutory purposes, the Investment Division may elect to present the pertinent information to the IIC for consideration of classification. Further, if the application of any one or more of the criteria for leverage, short sales, and derivatives, standing alone, would classify the fund as a Hedge Fund, but the preponderance of criteria would classify the fund as a non-Hedge Fund, the Investment Division may either decline to authorize the investment or may elect to present the pertinent information to the IIC for consideration of the classification of the fund and, if applicable, authorization for investment.

At time of consideration, the IIC will approve the allocation of each Hedge Fund to an asset class by reference to factors such as investment strategy, underlying investments, correlation, beta, leverage, expected return and expected risk.

2.6 External Public Markets Portfolio Authorization

- a. **Approval Authority – Hedge Fund, External Manager and Absolute Return Portfolios** – The IIC is hereby authorized to approve investments as defined and set forth in Appendix B of this Policy.

The Investment Division may authorize an allocation to an External Manager even if the manager will invest a portion of the assets in a Private Investment Fund or funds or a tax-qualified collective trust managed by an Affiliate of the External Manager, except that the Investment Division shall determine whether any such fund should be classified as a Hedge Fund for purposes of Section 825.3012, Texas Government Code.

- b. **Short positions limit** – The EPM Portfolios may hold short positions in securities authorized under Section 2.2. The aggregate short positions exposure of the External Manager Portfolio may not exceed 25% of the market value of the External Manager Portfolio without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the External Manager Portfolio exceed 50% of the market value of the External Manager Portfolio, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable Securities are traded or listed.

- c. **Allocation Adjustment Authority** – Subject to the limits set forth in this Policy, the CIO, CRO, the heads of Public Markets or EPM may add to previously approved funds or investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not, on a monthly basis, exceed 2% of the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio (as appropriate) per investment.
- d. **Termination and Withdrawal Authority** – The CIO, CRO, or the heads of Public Markets or EPM may transfer, sell, withdraw or terminate interests in the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio, provided that the action does not breach the terms and conditions of the applicable investment agreements.

2.7 External Public Markets Portfolio Restrictions

- a. IMAs, considered in the aggregate, may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy, including the provisions of Section 2.2.
- b. The EPM Portfolios are subject to the size limitations in Section 1.8b.
- c. Each IMA with an External Manager shall specify the applicable policies, risk controls, portfolio characteristics, reporting requirements, requirements or restrictions, including criteria for determining quality of investments or the use of standard debt-rating services.

2.8 External Public Markets Portfolio Conflicts of Interest

Conflicts of interest, including the appearance of conflicts, in the selection and engagement of external investment managers will be avoided at all times. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under applicable ethics policies and statutory provisions, including without limitation Section 825.212, Texas Government Code, which does not apply to Hedge Fund managers in that capacity. The Investment Division will develop guidelines and procedures to identify actual or potential conflicts of interest affecting External Managers to be engaged pursuant to IMAs. The Investment Division shall employ reasonable diligence to identify conflicts of interest affecting TRS trustees, employees, Advisors and Consultants with respect to all investments.

2.9 Risk Parity Portfolios

Risk Parity is an asset allocation strategy that focuses upon equalizing the risk contributions of the asset classes or risk factors comprising the portfolio. Risk Parity then uses leverage to scale the resulting portfolio to target a stated level of portfolio risk or return comparable to typical pension fund unleveraged asset allocation strategies.

ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS

3.1 Private Markets Portfolios

The Private Markets Portfolios are (1) the Private Equity Portfolio (the “PE Portfolio”), (2) the Real Estate Portfolio (the “RE Portfolio”) and (3) the Energy, Natural Resources and Infrastructure Portfolio (the “ENRI Portfolio”).

Private markets opportunities that will be considered for investment include the following: investments in securities of any legally permissible investment vehicle, including Private Investment Funds, co-investments, secondary investments, externally managed separate accounts investing in securities, hybrid securities with characteristics of equity or debt, joint ventures, secondary market transactions, entity-level investing or other

off-market investments, new and emerging managers, and opportunistic investments (e.g., investments in the management entity of a private investment firm or sponsor, public-to-private transactions, and the acquisition of business development company or investment trust assets).

3.2 Private Markets Portfolios Authorization

The Private Markets Portfolios are authorized to invest in the asset classes specified in this Policy and may hold and exercise rights, options and warrants attached to securities relating to an investment by the Private Markets Portfolios. In furtherance of the investment activities of TRS, the Private Markets Portfolios are authorized to engage with third parties and provide to them any required investment information for due diligence purposes so long as the recipients have a duty of confidentiality as to the TRS information.

Funding of committed capital in Private Markets Portfolios will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor's commitment, the outstanding invested capital of the investment might at times be substantially less than the total commitment. In recognition of the above characteristics unique to the Private Markets Portfolios, a "committed" allocation to an investment may exceed the respective allocation targets authorized. It will not be a violation of this Policy if changes in the market values of the public assets portfolios or the Private Markets Portfolios cause the market value of the Private Markets Portfolios to exceed the upper limit of the allocation ranges established in this Policy.

Investment Authority. The limits defined and set forth in Appendix B apply to allocations and commitments by the Private Markets Portfolios.

Termination and Withdrawal Authority. The CIO or, as applicable, the heads of Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure may transfer, sell, withdraw or terminate interests in the Private Markets Portfolios in accordance with the investment documents, provided that the action does not breach any agreement to which TRS is legally bound.

Commitment Authorization. Each investment must be authorized as required by the provisions, guidelines, and limitations established in this Policy. Any structure in which TRS invests shall meet established legal requirements.

Additional Allocation Authority. Subject to the limits set forth in this Policy, the CIO or, as applicable, the heads of the Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure Portfolios may add funds to previously approved investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not exceed, on a monthly basis, 2% of each of the Private Equity Portfolio, the Real Estate Portfolio or the ENRI Portfolio (respectively, as appropriate) per investment.

ARTICLE 4 – PRIVATE EQUITY PORTFOLIO

4.1 Private Equity Portfolio Objectives

The PE Portfolio will be structured to achieve the following investment objectives:

- a. The primary long-term objective is to develop a prudently diversified portfolio of investments that is expected to enhance the overall risk-return profile of the Total Fund.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified PE Portfolio: strategy, geography, industry sectors, investment size and vintage year.

4.2 Private Equity Portfolio Authorized Investments

Private equity funds build portfolios of private investments in the equity or debt of operating companies. Private equity funds may acquire investments in debt obligations, public or private common and preferred stocks, convertible securities, and any warrants, rights, or options attached to any of the foregoing that relate to equity ownership in an issuer. Privately-acquired securities usually have transfer restrictions and are not as liquid as publicly-traded securities. Private equity funds are often classified by strategy, including: buyouts, credit, special situations and venture capital/growth equity.

4.3 Private Equity Portfolio Restrictions

The Private Equity Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

ARTICLE 5 – REAL ESTATE PORTFOLIO

5.1 Real Estate Portfolio Objectives

The RE Portfolio will be structured to achieve the following investment objectives:

- a. As the primary focus, contribute favorably to diversification of the Total Fund through exposure to real estate's low or negative correlation to the Public Markets Portfolios.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified RE Portfolio: strategy, geography, property types, size of investment, vintage year, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

5.2 Real Estate Portfolio Authorized Investments

The RE Portfolio will focus on private or public real estate equity securities investments, private or public real estate debt, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, private or public real estate investment trusts ("REITs"), private or public master limited partnerships ("MLPs"), and other opportunistic investments in real estate.

Real estate investments are often classified by strategy, including: core, core-plus, value-added, opportunistic and special situations.

5.3 Real Estate Portfolio Restrictions

The RE Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO

6.1 Energy, Natural Resources and Infrastructure Portfolio

The ENRI Portfolio will be structured to achieve the following investment objectives:

- a. Contribute favorably to diversification of the Total Fund by increasing exposure to assets with a higher degree of inflation sensitivity.

- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified ENRI Portfolio: general inflation sensitivity, expected return, strategy, geography, resource exposure, size of investment, vintage year, where investment is in the resources value chain (upstream, midstream or downstream) or infrastructure type, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments

The ENRI Portfolio may invest in private and public energy or natural resource or infrastructure related securities either directly or through funds which may include investments in public or private equity, equity-linked investments including options, warrants, preferred equity, and structured equity, private or public debt, entity-level investments, master limited partnerships, commodity futures, natural resources interests (mineral, royalty or working interests), timber and agricultural property, water, power generation, renewable energy, and associated infrastructure, services and technology. Energy and natural resource investments are often classified by resource type and where the investment is in the resource value chain (upstream, midstream or downstream). Infrastructure assets are classified as core, value-add and opportunistic. Direct investments in physical commodities are prohibited.

6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions

The ENRI Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

ARTICLE 7 – EMERGING MANAGERS PROGRAM

TRS shall make a good-faith effort to invest with qualified emerging managers for the External Public Markets Portfolios and the Private Markets Portfolios. For the avoidance of doubt, these portfolios may also include investments in energy, natural resources and infrastructure. The Investment Division is authorized to invest with qualified funds-of-funds managers skilled at identifying small and emerging managers in the private equity, real asset and public equity markets. The Emerging Managers Program will target 1.1% of the market value of the Total Fund.

Emerging managers can include, but are not limited to, minority, women, and disabled veteran-owned or -controlled organizations. Conversely, not all minority, women, and disabled veteran-owned or -controlled organizations are necessarily considered emerging managers for the purposes of this program. Whether a management firm is an “emerging manager” depends on all of the facts and circumstances. In general, emerging managers are defined as newer, independent private investment management firms that manage less than \$3 billion, or have a performance track record as a firm shorter than five years, or both.

The Investment Division may engage Emerging Managers Program Consultants without a requirement for approval from the Board. In general, an emerging manager should be registered as an investment adviser with the appropriate authorities if such registration would be consistent with industry practices or is required by law. Each investment will have a minimum size of \$5 million. With respect to the EPM Portfolio, the total investment by TRS with each emerging manager may not exceed 40% of such emerging manager’s assets under management at the time of IIC approval. With respect to the Private Equity Portfolio and the Real Estate Portfolio, the total investment by TRS into each fund raised by an emerging manager may not exceed 40% of the size of such fund at the time of IIC approval. This paragraph does not apply to investments executed as part of a fund-of-funds mandate.

The Investment Division shall document its efforts to identify and expand its investments with qualified emerging managers for the purpose of board and legislative reporting on the methods and results, including data

disaggregated by race, ethnicity, gender, and fund size. All investments under the emerging manager program must be made prudently and in accordance with fiduciary and ethical standards.

ARTICLE 8 – OVERLAY PORTFOLIOS

8.1 Overlay Portfolios Objectives

Overlay Portfolios are designed to manage risk, asset allocation, and market exposures through futures, options, swap contracts, or forward agreements. Overlay Portfolios may be implemented in connection with the Total Fund or with any investment or portfolio within the Total Fund.

8.2 Overlay Portfolios Authorized Investments

Overlay Portfolios may contract for, buy, sell, and hold the following contracts and derivative instruments in accordance with this Policy:

- a. Exchange-traded futures contracts;
- b. Options on exchange-traded futures contracts;
- c. Over-the-counter or exchange-traded swap contracts;
- d. Over-the-counter or exchange-traded option contracts; and
- e. Forward contracts.

8.3 Overlay Portfolios Restrictions

Overlay Portfolios may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

When engaging in currency overlay strategies, the Overlay Portfolio may not increase or decrease the net notional exposure of the Total Fund:

- a. To all non-dollar currencies in aggregate by more than 5% of the market value of the Total Fund;
- b. To any single developed market currency (except for the U.S. Dollar) by more than 2% of the market value of the Total Fund; and
- c. To any single emerging market currency by more than 1% of the market value of the Total Fund.

The foregoing percentage limit restrictions do not apply to currency derivatives used (i) as part of the non-discretionary foreign exchange risk management policy described in Section 10.2, (ii) to settle security transactions denominated in those foreign currencies and any authorized instrument or contract intended to manage transaction or currency exchange risk in purchasing and selling investments, and (iii) for hedging the characteristics of an individual investment to align it with the characteristics of such investment's benchmark.

ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES

This Article enumerates the applications, documentation and limitations for the use of derivatives as permitted under Section 825.301, Texas Government Code.

9.1. Derivatives Policy Scope

Except where specifically noted, this Policy applies to all derivatives transactions executed by the Investment Division and by External Managers operating under an IMA. This Policy does not apply to registered or Private Investment Funds issuing securities to TRS.

This Policy applies to all exchange-traded derivatives and over the counter (“OTC”) derivative instruments authorized by law. This Policy does not apply to the use of derivatives by Private Investment Funds unless TRS in fact controls and has a legal right to approve the investment policy or guidelines of such funds.

9.2. Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)

The Total Fund may have external exposure to derivatives in two ways.

- a. First, the Total Fund will invest as a passive investor in Hedge Funds organized as limited-liability entities, which limits potential losses to the capital contributed to the entity. TRS is not a party to the management agreement between the Hedge Fund and its investment manager. Hedge Fund and other fund managers owe the same legal duties to all investors.
 - i. The Investment Division must exercise thorough due diligence in assessing the scope of the Hedge Fund manager’s uses of derivatives, their purpose, experience of the fund manager’s staff in managing these positions, inherent leverage, and the manager’s systems, controls and operations in determining suitability of these entities for TRS investment.
- b. Second, TRS may delegate discretion, through IMAs, to External Managers who act as a TRS agent with respect to Total Fund assets and who are authorized to enter into specified contracts and commitments that will be legally binding on TRS. External Managers are TRS fiduciaries.
 - i. For External Managers engaged pursuant to IMAs, Investment Division must view the External Manager as an extension of the internal Investment Division’s investment management processes and must require External Managers to comply with this Policy and applicable guidelines and law on the use of derivatives to the same extent as the Investment Division. Guidelines for the scope and use of derivatives will be established on a case-by-case basis with each External Manager in the applicable IMA. An External Manager of publicly-traded investments engaged by TRS under an IMA may engage in derivatives transactions only if expressly authorized by, and the transactions are consistent with, the overall investment objectives and restrictions established in the IMA, this Policy, and applicable law. Each IMA must be consistent with applicable law, this Policy, and other TRS policies. An IMA may only authorize such uses of derivative instruments when the Investment Division reasonably concludes after due diligence that the External Manager possesses the experience, expertise, and qualifications to prudently use derivatives, and has appropriate operational, compliance, and risk management personnel, policies, and procedures to effectively monitor and control their use, including the use of leverage.
 - ii. Selection, engagement, and monitoring of External Managers engaged through an IMA requires a clear understanding of the managers’ uses of derivatives, particularly as it relates to various risk controls, compliance functions, and leverage. The Investment Division will monitor risk exposures and leverage on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage by each External Manager must be fully documented in each IMA.

9.3. Derivatives Definition; Authorization

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). For the purposes of this Policy, derivatives include, without limitation, futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in

purchasing, selling or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios. Derivatives, for purposes of this policy, do not include currency forwards with a tenor of 30 days or less if such forwards do not require upfront amounts to be paid or received.

Derivatives may be exchange traded or OTC. Exchange traded derivatives are listed and traded on a national exchange. Fulfillment of the contract is generally guaranteed by the exchange on which the instruments are traded. OTC derivatives are negotiated transactions between a buyer and a counterparty, which may result in non-standard terms.

9.4. Derivatives Applications Permitted

Consistent with the objectives set out in Section 9.1, derivative applications may be used by the Investment Division and External Managers engaged through IMAs to:

- a. Implement investment strategies in a lower cost and efficient manner;
- b. Efficiently manage the Total Fund portfolio by altering the portfolio's market (systematic) exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;
- c. Construct portfolios with risk and return characteristics that could not be efficiently created with cash market securities consistently with the objectives in this Policy and in compliance with applicable law;
- d. Hedge and control risks so that the Total Fund's risk-return profile is more closely aligned with the Total Fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and
- e. Facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or policy changes.
- f. External Managers may not engage in derivative applications that are inconsistent with the applicable IMA, this Policy and applicable law, unless specifically authorized by the TRS Board and the IMA has been amended accordingly.

9.5. Derivatives Applications Not Permitted

- a. Derivatives may not be used for speculation. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified by this Policy or any related policies or resolutions of the Board. Derivatives may not be used for circumventing limitations or restrictions imposed by this Policy or applicable regulatory requirements. Derivative applications may only be used to invest in asset classes that are consistent with TRS's legally permissible policy asset categories (including currencies), implementation strategies, and risk-return characteristics.
- b. Investments in derivatives underlain by physical commodities are prohibited unless such derivatives can be cash-settled whether by contract terms, by rolling the position, or by trading out of the position before a delivery obligation can arise. Standing orders or instructions for rolling or trading out of positions may be used to prevent delivery obligations from arising under commodities derivatives contracts.
- c. The Policy does not apply to or authorize any use of derivatives underlain by single-asset real estate mortgages or title to real estate or property affixed to real estate.

9.6. Derivatives Documentation and Controls

Prior to the implementation of a new internal derivative instrument type or application, the Investment Division shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including, at a minimum, market, modeling, pricing, liquidity, and legal risks), the expected increase or reduction in systematic and idiosyncratic risk resulting from the application, the amount of leverage employed under the

strategy, the prudent reasons for employing leverage, and the procedures in place to monitor and manage the derivative exposure. The documentation will be approved by the CIO and reported to the IIC and the Board (or appropriate Board committee, as applicable) at their next regularly-scheduled quarterly meetings. The Investment Division shall adopt fully documented control procedures to properly account for and value the Total Fund's exposure to each derivatives application, whether internal or external under an IMA. The Investment Division shall establish an appropriate risk management procedure to monitor compliance both internally and by External Managers and will take corrective action if necessary. The Investment Division shall have due regard for operational risks associated with various derivatives strategies, including risk management, accounting systems, liquidity needs, adequate staffing, and staff qualifications.

9.7. Derivatives Limitations

Counterparty Risks: In order to limit the financial risks associated with derivative applications, guidelines for rigorous counterparty selection criteria and ISDA agreements shall be created by the Investment Division to reduce counterparty risk for OTC derivatives. Any counterparty in an OTC derivative transaction with TRS must have a credit rating (which may be a counterparty risk assessment or rating) of at least A- (Standard & Poor's or Fitch) or A3 (Moody's). All OTC derivative transactions, including those managed through IMAs, must be subject to established ISDA Master Agreements or, if centrally cleared, clearing agreements and have full documentation of all legal obligations of both parties to each transaction. All ISDA Master Agreements entered into by or on behalf of TRS by the Investment Division or an External Manager engaged pursuant to an IMA (if applicable) shall provide for netting of obligations. The Investment Division and External Managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all OTC derivative positions, including those managed through IMAs, less collateral posted, for any individual counterparty may not exceed \$500 million. The net market value of all OTC derivative positions for any individual counterparty, without consideration of collateral, may not exceed 5% of the total market value of the Fund. If these market-value limits are exceeded, the Investment Division will inform the CIO, Executive Director, and Chairman of the appropriate Board committee as soon as practicable and take appropriate corrective action within a 90-day period or develop a corrective action plan that will be presented to the Board at its next regularly scheduled meeting at which investment matters will be discussed following the initial 90-day corrective action period.

Global Risk Limitations: Notwithstanding other limitations in this Policy, transactions that would cause the aggregate risk exposure of the Total Fund, including externally-managed portfolios, to exceed the aggregate risk limits established by the current asset allocation policies of the Board are not permitted. On a Total Fund basis, the combined economic exposure introduced through both cash and derivative market positions is subject to the asset allocation ranges, risk limits, and other portfolio parameters described in this Policy.

Position Limits: For futures and options positions TRS will comply with all position and aggregate limits established by the applicable regulatory and legal organizations and authorities within each jurisdiction.

9.8. Derivatives Risk Management and Compliance

To ensure compliance with this Article 9, all internally and externally managed derivatives (other than derivatives held in Hedge Funds) must be marked to market on a daily basis by the Fund's external custodian(s), and such daily reports will be reviewed for accuracy by the TRS Risk Management staff and Investment Administration Center personnel. Compliance with the requirements of this Policy will be monitored by the Chief Compliance Officer using information systems and data from internal and external sources. Any violations of this Article 9 will be reported immediately to the Executive Director and to the

CIO, who will determine, if considered material as determined by Chief Compliance Officer, Chief Investment Officer, and Executive Director, the appropriate remedy and report promptly to the Board (and the appropriate Board committee, as applicable).

ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT

10.1. Market Risk Management

The Investment Division will establish a framework for measuring enterprise-level risk for both the Total Fund Portfolio and the established benchmark, including any transition benchmarks employed during asset allocation shifts. At a minimum, this framework must include a quantified estimate of downside risk (e.g., value-at-risk (“VaR”), estimated shortfall, or various parametric and non-parametric statistics). The Investment Division will monitor the relative positioning of the Total Fund Portfolio vis-à-vis the benchmark no less frequently than monthly.

- a. **Asset allocation limits** – In addition to the Total Fund Portfolio level risk limits, the portfolio will be constrained to the asset allocation percentages and ranges prescribed by this Policy. Accordingly, the total exposure to each asset class must be based on the individual exposures of each cash security and each outstanding derivative contract. The foregoing does not apply to those accounts designated as using strategy leverage to better align the investment with the characteristics of the policy benchmark.
- b. **Risk limit** – The Investment Division will model and monitor the Total Fund Portfolio and benchmark to ensure that the total estimated risk for the Public Markets portion of the Portfolio is within the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- c. **Proxy securities and indices** – If necessary and prudent, the Investment Division will employ proxies to approximate the economic characteristics of actual investments if the terms and conditions of the actual investments or the underlying holdings are not readily available or where the complexity of the underlying investment renders a deterministic model impractical.
- d. **Private market assets holdings** – The Investment Division may include private investments in this analysis either by proxy or by actually modeling the terms and conditions of the underlying exposures; however, if the inclusion of these investments is deemed to distort the true risk characteristics of the portfolio, the Board may approve the use of an alternative methodology for analyzing the risk characteristics of those investments.
- e. **Active risk limits** – In addition to the portfolio-level risk statistics described above, a target tracking error will be imposed on each public asset class mandate. Additionally, a target tracking error will be imposed on the entire public portfolio that takes into account both internally and externally managed portfolios and Private Funds as well as both asset allocation and security selection decisions. These limits are specified in Appendix A.

10.2. Foreign-Exchange Risk Management

The objective of the Foreign-Exchange (“F/X”) policy is to effectively manage portfolio return volatility associated with foreign currency risk. F/X risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. The F/X policy sets forth a structure and implementation plan to determine the level of strategic currency risk that the Fund is willing to tolerate.

Currency hedge ratios will be separately applied to the Fund’s public-markets and private-markets non-dollar exposures. Each currency hedge ratio is the percentage of aggregate, non-dollar currency exposure to be passively hedged. The hedging horizon is intermediate (one to three years). The results of the currency hedge ratio decisions will be presented to the Board (or the appropriate Board committee, as applicable) for approval by the Board and incorporated into the benchmark as prescribed in Appendix C.

From an implementation perspective, an F/X overlay manager would have responsibility for implementing the currency hedge ratio decisions and would not exercise delegated investment discretion. The F/X overlay may be implemented internally or externally. If external, the non-discretionary F/X overlay manager would not fall

under the definition of either an External Manager or a Hedge Fund. A non-discretionary external F/X overlay manager would merely implement the investment decision that has already been made by the IIC.

10.3. Credit Risk Management

- a. **Counterparty exposures** – The maximum allowable unsecured counterparty exposure for OTC derivative transactions is \$500 million, based on the total net market value of all OTC positions held with each counterparty. The total counterparty exposure for each counterparty, including the collateralized portions of these agreements, may not exceed 5% of the market value of the Total Fund. The minimum credit rating (which may be a counterparty risk assessment or rating), based on a nationally recognized statistical rating organization (“NRSRO”), must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level, subsequent to the inception of transaction, additional eligible collateral may be posted, or the transaction may be terminated.
- b. All OTC derivatives must be governed by an ISDA Master Agreement and Credit Support Annex or, if centrally cleared, by clearing agreements, and must include both close-out netting provisions and collateralization provisions.
- c. Each ISDA Master Agreement must also include a table that delineates the excess purchased securities margin (haircut) required, based on the collateral type, duration, and credit quality.
- d. **Repurchase agreements** – The limit for each counterparty for repurchase transactions and tri-party repurchase transactions may not exceed 5% of the market value of the Total Fund. Each repurchase agreement will be entered into under a widely accepted industry-approved form, such as one approved by SIFMA. A counterparty to a repurchase agreement must be an organization rated A3/A- or better by a NRSRO, unless (i) the counterparty is another entity created by the Texas legislature; (ii) the counterparty is a money-market fund regulated under Rule 2a-7 under the Investment Company Act of 1940 or a fund designed to resemble such a money-market fund regulated under Rule 2a-7 or (iii) the counterparty is a pension fund or retirement system created by a government entity, whether non-U.S. or domestic and approved by the CIO.
- e. **Securities lending** – When securities lending activity is performed by an external third-party lending agent, Investment Division will examine the credit underwriting practices of the lending agent, including enforcement of collateral requirements, counterparty analysis, and surveillance. Additionally, Investment Division will periodically review the securities lending lines by counterparty. A securities lending agent must be an organization rated A- or better by a NRSRO. More detailed information about TRS securities lending activities is specified in the separate Securities Lending Policy.

10.4. Liquidity Risk Management

The objective of Liquidity Risk Management is to ensure that the Fund maintains ample liquidity to meet its funding requirements. The two kinds of requirements which necessitate prudent liquidity are:

- a. Disbursements of benefits and related obligations to plan participants, including retirement, death, health, and disability benefits payments.
- b. TRS investment activities: These are mainly associated with risk management and funding of External Managers and Private Funds. Some examples include:
 - i. Use of derivative instruments requires liquidity for collateral, margin and payment obligations at the time of a reset, call or maturity;
 - ii. TRS funds accounts managed by External Managers; and
 - iii. TRS manages unfunded capital commitments that the Fund is legally obligated to fund when called by general partners.

External Funding Authority

The Investment Division is authorized to establish external funding mechanisms (such as master repurchase agreements with one or more counterparties) and the flexibility to operate in all types of market liquidity environments to allow prudent

management of these funding requirements while achieving a long-term rate of return and adhering to the asset allocation limits outlined in this Policy. In addition to these external funding mechanisms, TRS will maintain adequate funds in its custodial account to cover investment-related obligations. Finally, the Board authorizes the Investment Division to access the cash holdings backing OTC swaps to manage its commitments.

10.5. Operations Risk Management

- a. **Overdrafts** – The Investment Division will monitor the frequency and costs associated with all overdraft activity.
- b. **Custodial Bank(s)** – The Investment Division will conduct on-site due diligence to review the operational controls set in place by all custodial banks. The Investment Division will also consider the extent of remedies provided by the custodian and its overall ability to fulfill its commitments should operational failures occur.

10.6. Settlement Risk Management

The Investment Division will monitor unsettled trade activity by counterparty and instrument type.

10.7. Legal Risk Management

Legal documentation for all accounts, investment subscriptions, External Managers, investments in Private Investment Funds, and derivatives will be reviewed, negotiated and approved for TRS execution by internal or external legal counsel, or both. The Investment Division, in consultation with Legal and Compliance, will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. The Investment Division will seek the assistance, review, and advice of legal counsel whenever it is prudent to do so. Legal and Compliance has primary responsibility for the engagement of outside legal counsel for investment matters, subject to applicable statutes and rules adopted by the Office of the Attorney General.

10.8. Risk Management Compliance Cure Periods and Remedies

Passive violations – A passive violation occurs when the portfolio breaches a prescribed policy limit as the result of changing market or credit conditions. The Investment Division will report the violation to the Board and will remedy the violation within 90 days of the violation or prepare a written action plan that must be approved by Board resolution to extend the cure period beyond 90 days.

Active violations – An active violation is caused by entering into an agreement or investment that breaches a policy limit at inception or thereafter through failure to monitor. In this case, a thorough analysis of controls will ensue and be reported to the CIO, the Executive Director and the Chairman of the appropriate Board committee, as soon as practical, and to the full Board at its next regularly scheduled meeting at which investment matters will be discussed. The Investment Division will seek to remedy the violation when possible. In instances where the costs of immediate remedies are prohibitive, the Investment Division will develop a corrective action plan that will be submitted to the CIO within a reasonable time after the violation occurs, not to exceed 15 days, depending on the nature and complexity of the investment holding and transactions needed to remedy the violation. The Board will be apprised of the violation at its next regularly scheduled meeting along with the corrective action plan.

10.9. Permitted Sources of Leverage Financing

The Investment Division is authorized to use the following in order to create Strategy or Asset Allocation Leverage:

- a. Derivative strategies in accordance with the risk parameters established by the asset allocation ranges of this Policy and applicable legal restrictions;
- b. Short sales in accordance with this Policy;
- c. F/X hedging in accordance with this Policy;
- d. Risk Parity investments in accordance with this Policy;
- e. Embedded leverage within the Total Fund's Private Fund investments; and
- f. Collateralized fundings including securities lending activities, pledges, repurchase and reverse repurchase agreements and other external funding mechanisms.

Leverage will not be used to exceed the risk parameters established by the asset allocation ranges of this Policy.

ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO

11.1. Health Insurance Program Portfolio Objective

The primary objective of the Health Insurance Program Portfolio is to preserve capital through investment in conservative, short-term securities.

11.2. Authorized Investments for the Health Insurance Program Portfolio

Section 404.024, Texas Government Code describes the Authorized Investments employed by the comptroller when he or she invests state funds. The Investment Division shall employ this list of Authorized Investments when the Investment Division invests the Health Insurance Program Portfolio.

ARTICLE 12 – INVESTMENT INTEGRITY POLICY

12.1. Scope

The Investment Integrity Policy (the "IIP") applies to all TRS investment transactions, including without limitation new agreements (including SPACs, follow-on funding and co-investments), sales or transfers of investment interests, increases in funding or capital commitment to an existing relationship or fund, or an amendment that increases management fees or compensation under an agreement. This IIP does not apply to Direct Investments or transactions in publicly traded securities.

The IIP also applies to attempts to influence TRS investment decisions through contacts with TRS trustees, or contacts with, or political contributions made for the benefit of, one or more Texas Candidates or Elected Officials, and also applies to contacts with persons employed by any such candidate or official.

If any provision of the IIP conflicts with a provision of another policy adopted by the Board, the stricter provision shall apply.

This Article 12 does not apply to direct TRS engagements of Consultants and agents in connection with buying or selling privately issued investment interests in the secondary market. A seller in a secondary market

transaction is not required to complete an Investment Integrity Questionnaire if the transaction's closing documents include appropriate representations, warranties and covenants as to the matters addressed in this Article 12 and the Investment Integrity Questionnaire.

12.2. Purpose

The purpose of the IIP is to ensure the integrity of all TRS investment transactions and decisions and conformity with the highest fiduciary, ethical, and legal standards by all parties involved. All investment decisions made by the Board and the Investment Division must be based solely on the merits in conformity with fiduciary standards and applicable law. All advice and investment recommendations made by Consultants must be based solely on the merits after the necessary due diligence. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

12.3. Philosophy

The Board desires that the Investment Division obtain full disclosure of all matters having the potential to harm TRS's reputation or the integrity of TRS's investment processes, or that could constitute unethical or unlawful conduct during the investment due diligence process.

12.4. Required Disclosures and Questionnaire

All external Fund or Manager Parties and if applicable, all Placement Agents that will receive a Placement Fee in connection with an investment or commitment by TRS, shall provide true and complete written responses to the questionnaire attached hereto as Appendix E prior to IIC consideration or other investment authorization. The Executive Director is authorized to approve such revisions to Appendix E from time to time as he or she deems to be in the best interest of TRS and consistent with the IIP.

In addition, all Fund or Manager Parties who disclose the involvement of a Placement Agent shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The Investment Division shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The Investment Division shall provide all prospective Fund or Manager Parties with a copy of the IIP and the Appendix E questionnaire upon commencement of due diligence.

12.5. Contractual Representations, Warranties, and Covenants

Each Fund or Manager Party shall represent and warrant to TRS in the executed closing documents for the transaction that its responses to Appendix E to this Policy and any supplemental inquiries are true, correct, and complete in all material respects as of the closing date, and shall also covenant to update or correct any such responses within 10 business days of becoming aware of any change in the responses. The obligation to update responses survives the closing of the relevant investment transaction.

In addition, each Placement Agent shall fully disclose the terms of its arrangements with a Fund or Manager Party for payment of a Placement Fee and any political contributions by the Placement Agent to any Texas Candidates or Elected Officials, and shall certify as to the matters addressed in Appendix E, as applicable, to TRS in a writing executed by an authorized officer that the disclosures required by the IIP are true and complete in all material respects.

A Placement Agent must agree in writing to pay to TRS a sum equal to its Placement Fees relating to TRS's investment if the Placement Agent's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

A Fund or Manager Party using a Placement Agent must agree in writing to pay to, credit to TRS's capital account, or offset TRS's management fees or outstanding funding commitment with, a sum equal to the Placement Fees due to the Placement Agent with respect to TRS's investment agreement or commitment if the Fund or Manager Party's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

12.6. Prohibitions

Neither TRS nor any TRS investment shall be burdened with or liable for any Placement Fee. No TRS investment may be made if the transaction involves either (a) a Placement Agent who is not registered with either of the Securities and Exchange Commission or the Financial Industry Regulatory Authority ("FINRA"), or (b) the sharing of a Placement Fee with a non-registered person or entity. No TRS investment may be made if an authorized officer or the board, in consultation with legal counsel, determines that a disclosed contact with a Board member or Texas Candidate or Elected Official, or a

contribution to a Texas Candidate or Elected Official, has created an unacceptable risk to the integrity and reputation of the TRS investment program or has been made in violation of a TRS policy or applicable law. A contact-based referral, without more, by a TRS trustee of either an investment opportunity or a Manager or Fund Party contact to the Executive Director, or Chief Investment Officer does not constitute such a risk or a violation of the IIP.

12.7. Reporting

The investment staff shall compile all responses to the questionnaire and report the results to the Board at least semi-annually. Reports shall include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Candidate or Elected Official, as applicable.

12.8. Definitions

Affiliate – means a person or entity controlled by or under common control with another person or entity.

Direct Investment – means any private placement investment where TRS is a purchasing signatory to a binding securities purchase agreement or any similar acquisition agreement (including an option or rights agreement to acquire such securities in the future), and when delivered, intends to hold the restricted securities directly in the TRS custodian bank.

Fund or Manager Party – means any person or entity offering, sponsoring, proposing, or soliciting a TRS investment transaction or opportunity, purchase or sale of securities, investment contract, investment management agreement, or commitment, and includes:

- a. As to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm;
- b. As to an external investment manager to be engaged to invest TRS assets pursuant to an investment management agreement, the investment management entity and the parent of such asset management entity; and
- c. As to a private company or similar issuer in a direct or principal investment in securities of the issuer, the entity and an agent, representative, broker or investment bank, officer, director, trustee, manager, or employee of the company or issuer involved.

Without limiting the foregoing, Fund or Manager Party includes any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection

with a prospective TRS investment. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under the IIP.

Placement Agent – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee in connection with a TRS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent’s Placement Fee is also deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, agent, owner, officer, shareholder, director, managing member, or employee of the first Placement Agent. For the avoidance of doubt, a finder, broker-dealer, originator, fundraiser, financing arranger, or investment bank receiving a Placement Fee is a Placement Agent. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under this policy.

Placement Fee – includes any compensation or payment, directly or indirectly, of a commission, finder’s fee, or any other consideration or benefit to be paid to a party other than the relevant Fund or Manager Party in connection with a TRS investment, agreement or commitment. An underwriting fee or discount charged in a 144A or registered public offering of securities is not a Placement Fee.

Relative – means a spouse (including an ex-spouse), parent, child (including adopted), sibling, niece, nephew, aunt, or uncle.

SPAC – means a “special purpose acquisition company” with no commercial operations that is formed to raise capital through an initial public offering for the purpose of acquiring an existing company, whether or not pre-identified.

Texas Candidate or Elected Official – includes any candidate for a statewide office or an elected official of the State of Texas, including the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, and also includes a campaign fund or political action committee, or PAC organized for or on behalf of a Texas statewide candidate or elected official, and any Relative of a Texas statewide candidate or elected official. This definition does not apply to candidates for, or elected officials holding, offices in counties, municipalities, or other local subdivisions of the State of Texas, to state or local judicial candidates or offices of the State of Texas, or to any federal office or judicial position. A candidate for an elective federal office who holds a statewide office is deemed to be a Texas Candidate or Elected Official for purposes of this policy.

TRS Person – means any person listed on Exhibit A attached to Appendix E to this Policy or to any other due diligence document, and includes without limitation any current or former TRS board member, Executive Director, Deputy Director, Chief Financial Officer, Investment Division or Legal and Compliance employee, any investment consultant or actuary, any outside counsel engaged by TRS, and any Relative of a TRS Person, whether or not listed on an Exhibit A, TRS Persons.

APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)¹

	Neutral
Equity (USA)	300
Equity (International; Non-US Developed, EAFE)	300
Equity (International; Emerging Markets)	300
Equity (World Equity)	300
Stable Value Hedge Funds	400
Risk Parity	400

	Neutral	Maximum
Government Bonds		300
Total Public Fund Tracking Error	100	300

¹ Tracking error will be measured on a realized basis over a three year period.

APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS

Allocations to a single manager organization may only exceed the limits specified in this Appendix B with the prior authorization of the Board.

Article Affected	Portfolio	Initial Allocation or Commitment with Manager, by Portfolio	Additional or Follow-On Allocation or Commitment with the same Manager, by Portfolio	Total Manager Organization Market Value Limits, by Portfolio	Total Manager Organization Exposure Limits, by Portfolio
2	Public Markets Portfolios	0.5%	1%	3%	5%
4.2	Private Equity Portfolio	0.5%	1%	3%	5%
5.2	Real Estate Portfolio	0.5%	1%	3%	5%
6.2	Energy, Natural Resources and Infrastructure Portfolio	0.5%	1%	3%	5%
	Total IIC Approval Authority, each Manager Organization			6%	10%

All allocation or commitment limits are expressed as a percentage of the Total Fund value and are to be calculated as of the date the applicable investment is approved by the IIC or other investment authorization. Exposure is defined as the sum of the market value and unfunded commitments for the purposes of Appendix B. All external investments must be assigned to one of the four portfolios at the time of approval. For the purposes of the Manager Organization Market Value Limit, market value is based on the most recent month-end values provided by the custodian and does not include the proposed investment under consideration.

“Affiliate” means any person directly or indirectly controlling, controlled by, or under common control with, another person. A “manager organization” includes its Affiliates without regard to the names of the entities. The Chief Compliance Officer will be responsible for determining the manager organization’s Affiliates that are applicable for the above limits.

The percentage limit for additional or follow-on allocations or commitments applies to each additional or follow-on allocation or commitment by a listed portfolio to a manager and is in addition to, and not cumulative of, the limit specified for initial allocations or commitments. By way of example, if a portfolio initially allocates 0.2% of the Total Fund to a manager, the portfolio may thereafter allocate or commit up to 1.0% in a single additional or follow-on allocation or commitment to the same manager for a total of 1.2% allocated or committed to the same manager (0.2%+1.0%). If a portfolio initially allocates 0.2%, then makes an additional allocation or commitment of 0.8%, and desires to make a further additional or follow-on allocation to the same manager, the applicable limit for the further additional or follow-on allocation is 1.0% of the Total Fund, for a total of 2.0% allocated or committed to the manager (0.2%+0.8%+1.0%). All investments occurring in the six months prior to the follow-on investment, co-investment or additional investment shall be included in the calculation of the percentage limits. If the initial investment occurred less than six months prior to the current investment, the initial allocation limit of 0.5% rather than the follow-on allocation limit of 1.0% will apply.

In calculating the available limits, returned capital is excluded from the sum of existing total allocations or commitments. Committed capital is included during the applicable investment period of a fund without regard to whether the commitment amount is funded or unfunded or the fund is open-ended. Capital that has been returned but that is subject to recall by a Private Investment Fund is considered to be committed or allocated for the purposes of the limits in this Appendix B.

Authority for Special Investment Opportunities. Notwithstanding the limits set forth in this Appendix B, the CIO may designate an investment opportunity as a “Special Investment Opportunity” if the circumstances indicate a reasonable probability that a rapid investment response will be required in order for TRS to acquire the investment in excess of the limits on Investment Division authority set forth in this Appendix B.

Circumstances requiring a rapid response may include, but are not limited to, distressed situations or market dislocations creating opportunities to acquire interests or assets at pricing that

indicates a reasonable probability that the interests or assets are undervalued or will increase in value. The CIO shall notify the Executive Director as promptly as possible of the Special Investment Opportunity. The CIO and the Executive Director shall consult with the Chairman of the Board and the Chairman of the Investment Management Committee and determine if it is not practicable to present the opportunity for consideration by the Board. If the opportunity will not be added to an agenda, and the CIO and the Executive Director conclude that the investment would be in the best interests of TRS, the CIO and the Executive Director may authorize and conclude an investment up to \$1 billion in that Special Investment Opportunity.

After one investment in a Special Investment Opportunity has been made, no further investment in a Special Investment Opportunity may be made until the Board has reauthorized the CIO’s authority to designate a Special Investment Opportunity. Such reauthorization shall renew the CIO’s and the Executive Director’s authority to invest up to \$1 billion in a Special Investment Opportunity under this provision.

APPENDIX C – CURRENCY HEDGE RATIOS

Portfolio	Currency Hedge Ratio
Public Markets Portfolios	0%
Private Markets Portfolios	0%

APPENDIX D – GENERAL AUTHORITY RESOLUTION

Board of Trustees

General Authority Resolutions Adopted July 15, 2022

Investment Group

Resolved, That Investment Division employees holding the following TRS working titles are members of the “Investment Group”:

Chief Investment Officer	Managing Director
Senior Managing Director	Director
Senior Director	

Resolved further, That the Executive Director is authorized and directed to designate in writing those individual members of the **Investment Group** who are authorized within the investment areas designated by the Executive Director, in addition to the Chief Investment Officer, to take any one or more of the following actions authorized below in accordance with these resolutions until the authority is revoked.

Resolved further, That the Executive Director is authorized and directed to designate in writing, by investment area and category or item designation, the specific authorities granted to each authorized member of the **Investment Group**, until the authority is revoked.

A. General Authority for Investment Matters other than Derivatives

Resolved further, That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- A.1.** Buy, sell, or give orders or instructions for transactions in currencies and securities, and any amendments or modifications of such orders or instructions.
- A.2.** Direct Investment Operations personnel to deliver, pay, expend, or receive cash, currencies, monies, securities (including restricted or Rule 144A securities) in connection with a contract to buy or sell securities.
- A.3.** Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of securities transactions.
- A.4.** Direct Investment Operations personnel to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; and to instruct other cash movements, including movements of cash to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

Notwithstanding any provision of this Section A, authority granted under this Section A does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

B. Investment Contracting Authority other than Derivatives

Resolved further, That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- B.1.** Make, execute, deliver, waive, modify, amend, renew, extend, assign, terminate, or transfer, in each case in writing, investment-related documents, including without limitation, written contracts,

investment management agreements, subscription agreements, capital commitments, account agreements, consents, certificates, powers of attorney, notes, deeds, security agreements, pledges, mortgages, endorsements, directions and instructions to amend, modify, fix, and execute written investment guidelines in investment management agreements with External Managers and fund managers, and any and all documents necessary or proper to effectuate the authority granted in this Section B.1.

- B.2.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute investment fund redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash or securities to a TRS account by a third-party fund, External Manager, account, debtor, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements, side letter agreements, or other investment-related documents executed by TRS in connection with a new investment, and any amendments or modifications to such documents and agreements other than redemption and withdrawal notices and corresponding instructions for the transfer or delivery by wire or physical transfer of cash or securities.

Notwithstanding any provision of this Section B, the authority granted under this Section B does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

C. Derivatives Authority

Resolved further, That the Chief Investment Officer and any member of the **Investment Group** who is designated by the Executive Director as a member of the derivatives team, in addition to any authority expressly designated by the Executive Director under these resolutions is authorized may act on behalf of TRS to:

- C.1.** Negotiate, make, fix, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, documents related to derivatives transactions, including without limitation, master agreements, schedules, credit support annexes, collateral-management agreements, transaction confirmations, account agreements, and clearing agreements, and deliverables relating to such documents and agreements.
- C.2.** Make, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, disclosures, questionnaires, elections, certifications, or other administrative documents and deliverables related to derivatives accounts or transactions.
- C.3.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute, amend, modify, or terminate documents, directions, and instructions to deliver and pay cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.4.** Direct Investment Operations personnel to receive cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.5.** Buy, sell, or give orders or instructions for transactions in derivatives, and any amendments or modifications of such orders or instructions.
- C.6.** Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of derivatives transactions.

Financial Group

Resolved further, That the “**Financial Group**” comprises employees holding the following TRS working titles:

Chief Financial Officer	Senior Director of Investment Accounting
Deputy Chief Financial Officer	Manager of Investment Accounting
Director of Accounting Operations	Director of Budget and Financial Analysis

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Investment Group** or the **Executive Group**, to execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, margin, or securities to a TRS account by a third-party fund, account, debtor, or derivatives counterparty, except

that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements and any amendments to subscription agreements or side letter agreements.

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, to execute authorizations to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; instruct other cash movements, including movements of assets to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS to authorize and direct members of the Investment Accounting team to verify or confirm to a custodian or prime broker any order for the transfer or delivery of currencies, monies, securities, or contracts to any other person.

Executive Group

Resolved further, That the “**Executive Group**” comprises employees holding the TRS working titles of Executive Director and Deputy Executive Director, and each member of the **Executive Group** is authorized and empowered to perform, with respect to a particular matter or transaction, any and all of the acts that any and all employees in the **Investment Group** or the **Financial Group** are authorized to perform, except that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

Trading Group

Resolved further, That the “**Trading Group**” comprises the employees holding the following TRS working titles: Managing Director, Director, and Trader. Each member of the **Trading Group** is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix, and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell securities, derivatives, forward contracts, or currency.

Fixed Income, Currency, and Commodities Trading Group

Resolved further, That the “**Fixed Income, Currency, and Commodities (“FICC”) Trading Group**” comprises the employees holding the following TRS working titles: FICC Trader. Each member of the FICC Trading Group is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell fixed income securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell fixed income securities, derivatives, forward contracts, or currency.

Chief Compliance Officer

Resolved further, That the “**Chief Compliance Officer**” is authorized and empowered on behalf of TRS to take the following actions: to execute and deliver compliance-related disclosures, reports, filings, and certifications and, with the Chief Investment Officer and Executive Director’s approval, to develop, disseminate and collect disclosure forms to monitor the requirements of the Investment Policy Statement.

APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

Date: _____

Fund, Manager Party or Placement Agent:* _____

Investment Name: _____

Completed by: _____

Date submitted: _____

Note: TRS may require completion of a new questionnaire or updating of responses at any time, including as of the closing date for any transaction investment or additional funding. All questions must be answered.

** All capitalized terms have the meaning set forth in Article 12 of the Investment Policy Statement, which is available at:*

https://www.trs.texas.gov/TRS Documents/investment_policy_statement.pdf

1. Contacts with Texas Candidates and Elected Officials; Political Contributions. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Candidate or Elected Official in connection with a prospective investment transaction with a Texas state investment entity, including TRS? If the answer is “yes,” please attach a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including TRS.

YES, see attachment

NO

2. Contacts with TRS Board Members. Has any person lobbied or otherwise communicated on behalf of one or more of the Fund, the Manager Party, or, if applicable, the Placement Agent with a current or former member of the TRS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the TRS investment staff or a TRS advisor or consultant to recommend that TRS invest? If the answer is “yes,” please attach a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

YES, see attachment

NO

3. Placement Agents and Placement Fees. Is or was the Fund or Manager Party, or if applicable, the Placement Agent, a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent (or any other Placement Agent) with respect to the investment named at the top of this questionnaire?

YES

NO

If the answer to 3 is “NO,” skip to the certification and signature block.

4. If the answer to 3 is “YES,” will a Placement Fee be paid in connection with TRS’s investment in the named investment?

YES, please describe

NO

If the answer to 4 is “NO,” skip to the certification and signature block.

5. If the answer to 4 is “YES”:

A. Please attach list of the name(s) of the person or entity acting as a Placement Agent with a copy of the written agreement or a summary of the agreement creating the obligation to pay a Placement Fee in connection with TRS’s investment. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.

B. Will or did any TRS Person or any Relative of a TRS Person receive, has any such person received, or might any such person receive a “Placement Fee” in connection with TRS’s investment? If the answer is “yes,” please list the name or names of the TRS Person or Relative of a TRS Person and provide details about the terms of the Placement Fee.

YES, see attachment

NO

C. Will or did any Texas Candidate or Elected Official or a Relative of a Texas Candidate or Elected Official receive a Placement Fee in connection with TRS’s investment? If the answer is “yes,” please state in an attachment the name or names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

YES, see attachment

NO

D. Is the Placement Agent, or any of its Affiliates, registered as a lobbyist in the State of Texas? If so, attach a list of the legal names of the entity and the individual registrants.

YES, see attachment

NO

E. Is the Placement Agent or any of its Affiliates registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States? Provide an attachment stating the details about each such registration or explaining why registration is not required.

YES, see attachment

NO

F. Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former TRS Person, either (1) recommend the Placement Agent or (2) receive a share of a Placement fee or any other economic benefit in connection with TRS’s investment, whether directly or indirectly through a Placement Agent engaged by you? If the answer to this question 5.F is “yes,” please attach the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment, stating whether the person or

entity is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association (or a similar agency outside the United States).

YES, see attachment

NO

- G. Will TRS be burdened with or liable for any Placement Fee in connection with TRS's investment in the named investment?**

YES

NO

The undersigned certifies, represents and warrants on behalf of the Fund, Manager Party, or Placement Agent(s), as applicable, that (a) it has reviewed and understands Article 12 of the TRS Investment Policy Statement ("Article 12") received with this Questionnaire, and agrees to abide by Article 12's requirements, including the payment obligations in Section 12.5, (b) to the best of its knowledge after due inquiry, its responses to this Questionnaire are true and complete and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (c) no other statements or representations, if any, whether oral or written, made by or on behalf of the Fund, the Manager Party, or Placement Agent(s), as applicable, relating to Article 12 and this Questionnaire in connection with TRS's due diligence inquiries or the subject investment transaction were untrue or misleading in any material respect when they were made. The undersigned acknowledges and agrees that in addition to the express remedies required in Article 12 and the transaction documents, which are not intended to be exclusive, TRS reserves all other remedies available to it in law and equity with respect to any untrue or misleading statement. The undersigned agrees to update any such information within 10 business days of becoming aware of any changes or corrections to the responses. The update obligation survives the closing of the investment.

Name of Fund or Manager Party or Placement Agent:

By: _____

Name: _____

Title: _____

Date: _____

Attachment: Exhibit A, TRS Persons

APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION

- A. External Advisory Committees or Boards and Board Observers.** A TRS investment-related agreement may provide that an Investment Division employee may represent TRS by serving:
1. On an advisory committee, advisory board, or similar advisory body to a TRS investment vehicle, whether the position is voting or non-voting; or
 2. As a non-voting TRS observer at meetings of the governing body of an investment vehicle, including a business entity, in which TRS has an interest.
- B. Board Representation by a TRS Employee.** A TRS investment-related agreement may provide for TRS representation on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- 1. Requirements:**
 - a. The TRS employee representative may not serve in a position that under applicable law has general liability to third parties, such as a general partnership position.
 - b. The TRS employee representative must comply with internal policies and procedures relating to board representation, including recusal, notice and training requirements.
 - c. An agreement for TRS representation on an external governing body must be in writing and, to the extent possible, address limitations on capacity and fiduciary duties, liability insurance, indemnification, recusal requirements, travel payments or reimbursements, and perquisites provided to persons on the governing body in the entity's ordinary course of business.
 - d. Duties that an employee owes to TRS must be primary. TRS employees representing TRS must comply with recusal determinations made by the Executive Director in consultation with the Chief Compliance Officer and the General Counsel.
 - e. The external entity's insurance and indemnification will be primary relative to any available TRS liability and indemnification coverage.
 - f. If compensation or reimbursement of expenses will be paid, the agreement must require payment of any compensation or reimbursement directly to TRS.
 - 2. Qualification:** A TRS employee representative must hold one of the following TRS titles to be eligible to serve: Senior Investment Manager, Director, Senior Director, Managing Director, Senior Managing Director, or CIO.
 - 3. Authorization:**
 - a. For a non-public (private) entity the CIO in consultation with Legal and Compliance, must authorize an employee to serve.
 - b. For an entity that has issued publicly-traded securities, the CIO and the Executive Director, in consultation with Legal and Compliance, must authorize an employee to serve.
 - c. The CIO may not serve on an external governing body without prior authorization from the Executive Director.
- C. Board Representation by a Non-Employee Independent Third Party.** A TRS investment-related agreement may grant TRS a contractual right or option to appoint, nominate, remove, or replace a non-employee independent third party to serve on the governing body of a business entity in which TRS has or will have an investment interest.

1. Requirements:

- a. A third-party may not be TRS's agent and shall have full discretion when voting as a member of the governing body.
 - b. TRS will not insure or indemnify any third party representative.
- 2. Qualification:** The third party must be free of conflicts of interest. TRS will require delivery of a background check from a reputable investigatory firm.
- 3. Authorization:** The third party must be approved by the head of the applicable investment area or the CIO, in consultation with the Executive Director.

DEFINITIONS

In this Policy,

Consultant means a person or entity engaged by the Investment Division pursuant to a defined scope of work to provide studies, assistance, investment management services, due diligence services, and advice relating directly to investment transactions, activities and processes. This definition does not affect any definitions in the Code of Ethics for Contractors.

Custom benchmark means a benchmark created for or specified in an investment vehicle or IMA that is not a Policy Benchmark. Investment guidelines for a vehicle or IMA may include one or more custom benchmarks. Inclusion of a custom benchmark in an IMA does not modify the investments authorized in this Policy.

External Manager means an investment adviser engaged pursuant to an investment agreement to invest TRS assets on a discretionary basis pursuant to contractual guidelines negotiated, prescribed or controlled by TRS. A manager or general partner of a Private Fund is not an External Manager.

Trust or Fund means the overall investment portfolio, including cash and cash equivalents.

Fund Policy Benchmark is a target allocation-weighted aggregation of the individual Policy Benchmarks according to Section 1.6.

Investment Management Agreement or IMA means a contract between TRS and an External Manager for the discretionary investment of TRS assets in securities according to specified guidelines. The account managed by an External Manager is sometimes referred to as a separate account.

Policy Benchmark means the relevant benchmark for an asset class listed in the allocation table in Section 1.6.

Private Investment Fund or Private Fund means any non-publicly traded limited liability investment vehicle aggregating investment capital for reinvestment, including without limitation reinvestment of capital in private companies, other investment funds, real estate, debt instruments, derivatives, commodities, or publicly traded securities. Private Funds generally issue Restricted Securities to investors through private placements.

Publicly traded securities means securities that trade on a national securities exchange or in an over-the-counter market through broker-dealers who make a market in securities.

Restricted Securities means securities acquired under an exemption from registration under the securities laws, such as through private placements, 144A offerings, or Regulation D offerings. Restricted Securities may not be transferred unless they are registered or are exempt from the registration requirements. SEC Rule 144(a)(3) lists types of transactions in which Restricted Securities occur. Privately offered limited partnership and limited liability company interests are usually Restricted Securities.

Securities has the meaning assigned in Section 825.301(a). Whether notes, local access products, warrants or other financial instruments or contracts are securities requires legal analysis.



INVESTMENT POLICY STATEMENT
(Adopted September 16, 2022, to be effective September 19, 2022)

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EXECUTIVE SUMMARY

This Executive Summary is not intended to replace, and must be read in conjunction with, the Investment Policy Statement (the “Policy”). In the event of a conflict between the Executive Summary and the Policy, the Policy shall govern. Capitalized terms have the meanings assigned to them in the Policy.

Introduction / Background

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy. The Board also monitors the actions of the Investment Division to ensure compliance with its policies. The Board and Investment Division are assisted by outside Advisors, Consultants and internal and external legal counsel.

See “Section 1.3 – Roles of Board, Staff, Advisors, and Consultants.”

The Investment Policy Statement provides a formal plan for investing pension trust fund (the “Trust”) and health insurance program assets. The Policy defines the roles and responsibilities of the Investment Division and other parties granted and approved by the Board.

Objectives

The Trust’s objectives are to (a) control risk and (b) achieve a long-term rate of return that exceeds (i) the assumed actuarial rate of return adopted by the Board, (ii) inflation plus 5% and (ii) the Trust’s Policy Benchmark. The Trust is subject to a “prudent person” standard of care under the Texas Constitution.

Authority and Key Restrictions

The Board assigns implementation authority to the Investment Division and as such the Investment Division has created a committee to oversee and implement Board-approved investment policy. The Internal Investment Committee’s (IIC) authority is limited by the size of the investments it can approve without also obtaining approval from the Board. The Chief Investment Officer (CIO) has Special Investment Opportunity authority of up to \$1 billion.

See “Appendix B – IIC Approval Authority and Manager Organization Allocation Limits.”

Asset Allocation

Each broad asset class category outlined below provides a distinct and purposeful role within the Total Fund. The Board sets these asset class targets based on periodic asset allocation and asset/liability studies while seeking to achieve the Trust’s stated

Broad Asset Class Category	Target	Min	Max
Global Equity	54%	47%	61%
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	8%	0%	13%
Net Asset Allocation Leverage	-4%		
Total	100%		

objectives.

In addition to the target for each broad asset class category target, there are specific targets for subcategories with minimum and maximum ranges that are +/-5% around the target allocation, with certain exceptions.

See “Section 1.6 – Total Fund Asset Mix and Benchmarks.”

Measurement and Reporting

Investment performance, peer performance, policy compliance, asset allocation, external investments activities, derivatives usage, risk limits, liquidity, leverage, private markets strategy, staffing, board and board observer seats, use of placement agents and other information will be monitored and reported to the Board.

See “Section 1.7 – Total Fund Measurement and Reporting Criteria.”

Risk Management

The Investment Division will monitor and manage risk of the Total Fund Portfolio and report to the Board on a periodic basis. Key risks include, but are not limited to: Market Risk, Foreign Exchange Risk, Credit and Counterparty Risk, Leverage, Liquidity, and Tracking Error.

See “Article 10 – Risk Management and Oversight.”

Tracking Error

Neutral tracking error targets are established for certain portfolios of the Trust:

	Neutral	Max
Equity (US)	300 bps	
Equity (International; Non-US, EAFE)	300 bps	
Equity (International; Emerging Markets)	300 bps	
Equity (World Equity)	300 bps	
Stable Value Hedge Funds	400 bps	
Risk Parity	400 bps	
Government Bonds		300 bps
Total Public Fund	100 bps	300 bps

See “Appendix A – Tracking Error Neutral (in annualized basis points).”

ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN

1.1. Introduction

The Teacher Retirement System of Texas (“TRS”) administers a pension trust fund and other health insurance programs for retirees and certain active public education employees under State of Texas constitutional and statutory provisions. TRS is governed by a Board of Trustees (the “Board”). TRS provides service and disability retirement benefits and death and survivor benefits for Texas public education employees and their beneficiaries. Benefits are funded by state and member contributions and investment returns.

1.2. Purpose and Design

The purpose of this Investment Policy Statement (this “Policy”) is to provide a formal plan for investing pension trust fund and health insurance program assets to achieve defined investment objectives consistent with the TRS mission statement adopted by the Board and with applicable law.

This Policy also defines the roles and responsibilities of the various entities involved in the investment process and facilitates internal and external communication of investment policy.

The appendices to this Policy are incorporated into and form part of this Policy for all purposes.

Terms that are not defined within the body of this Policy have the meanings assigned to them in the “Definitions” at the end of this Policy.

Other policies relevant to this Policy and its subject matter include the Code of Ethics for Contractors, Employee Ethics Policy, Trustee Ethics Policy, Personal Trading Policy, Commission Credits Policy, Confidentiality Policy, Information Security Policy, Proxy Voting Policy, and Securities Lending Policy.

1.3. Roles of Board, Staff, Advisors, and Consultants

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff (the “Investment Division”) and Legal and Compliance. The Board also monitors the actions of staff to ensure compliance with its policies. The Board’s standing committees are charged with those responsibilities set forth in the bylaws of the Board. The Board and the Investment Division are assisted by outside investment Advisors, Consultants and internal and external legal counsel.

- a. The Board Investment Advisors (“Advisors”) are selected by the Board to provide education, advice, commentary, and discussion as requested at Board meetings, assist with development and review of investment policies and procedures, assist with the development of the strategic asset allocation, report on the progress of the Fund in meeting its investment objectives, compare the performance of the portfolio to established benchmarks, and perform additional duties as directed by the Board, such as due diligence or analysis of a manager or investment. The Investment Division and Advisors provide information as needed to assist the consulting actuary in performance of actuarial services.
- b. The Investment Division has fiduciary responsibilities delegated by the Board under applicable law. The Investment Division manages the Fund according to the Board's policies, advises and informs the Executive Director and the Board about investments, and recommends modifications to this Policy. The Investment Division executes all transactions, performs risk-management functions, and prepares investment reports.

- c. The Internal Investment Committee (the “IIC”) reviews, considers, and authorizes proposed investments and external manager engagements as required by this Policy. Additionally, the IIC will manage the currency hedge ratios (set forth in Appendix C) and review as needed.

A prudence or recommendation letter will be required in the following circumstances:

1. When the Board considers authorizing an external investment opportunity because the allocation or commitment exceeds the limits in Appendix B;
2. When the CIO, Executive Director or a Board member requests a letter for any external investment opportunity presented to the IIC; or
3. When an external investment opportunity presented to the IIC meets all three of the following criteria:
 - i. The investment will reside in the principal investment Private Markets Portfolio;
 - ii. The initial allocation or commitment exceeds 0.25% of the Total Fund value; and
 - iii. The investment is the first by TRS with a manager organization.

If a Board member desires that any investment opportunity scheduled for consideration by the IIC be submitted for Board consideration, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board and the appropriate Board committee, as applicable, before the anticipated closing date.

The permanent IIC membership consists of the CIO and the Chief Risk Officer (the “CRO”). There must be a minimum of five members on the IIC and, in addition to the CIO, at least two members must be Investment Division Senior Managing Directors (“SMDs”). The CIO will notify the Chairman of the Investment Management Committee in advance of any designation or removal of a SMD from the IIC. Termination of a member's TRS employment terminates IIC membership as of the date the employee or TRS gives notice of termination, as the case may be. The Investment Division shall notify the Board and the Executive Director if there is any change to the membership of the IIC. The IIC may delegate investment discretion to asset class investment committees as established in IIC procedures and guidelines.

The CIO will establish procedures and guidelines for the operations of the IIC. The IIC procedures and guidelines may provide that the CIO may designate and remove select Directors as non-permanent voting members to the IIC. The IIC procedures and guidelines will define a quorum and establish the vote required to authorize an investment or external manager engagement or, if required by this Policy, recommend an investment or external manager engagement to the Board, which vote may not be less than a majority of the then-incumbent IIC members present and voting at a meeting at which a quorum is present. The CIO shall have the power to veto any investment or delegation of investment discretion authorized or recommended by the IIC pursuant to a vote of its members.

The Executive Director or a designee may attend any meeting of the IIC, and the Investment Division shall deliver to the Executive Director copies of all IIC materials, analyses, correspondence, and agendas as and when delivered to the IIC members or other TRS employees. The Executive Director is not a member of the IIC, however, acting in his or her capacity as the chief executive officer and chief administrative employee of TRS as set forth in the Board’s bylaws, the Executive Director shall, after consultation with the CIO, have the power to veto any investment or delegation of investment discretion proposed for IIC consideration or authorized or recommended by the IIC pursuant to a vote of its members whenever he or she deems such veto to be in TRS’ best interest.

When this Policy requires that the Board authorize an investment or an engagement of an external manager, the IIC shall vote on whether to recommend such investment or engagement to the Board. The results of the vote shall be reported to the Board in the materials provided to the Board for consideration.

- d. All proposed changes to this Policy will be reviewed by Legal and Compliance for compliance with state and federal laws regarding fiduciary responsibility, investment prudence, regulatory compliance, ethics compliance, and other applicable standards or requirements before submission to the Policy

Committee. Except as authorized by the Executive Director, proposed changes to this Policy will first be presented to the Policy Committee, which will consider recommending the proposed changes to the Board. The Board may consider and adopt proposed changes that have not been considered by the Policy Committee. This Policy shall be reviewed at least once every three years.

- e. The Investment Division is authorized to engage qualified Consultants on an as-needed basis to assist the Investment Division with respect to investment opportunities and to provide other investment due diligence, analysis and advice.

1.4. Total Fund Objectives

In this Policy, the total investment portfolio includes all assets invested by TRS to provide retirement, death, health, and disability benefits administered by the system, including cash and cash equivalents (the “Total Fund” or the “Fund”) and will be structured and managed to achieve the following objectives:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. As applicable to the pension plan, achieve a long-term rate of return that:
 - i. Exceeds the assumed actuarial rate of return adopted by the Board;
 - ii. Exceeds the long-term rate of inflation by an annualized 5%; and
 - iii. Exceeds the return of the Fund Policy Benchmark.

1.5. Total Fund Investment Standard

Article XVI, Section 67(a)(3) of the Texas Constitution and Section 825.301, Texas Government Code, states that the standard of care for TRS investments is a “prudent person” standard. Section 825.301, Texas Government Code, provides that Section 117.004(b), Property Code, applies to TRS investment decisions. Section 117.004(b) generally states that the determination of the prudence of a single investment decision will be made taking into consideration the investment of all of the assets of the trust, or the assets of the collective investment vehicle, as the case may be, rather than a consideration as to the prudence of the single investment of the trust, or the single investment of the collective investment vehicle, as the case may be.

Environmental, social, and governance (ESG) factors influence the performance of TRS’s investments. In making investment decisions, the Investment Division will consider ESG factors that are material to long-term returns and levels of risk. Materiality of specific ESG factors vary across strategies, companies, sectors, geographies and asset classes.

All investments must be made prudently and in accordance with fiduciary and ethical standards, without promoting interests unrelated to the portfolio’s stated objectives of controlling risk and achieving a long-term rate of return.

All investments made by the Total Fund must be in “securities” as provided by Article XVI, Section 67 (a)(3) of the Texas Constitution and defined in Texas Government Code Section 825.301.

The Investment Division may engage External Managers to provide discretionary investment management services under Investment Management Agreements (“IMAs”) as needed.

1.6. Total Fund Asset Mix and Benchmarks

The Investment Division will assist the Board in engaging in an asset-liability study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent

portfolio exposures and a “long-term target” position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within the risk tolerances specified herein.

Each asset class allocation percentage has a “long-term target” position within the overall portfolio and a maximum and minimum range around that target allocation. All percentages refer to market value.

Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the table on the following page, and are referred to as the Policy Benchmarks.

The ultimate expression of risk tolerance by the Board to the Investment Division is the selection of the strategic asset allocation targets, permissible allocation ranges around those targets, and tracking error limits.

[Table appears on following page]

Asset Class	Benchmark	Reference Bloomberg Ticker	Minimum Range^{1,2}	Maximum Range^{1,2,9}	Target²
Global Equity:					
USA	MSCI USA Investible Market ³	MIMUUSAG	13%	23%	18%
Non-US Developed	MSCI EAFE and Canada ³	NDDUEC	8%	18%	13%
Emerging Markets	50% MSCI EM/50% MSCI EM ex China ^{3,10}	NDUEEGF M1CXBRV	4%	14%	9%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁴		9%	19%	14%
Total Global Equity	Target-weighted Blend		47%	61%	54%
Stable Value:					
Government Bonds ⁵	Bloomberg Barclays Long Treasury Index	LUTLTRUU	0%	21%	16%
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	20%	0%
Stable Value Hedge Funds	HFRI Fund of Funds Conservative	HFRIFOFC	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return:					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity:					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	13%	8%
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage ^{7, 8}	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
Net Asset Allocation Leverage					-4%
TOTAL FUND	Target-weighted Blend				100%

1 With respect to the maximum range and minimum range, the CIO may increase any maximum range by 5% or decrease any minimum range by 5% (but may not decrease a minimum range below zero) if the CIO concludes in a writing delivered to the Executive Director and to the Board of Trustees stating the action taken and the reasons why the CIO believes that such increase or decrease would be in the best interests of TRS; provided, the maximum range for Total Global Equity may not be increased above 68%. Before taking action, the CIO must request comments from the Chairman of the appropriate Board Committee and TRS Advisors. The Board, at the next succeeding Board meeting, must authorize the increase or decrease if the CIO proposes that the changes continue in effect after such Board meeting. The CIO will notify the Chief Compliance Officer of any such change to a maximum or minimum range. If the Board does not authorize the continuation of the change to a maximum or minimum range after the next succeeding Board meeting, the Investment Division shall use best efforts to rebalance the portfolio to bring the asset classes within the ranges in the table above within 90 days.

2 To calculate the Total Fund benchmark, the benchmark weight of each of Private Equity, Real Estate, and Energy, Natural Resources and Infrastructure, will be set each quarter as the ending actual weight from the prior quarter. Any difference in the calculated Private Equity, Real Estate and Energy, Natural Resources, and Infrastructure benchmark weights from the target benchmark weights will be offset using other asset classes with 25% of such difference applied to USA, 18% to Non- US Developed, 14% to Emerging Markets, 8% Stable Value Hedge Funds, 12% Risk Parity and 23% to Government Bonds.

The Investment Division does not normally manage the allocations to Private Equity, Real Estate and Energy, Natural Resources and Infrastructure on a tactical basis and will use its best efforts to achieve the Target allocation for these assets classes; provided, with notification to and comment sought from the Chairman of the appropriate Board Committee, the Investment Division may seek to achieve a higher or lower Target so long as such Target is within the Minimum Range and the Maximum Range.

3 Benchmarks will be adjusted for securities TRS is not authorized to own or buy because of this Policy or statutory provisions for which no fiduciary exemption has been exercised and have the Bloomberg Tickers of GU722807, NU722808 and NU722809.

4 The Customized State Street Private Equity Index is composed of the quarterly reported SSPEI, one quarter lagged and adjusted for the most recent quarter-end currency spot prices. Quarterly returns are geometrically linked for longer return horizons. The benchmark is adjusted in each quarter to remove any index constituents which did not provide a valuation statement as of the time of publication.

5 Global sovereign nominal and inflation-linked bonds may be held in the Government Bond portfolio.

6 Absolute Return is a broad category that includes all assets that have a high probability of generating a positive absolute return regardless of market conditions over a one- to three-year period.

7 “Asset Allocation Leverage” reflects any excess allocation to the combined cash and investment exposures that is greater than 100%. Asset Allocation Leverage does not include Strategy Leverage. “Strategy Leverage” is leverage used within an asset class to achieve similar return-risk characteristics as the benchmark.

8 The benchmark will be compounded daily using SOFRRATE index with a one-day lag, Actual/360, and Modified Following day count conventions.

9 The Maximum Range for the Private Equity Asset Class will be 24% until July 31, 2023.

10 The transition period to the new Emerging Markets benchmark will be October 1, 2022, through March 31, 2023 unless the CIO, upon notification to the Chairman of the Investment Management Committee, elects to terminate the transition period.

No later than two business days before the beginning of each month during the transition period, the CIO will notify the Chairman of the Investment Management Committee and Chief Compliance Officer of the designated weights for the two component indices of the Emerging Markets benchmark (MSCI EM and MSCI EM Ex-China) to be used for the following month. The CIO will also provide notice to the Board of the end of the transition period.

1.7. Total Fund Measurement and Reporting Criteria

The Investment Division will deliver reports to the Board (and the appropriate Board committee, as applicable) adequate to indicate whether the Total Fund is meeting its objectives and that will permit the Board to monitor each portfolio for compliance with this Policy. The Board will establish performance and risk measurement and attribution standards for the Total Fund, each asset class, and component portfolios.

The following comparisons and reviews will be performed quarterly (unless otherwise noted) and presented to the Board:

- a. **Investment Performance** – Investment performance for the Total Fund and each component portfolio, net of external management fees (if applicable), will be compared with their respective benchmark indices. Fund performance will be judged primarily by comparisons to long-term (3, 5 and 10 year) Policy Benchmark returns.
- b. **Monitoring of compliance with Policy** – Portfolios will be reviewed for compliance with the requirements set forth in this Policy. The Chief Compliance Officer will have overall responsibility for compliance monitoring. However, if considered necessary, TRS will hire external parties to obtain assistance regarding compliance monitoring. To ensure independence in compliance monitoring, the Chief Compliance Officer or external parties hired will not be given the authority to trade securities. To ensure ongoing compliance with this Policy and completeness of disclosures to the Board regarding compliance, the Chief Compliance Officer has authority to require certifications from applicable IIC members or Managing Directors disclosing known compliance violations. The Chief Compliance Officer reports all known compliance exceptions to the Board at the next meeting of the Board. The Chief Compliance Officer is authorized to execute and deliver compliance-related disclosures, reports, filings and certifications on behalf of TRS. The Chief Compliance Officer, with the CIO and Executive Director’s approval, is also authorized to develop, disseminate and collect disclosure forms to monitor the requirements of this Policy.
- c. **Asset class exposures and weight** – The exposure of cash and derivative instruments to each asset class will be aggregated and compared with their respective benchmarks and with the authorized ranges around those benchmarks. The foregoing does not apply to those accounts designated as using Strategy Leverage to better align the investment with the characteristics of the policy benchmark. Hedge Fund exposure will be reported relative to its statutory limit, if applicable.
- d. **Investments under consideration** – For any external investment under consideration by the Investment Division (including Hedge Funds, External Managers, and private markets investments), the Investment Division will provide the Board the following information prior to the date of the applicable IIC meeting:
 - i. Name of the investment vehicle and investment manager;
 - ii. Total fund or strategy size;
 - iii. TRS investment amount under consideration;
 - iv. Investment strategy;
 - v. Names of the External Manager or fund principals;
 - vi. Projected TRS commitment or funding date;
 - vii. Placement agent or firm sponsoring the offering or engagement, if any;
 - viii. Prospective fees;
 - ix. Other TRS investments with the firm;
 - x. Historical fund or manager performance; and
 - xi. Type of investment representation contemplated and proposed individual to serve, if any.

For any internal investment under consideration, the Investment Division will provide the Board similar information prior to the date of the applicable IIC meeting.

- e. **External investments activities**– The Investment Division will provide the Board with a list of all external investments, including any additions, withdrawals, transfers or terminations, on at least a semi-annual basis.

- f. **Derivatives** – The Investment Division will provide a comprehensive report of all outstanding derivative applications (including derivative types, counterparties, notional amounts, and fair values) used by internal managers and External Managers under IMAs on at least a semi-annual basis.
- g. **Risk limits** – The Investment Division will report at least semi-annually the Total Fund and benchmark total estimated risk relative to the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- h. **Liquidity** – The Investment Division will report at least semi-annually to the Board the use of external liquidity funding mechanisms.
- i. **Leverage** – The Investment Division will report Gross Leverage, Net Asset Allocation Leverage, and Strategy Leverage for portfolios including, but not limited to, Risk Parity and Hedge Funds and leverage resulting from use of external liquidity funding mechanisms as outlined in Section 10.4 Liquidity Risk Management on at least a semi-annual basis.
- j. **Transparency report** – The Investment Division will provide a transparency report to the Board that may be used to disclose any of the required information described herein. This report may be delivered in electronic or physical formats.
- k. **Private Markets Long-Term Strategy** – The Investment Division will review with the Board its long-term strategy for each Private Markets Portfolio at least every three years. This review will include information on target sub- strategy allocation, return, risk and liquidity expectations. Tactical deviations from this long-term strategy will be reviewed with the Board on an annual basis.
- l. **Staffing** – The Investment Division will provide an update no less than annually reporting on key positions in the division, including turnover, transfers and the creation or elimination of key positions.
- m. **Investment Integrity Disclosures** – The Investment Division shall compile all responses to the Investment Integrity Questionnaire (Appendix E) for the purposes of Article 12 and report the results to the Board at least semi-annually. Each report shall include the questionnaire responses completed prior to IIC consideration or other investment authorization under this Policy, and which shall be affirmed as of the applicable closing date. Reports shall disclose whether a Placement Agent has been involved (even if TRS is not burdened by a Placement Fee) and include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Elected Official or Candidate, as applicable.
- n. **Board representation** – The Investment Division shall provide the Board with an annual report on all (i) private investment fund advisory committee positions and (ii) all seats and observer positions on company boards or other governing bodies held by employees or, if applicable, third-party representatives.
- o. **ESG** – The Investment Division will report at least annually to the Board on the Trust’s ESG efforts, methods and results.
- p. **Other information** – Any other information or reports as the Board may request or require from time to time.

1.8. Total Fund Portfolio Implementation and Design; Restrictions

- a. The Total Fund investment portfolio is characterized by the following functional portfolios that are charged with the implementation of day-to-day portfolio investment and management activity:
 - i. Public Markets Portfolios;
 - ii. Private Markets Portfolios; and
 - iii. Overlay Portfolios;

The objectives, authority and limitations of each of these portfolios, and the authorized uses of derivatives, are described throughout the remainder of this Policy.

- b. In no event shall the aggregate allocation to External Managers pursuant to IMAs exceed 30 percent (or a different percentage of not more than 50 percent, if a greater percentage is specified in the Texas Government Code) of the Total Fund at the time of investment. For avoidance of doubt, this restriction does not apply to assets held by funds (including Hedge Funds) which limit the liability of TRS to the capital contributed and any distributions that TRS might be legally obligated to contribute or repay to the fund.

By law, the Hedge Fund Portfolio may not exceed 10% of the Total Fund. Compliance with the statutory limit is determined at the time TRS executes the investment documents for each Hedge Fund investment or additional investment.

- c. Subject to Appendix F, the Investment Division is authorized to represent TRS on:
 - i. Advisory committees or boards and as board observers in investments in which TRS has an investment interest.
 - ii. After evaluation of the net benefit to TRS, employees in the Investment Division are authorized to represent TRS or to nominate or appoint third-party independent non-employees to represent TRS on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- d. Except as required by fiduciary duties created by the Texas Constitution or applicable law, each TRS investment portfolio, including separate account investments, will comply with prohibitions and restrictions on investments imposed on TRS by state law. For the avoidance of doubt, the Policy and its implementation are subject to all applicable state, federal and international laws where and to the extent that such laws are in force. The Board authorizes and requires compliance with such laws. No further action by the Board will be required to implement compliance with an applicable law.
- e. TRS will not invest directly in securities of any company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex through explicit depictions of sexual activity. These include sexually explicit films, videos, publications, and software; topless bars and strip clubs; and explicit sexually-oriented telephone and Internet services. The restriction does not apply to pooled investment vehicles, provided that the Investment Division shall engage with the managers of such vehicles and use commercially reasonable efforts during due diligence to determine whether such vehicles invest in any company that would not be eligible for direct investment by TRS.
- f. The General Authority Resolution adopted by the Board designating those employees authorized to execute documents and attached as Appendix D is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix D as of the effective date of the superseding resolution.

ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS

2.1 Public Markets Portfolios Objectives

The objectives of the Public Markets Portfolios are to invest in publicly traded and Restricted Securities to meet or exceed the performance of the relevant Policy Benchmarks or to manage the asset allocation and risk of the Trust. The Public Markets Portfolios will employ a wide variety of investment and trading strategies with varying levels of liquidity and leverage. It is expected that some strategies will involve more concentrated, shorter term investments as well as those that are longer term in nature and thus will generally have more tracking error, while other investments will have less correlation, beta and volatility and thus will offset the overall volatility of the Public Markets Portfolios and the Total Fund.

2.2 Public Markets Portfolios Authorized Investments

The Public Markets Portfolios are authorized to invest in the following:

- a. All securities in a Policy Benchmark, all securities that trade publicly (whether on an exchange or over the counter) or pursuant to SEC Rule 144A, and securities issued in underwritten initial public offerings (“IPOs”);
- b. Fixed income securities, whether publicly traded or restricted;
- c. Restricted Securities which are expected to become public or otherwise freely marketable within three years after the initial investment date pursuant to registration or an exemption from registration;
- d. Derivatives in accordance with Article 9;
- e. Private Investment Funds including Hedge Funds; and
- f. Cash and cash equivalents.

2.3 Public Markets Portfolios Restrictions

- a. Not more than 20% of the outstanding equity securities of a single class of any company may be purchased. Securities which are deemed to be beneficially held by TRS for purposes of Section 13 of the Securities Exchange Act of 1934 (including equity securities held in an IMA or a Private Fund in which TRS is deemed to be the beneficial owner for purposes of Section 13), shall be counted against the 20% limit.
- b. The Public Markets Portfolios shall conform to the tracking error targets prescribed in Appendix A.
- c. The Public Markets Portfolios that are managed directly by the Investment Division may hold short positions in securities listed in Section 2.2. The aggregate short positions exposure excluding derivatives of the portfolios may not exceed 25% of the market value of the internal equity portfolios of the Trust, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable securities are traded or listed.
- d. The market value of Restricted Securities purchased in Public Markets Portfolios pursuant to 2.2c will not exceed 2% of the market value of the Total Fund at time of investment.

2.4 External Public Markets Portfolios

The External Public Markets Portfolios (the “EPM Portfolios”) are:

- a. The External Manager Portfolio, which consists of:
 - i. Private Funds that are determined not to be Hedge Funds as defined by Section 2.5 of this Policy, and
 - ii. Separate accounts managed or advised by External Managers under an IMA with TRS.
- b. The Hedge Fund Portfolio.
- c. The Absolute Return Portfolio including credit sensitive investments.

2.5 Hedge Fund Defined

In this Policy, “Hedge Fund” means a Private Investment Fund with the following general characteristics, as set forth in Section 825.3012, Texas Government Code:

- a. Is not registered as an investment company;
- b. Issues securities only to accredited investors or qualified purchasers under an exemption from registration; and
- c. Engages primarily in strategic trading of securities and other financial instruments.

“Hedge Fund” includes a Private Investment Fund of funds or similar vehicle that itself invests in Hedge Funds. An investment in a Hedge Fund does not involve a delegation of investment discretion to an External Manager for purposes of the statutory limit on delegation to External Managers.

For the purposes of complying with Section 825.3012, Texas Government Code, the Investment Division shall use the following criteria to analyze and determine whether a Private Investment Fund is “primarily engaged in strategic trading” and should be classified as a hedge fund:

Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
1. Variability in Asset Class Concentration	Asset allocation typically stays the same throughout a market cycle, as shown by historical practice	Unconstrained; asset class mix can change dynamically in response to market conditions or as opportunities arise
2. Beta to underlying index specified for the particular mandate	Generally higher levels of beta (e.g., 0.75+)	Often less beta (e.g., <0.75)
3. Securities Traded	Primarily publicly-traded securities	Typically public or private instruments, and often with some illiquid (e.g., “side pockets”) investments segregated for accounting and incentive fee purposes
4. Leverage	Gross leverage less than 250% and net leverage 75% to 125%	Unconstrained by policy and practice – managers often unwilling to commit to constraints
5. Short sales of company-specific securities (i.e., non-derivatives)	Typically <50% gross short	Shorting of company-specific securities is integral to investment strategy or process, with gross short positions exceeding 50%
6. Use of Derivatives	Limited use of derivatives (notional value excluding derivatives used to hedge currency risk is less than 100% of net asset value)	Derivatives are integral to strategy or process (notional value excluding derivatives used to hedge currency risk is greater than 100% of net asset value)
7. Transparency	Generally position-level transparency for investor	Risk-level transparency, but little or no position-level transparency
8. Liquidity	Limited use of lock-ups, short or no notice period; frequent (e.g., monthly) or no redemption windows	Often lock-ups, withdrawal fees, notice periods exceeding 30 days and/or less frequent redemption windows than monthly; gates and ability to suspend redemptions can extend redemption for years or frustrate liquidity goals

Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
9. Performance Fees	May charge performance fees, but often over asset class hurdle	Generally, manager charges management and performance or incentive fees, or both, but usually with no asset class hurdle

In this Section 2.5:

Beta is a measure of an asset’s volatility in relation to a specific market or risk factor, as observed over a market cycle; the measure of an asset's risk in relation to the market (for example, the S&P500) or to an alternative benchmark or factors. Generally, the return of a security with a beta of 1.5 will be, on average, 1.5 times the market return.

Leverage is a condition in which the net potential monetary exposure of an obligation exceeds the value of the underlying assets supporting the obligation. **Net Leverage** is calculated as the difference between (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, and (B) the sum of (i) the absolute market value of all short cash market positions, and (ii) the absolute notional value of all short derivative positions divided by (C) the net market value of the fund. **Gross Leverage** is the total of (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, (iii) the absolute market value of all short cash market positions, and (iv) the absolute notional value of all short derivative positions divided by (B) the net market value of the fund. For option based instruments, notional value may be calculated using hedge ratios to derive a delta-equivalent exposure.

Proposed investments in funds classified as Hedge Funds will be reported to the Board (and appropriate Board committee, as applicable) quarterly. If the criteria examined do not clearly indicate, based on at least a preponderance of criteria, how a fund should be classified for statutory purposes, the Investment Division may elect to present the pertinent information to the IIC for consideration of classification. Further, if the application of any one or more of the criteria for leverage, short sales, and derivatives, standing alone, would classify the fund as a Hedge Fund, but the preponderance of criteria would classify the fund as a non-Hedge Fund, the Investment Division may either decline to authorize the investment or may elect to present the pertinent information to the IIC for consideration of the classification of the fund and, if applicable, authorization for investment.

At time of consideration, the IIC will approve the allocation of each Hedge Fund to an asset class by reference to factors such as investment strategy, underlying investments, correlation, beta, leverage, expected return and expected risk.

2.6 External Public Markets Portfolio Authorization

- a. **Approval Authority – Hedge Fund, External Manager and Absolute Return Portfolios** – The IIC is hereby authorized to approve investments as defined and set forth in Appendix B of this Policy.

The Investment Division may authorize an allocation to an External Manager even if the manager will invest a portion of the assets in a Private Investment Fund or funds or a tax-qualified collective trust managed by an Affiliate of the External Manager, except that the Investment Division shall determine whether any such fund should be classified as a Hedge Fund for purposes of Section 825.3012, Texas Government Code.

- b. **Short positions limit** – The EPM Portfolios may hold short positions in securities authorized under Section 2.2. The aggregate short positions exposure of the External Manager Portfolio may not exceed 25% of the market value of the External Manager Portfolio without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the External Manager Portfolio exceed 50% of the market value of the External Manager Portfolio, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable Securities are traded or listed.

- c. **Allocation Adjustment Authority** – Subject to the limits set forth in this Policy, the CIO, CRO, the heads of Public Markets or EPM may add to previously approved funds or investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not, on a monthly basis, exceed 2% of the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio (as appropriate) per investment.
- d. **Termination and Withdrawal Authority** – The CIO, CRO, or the heads of Public Markets or EPM may transfer, sell, withdraw or terminate interests in the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio, provided that the action does not breach the terms and conditions of the applicable investment agreements.

2.7 External Public Markets Portfolio Restrictions

- a. IMAs, considered in the aggregate, may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy, including the provisions of Section 2.2.
- b. The EPM Portfolios are subject to the size limitations in Section 1.8b.
- c. Each IMA with an External Manager shall specify the applicable policies, risk controls, portfolio characteristics, reporting requirements, requirements or restrictions, including criteria for determining quality of investments or the use of standard debt-rating services.

2.8 External Public Markets Portfolio Conflicts of Interest

Conflicts of interest, including the appearance of conflicts, in the selection and engagement of external investment managers will be avoided at all times. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under applicable ethics policies and statutory provisions, including without limitation Section 825.212, Texas Government Code, which does not apply to Hedge Fund managers in that capacity. The Investment Division will develop guidelines and procedures to identify actual or potential conflicts of interest affecting External Managers to be engaged pursuant to IMAs. The Investment Division shall employ reasonable diligence to identify conflicts of interest affecting TRS trustees, employees, Advisors and Consultants with respect to all investments.

2.9 Risk Parity Portfolios

Risk Parity is an asset allocation strategy that focuses upon equalizing the risk contributions of the asset classes or risk factors comprising the portfolio. Risk Parity then uses leverage to scale the resulting portfolio to target a stated level of portfolio risk or return comparable to typical pension fund unleveraged asset allocation strategies.

ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS

3.1 Private Markets Portfolios

The Private Markets Portfolios are (1) the Private Equity Portfolio (the “PE Portfolio”), (2) the Real Estate Portfolio (the “RE Portfolio”) and (3) the Energy, Natural Resources and Infrastructure Portfolio (the “ENRI Portfolio”).

Private markets opportunities that will be considered for investment include the following: investments in securities of any legally permissible investment vehicle, including Private Investment Funds, co-investments, secondary investments, externally managed separate accounts investing in securities, hybrid securities with characteristics of equity or debt, joint ventures, secondary market transactions, entity-level investing or other

off-market investments, new and emerging managers, and opportunistic investments (e.g., investments in the management entity of a private investment firm or sponsor, public-to-private transactions, and the acquisition of business development company or investment trust assets).

3.2 Private Markets Portfolios Authorization

The Private Markets Portfolios are authorized to invest in the asset classes specified in this Policy and may hold and exercise rights, options and warrants attached to securities relating to an investment by the Private Markets Portfolios. In furtherance of the investment activities of TRS, the Private Markets Portfolios are authorized to engage with third parties and provide to them any required investment information for due diligence purposes so long as the recipients have a duty of confidentiality as to the TRS information.

Funding of committed capital in Private Markets Portfolios will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor's commitment, the outstanding invested capital of the investment might at times be substantially less than the total commitment. In recognition of the above characteristics unique to the Private Markets Portfolios, a "committed" allocation to an investment may exceed the respective allocation targets authorized. It will not be a violation of this Policy if changes in the market values of the public assets portfolios or the Private Markets Portfolios cause the market value of the Private Markets Portfolios to exceed the upper limit of the allocation ranges established in this Policy.

Investment Authority. The limits defined and set forth in Appendix B apply to allocations and commitments by the Private Markets Portfolios.

Termination and Withdrawal Authority. The CIO or, as applicable, the heads of Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure may transfer, sell, withdraw or terminate interests in the Private Markets Portfolios in accordance with the investment documents, provided that the action does not breach any agreement to which TRS is legally bound.

Commitment Authorization. Each investment must be authorized as required by the provisions, guidelines, and limitations established in this Policy. Any structure in which TRS invests shall meet established legal requirements.

Additional Allocation Authority. Subject to the limits set forth in this Policy, the CIO or, as applicable, the heads of the Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure Portfolios may add funds to previously approved investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not exceed, on a monthly basis, 2% of each of the Private Equity Portfolio, the Real Estate Portfolio or the ENRI Portfolio (respectively, as appropriate) per investment.

ARTICLE 4 – PRIVATE EQUITY PORTFOLIO

4.1 Private Equity Portfolio Objectives

The PE Portfolio will be structured to achieve the following investment objectives:

- a. The primary long-term objective is to develop a prudently diversified portfolio of investments that is expected to enhance the overall risk-return profile of the Total Fund.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified PE Portfolio: strategy, geography, industry sectors, investment size and vintage year.

4.2 Private Equity Portfolio Authorized Investments

Private equity funds build portfolios of private investments in the equity or debt of operating companies. Private equity funds may acquire investments in debt obligations, public or private common and preferred stocks, convertible securities, and any warrants, rights, or options attached to any of the foregoing that relate to equity ownership in an issuer. Privately-acquired securities usually have transfer restrictions and are not as liquid as publicly-traded securities. Private equity funds are often classified by strategy, including: buyouts, credit, special situations and venture capital/growth equity.

4.3 Private Equity Portfolio Restrictions

The Private Equity Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

ARTICLE 5 – REAL ESTATE PORTFOLIO

5.1 Real Estate Portfolio Objectives

The RE Portfolio will be structured to achieve the following investment objectives:

- a. As the primary focus, contribute favorably to diversification of the Total Fund through exposure to real estate's low or negative correlation to the Public Markets Portfolios.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified RE Portfolio: strategy, geography, property types, size of investment, vintage year, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

5.2 Real Estate Portfolio Authorized Investments

The RE Portfolio will focus on private or public real estate equity securities investments, private or public real estate debt, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, private or public real estate investment trusts ("REITs"), private or public master limited partnerships ("MLPs"), and other opportunistic investments in real estate.

Real estate investments are often classified by strategy, including: core, core-plus, value-added, opportunistic and special situations.

5.3 Real Estate Portfolio Restrictions

The RE Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO

6.1 Energy, Natural Resources and Infrastructure Portfolio

The ENRI Portfolio will be structured to achieve the following investment objectives:

- a. Contribute favorably to diversification of the Total Fund by increasing exposure to assets with a higher degree of inflation sensitivity.

- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified ENRI Portfolio: general inflation sensitivity, expected return, strategy, geography, resource exposure, size of investment, vintage year, where investment is in the resources value chain (upstream, midstream or downstream) or infrastructure type, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments

The ENRI Portfolio may invest in private and public energy or natural resource or infrastructure related securities either directly or through funds which may include investments in public or private equity, equity-linked investments including options, warrants, preferred equity, and structured equity, private or public debt, entity-level investments, master limited partnerships, commodity futures, natural resources interests (mineral, royalty or working interests), timber and agricultural property, water, power generation, renewable energy, and associated infrastructure, services and technology. Energy and natural resource investments are often classified by resource type and where the investment is in the resource value chain (upstream, midstream or downstream). Infrastructure assets are classified as core, value-add and opportunistic. Direct investments in physical commodities are prohibited.

6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions

The ENRI Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

ARTICLE 7 – EMERGING MANAGERS PROGRAM

TRS shall make a good-faith effort to invest with qualified emerging managers for the External Public Markets Portfolios and the Private Markets Portfolios. For the avoidance of doubt, these portfolios may also include investments in energy, natural resources and infrastructure. The Investment Division is authorized to invest with qualified funds-of-funds managers skilled at identifying small and emerging managers in the private equity, real asset and public equity markets. The Emerging Managers Program will target 1.1% of the market value of the Total Fund.

Emerging managers can include, but are not limited to, minority, women, and disabled veteran-owned or -controlled organizations. Conversely, not all minority, women, and disabled veteran-owned or -controlled organizations are necessarily considered emerging managers for the purposes of this program. Whether a management firm is an “emerging manager” depends on all of the facts and circumstances. In general, emerging managers are defined as newer, independent private investment management firms that manage less than \$3 billion, or have a performance track record as a firm shorter than five years, or both.

The Investment Division may engage Emerging Managers Program Consultants without a requirement for approval from the Board. In general, an emerging manager should be registered as an investment adviser with the appropriate authorities if such registration would be consistent with industry practices or is required by law. Each investment will have a minimum size of \$5 million. With respect to the EPM Portfolio, the total investment by TRS with each emerging manager may not exceed 40% of such emerging manager’s assets under management at the time of IIC approval. With respect to the Private Equity Portfolio and the Real Estate Portfolio, the total investment by TRS into each fund raised by an emerging manager may not exceed 40% of the size of such fund at the time of IIC approval. This paragraph does not apply to investments executed as part of a fund-of-funds mandate.

The Investment Division shall document its efforts to identify and expand its investments with qualified emerging managers for the purpose of board and legislative reporting on the methods and results, including data

disaggregated by race, ethnicity, gender, and fund size. All investments under the emerging manager program must be made prudently and in accordance with fiduciary and ethical standards.

ARTICLE 8 – OVERLAY PORTFOLIOS

8.1 Overlay Portfolios Objectives

Overlay Portfolios are designed to manage risk, asset allocation, and market exposures through futures, options, swap contracts, or forward agreements. Overlay Portfolios may be implemented in connection with the Total Fund or with any investment or portfolio within the Total Fund.

8.2 Overlay Portfolios Authorized Investments

Overlay Portfolios may contract for, buy, sell, and hold the following contracts and derivative instruments in accordance with this Policy:

- a. Exchange-traded futures contracts;
- b. Options on exchange-traded futures contracts;
- c. Over-the-counter or exchange-traded swap contracts;
- d. Over-the-counter or exchange-traded option contracts; and
- e. Forward contracts.

8.3 Overlay Portfolios Restrictions

Overlay Portfolios may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

When engaging in currency overlay strategies, the Overlay Portfolio may not increase or decrease the net notional exposure of the Total Fund:

- a. To all non-dollar currencies in aggregate by more than 5% of the market value of the Total Fund;
- b. To any single developed market currency (except for the U.S. Dollar) by more than 2% of the market value of the Total Fund; and
- c. To any single emerging market currency by more than 1% of the market value of the Total Fund.

The foregoing percentage limit restrictions do not apply to currency derivatives used (i) as part of the non-discretionary foreign exchange risk management policy described in Section 10.2, (ii) to settle security transactions denominated in those foreign currencies and any authorized instrument or contract intended to manage transaction or currency exchange risk in purchasing and selling investments, and (iii) for hedging the characteristics of an individual investment to align it with the characteristics of such investment's benchmark.

ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES

This Article enumerates the applications, documentation and limitations for the use of derivatives as permitted under Section 825.301, Texas Government Code.

9.1. Derivatives Policy Scope

Except where specifically noted, this Policy applies to all derivatives transactions executed by the Investment Division and by External Managers operating under an IMA. This Policy does not apply to registered or Private Investment Funds issuing securities to TRS.

This Policy applies to all exchange-traded derivatives and over the counter (“OTC”) derivative instruments authorized by law. This Policy does not apply to the use of derivatives by Private Investment Funds unless TRS in fact controls and has a legal right to approve the investment policy or guidelines of such funds.

9.2. Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)

The Total Fund may have external exposure to derivatives in two ways.

- a. First, the Total Fund will invest as a passive investor in Hedge Funds organized as limited-liability entities, which limits potential losses to the capital contributed to the entity. TRS is not a party to the management agreement between the Hedge Fund and its investment manager. Hedge Fund and other fund managers owe the same legal duties to all investors.
 - i. The Investment Division must exercise thorough due diligence in assessing the scope of the Hedge Fund manager’s uses of derivatives, their purpose, experience of the fund manager’s staff in managing these positions, inherent leverage, and the manager’s systems, controls and operations in determining suitability of these entities for TRS investment.
- b. Second, TRS may delegate discretion, through IMAs, to External Managers who act as a TRS agent with respect to Total Fund assets and who are authorized to enter into specified contracts and commitments that will be legally binding on TRS. External Managers are TRS fiduciaries.
 - i. For External Managers engaged pursuant to IMAs, Investment Division must view the External Manager as an extension of the internal Investment Division’s investment management processes and must require External Managers to comply with this Policy and applicable guidelines and law on the use of derivatives to the same extent as the Investment Division. Guidelines for the scope and use of derivatives will be established on a case-by-case basis with each External Manager in the applicable IMA. An External Manager of publicly-traded investments engaged by TRS under an IMA may engage in derivatives transactions only if expressly authorized by, and the transactions are consistent with, the overall investment objectives and restrictions established in the IMA, this Policy, and applicable law. Each IMA must be consistent with applicable law, this Policy, and other TRS policies. An IMA may only authorize such uses of derivative instruments when the Investment Division reasonably concludes after due diligence that the External Manager possesses the experience, expertise, and qualifications to prudently use derivatives, and has appropriate operational, compliance, and risk management personnel, policies, and procedures to effectively monitor and control their use, including the use of leverage.
 - ii. Selection, engagement, and monitoring of External Managers engaged through an IMA requires a clear understanding of the managers’ uses of derivatives, particularly as it relates to various risk controls, compliance functions, and leverage. The Investment Division will monitor risk exposures and leverage on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage by each External Manager must be fully documented in each IMA.

9.3. Derivatives Definition; Authorization

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). For the purposes of this Policy, derivatives include, without limitation, futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in

purchasing, selling or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios. Derivatives, for purposes of this policy, do not include currency forwards with a tenor of 30 days or less if such forwards do not require upfront amounts to be paid or received.

Derivatives may be exchange traded or OTC. Exchange traded derivatives are listed and traded on a national exchange. Fulfillment of the contract is generally guaranteed by the exchange on which the instruments are traded. OTC derivatives are negotiated transactions between a buyer and a counterparty, which may result in non-standard terms.

9.4. Derivatives Applications Permitted

Consistent with the objectives set out in Section 9.1, derivative applications may be used by the Investment Division and External Managers engaged through IMAs to:

- a. Implement investment strategies in a lower cost and efficient manner;
- b. Efficiently manage the Total Fund portfolio by altering the portfolio's market (systematic) exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;
- c. Construct portfolios with risk and return characteristics that could not be efficiently created with cash market securities consistently with the objectives in this Policy and in compliance with applicable law;
- d. Hedge and control risks so that the Total Fund's risk-return profile is more closely aligned with the Total Fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and
- e. Facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or policy changes.
- f. External Managers may not engage in derivative applications that are inconsistent with the applicable IMA, this Policy and applicable law, unless specifically authorized by the TRS Board and the IMA has been amended accordingly.

9.5. Derivatives Applications Not Permitted

- a. Derivatives may not be used for speculation. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified by this Policy or any related policies or resolutions of the Board. Derivatives may not be used for circumventing limitations or restrictions imposed by this Policy or applicable regulatory requirements. Derivative applications may only be used to invest in asset classes that are consistent with TRS's legally permissible policy asset categories (including currencies), implementation strategies, and risk-return characteristics.
- b. Investments in derivatives underlain by physical commodities are prohibited unless such derivatives can be cash-settled whether by contract terms, by rolling the position, or by trading out of the position before a delivery obligation can arise. Standing orders or instructions for rolling or trading out of positions may be used to prevent delivery obligations from arising under commodities derivatives contracts.
- c. The Policy does not apply to or authorize any use of derivatives underlain by single-asset real estate mortgages or title to real estate or property affixed to real estate.

9.6. Derivatives Documentation and Controls

Prior to the implementation of a new internal derivative instrument type or application, the Investment Division shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including, at a minimum, market, modeling, pricing, liquidity, and legal risks), the expected increase or reduction in systematic and idiosyncratic risk resulting from the application, the amount of leverage employed under the strategy, the prudent reasons for employing leverage, and the procedures in place to monitor and manage the

derivative exposure. The documentation will be approved by the CIO and reported to the IIC and the Board (or appropriate Board committee, as applicable) at their next regularly-scheduled quarterly meetings. The Investment Division shall adopt fully documented control procedures to properly account for and value the Total Fund's exposure to each derivatives application, whether internal or external under an IMA. The Investment Division shall establish an appropriate risk management procedure to monitor compliance both internally and by External Managers and will take corrective action if necessary. The Investment Division shall have due regard for operational risks associated with various derivatives strategies, including risk management, accounting systems, liquidity needs, adequate staffing, and staff qualifications.

9.7. Derivatives Limitations

Counterparty Risks: In order to limit the financial risks associated with derivative applications, guidelines for rigorous counterparty selection criteria and ISDA agreements shall be created by the Investment Division to reduce counterparty risk for OTC derivatives. Any counterparty in an OTC derivative transaction with TRS must have a credit rating (which may be a counterparty risk assessment or rating) of at least A- (Standard & Poor's or Fitch) or A3 (Moody's). All OTC derivative transactions, including those managed through IMAs, must be subject to established ISDA Master Agreements or, if centrally cleared, clearing agreements and have full documentation of all legal obligations of both parties to each transaction. All ISDA Master Agreements entered into by or on behalf of TRS by the Investment Division or an External Manager engaged pursuant to an IMA (if applicable) shall provide for netting of obligations. The Investment Division and External Managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all OTC derivative positions, including those managed through IMAs, less collateral posted, for any individual counterparty may not exceed \$500 million. The net market value of all OTC derivative positions for any individual counterparty, without consideration of collateral, may not exceed 5% of the total market value of the Fund. If these market-value limits are exceeded, the Investment Division will inform the CIO, Executive Director, and Chairman of the appropriate Board committee as soon as practicable and take appropriate corrective action within a 90-day period or develop a corrective action plan that will be presented to the Board at its next regularly scheduled meeting at which investment matters will be discussed following the initial 90-day corrective action period.

Global Risk Limitations: Notwithstanding other limitations in this Policy, transactions that would cause the aggregate risk exposure of the Total Fund, including externally-managed portfolios, to exceed the aggregate risk limits established by the current asset allocation policies of the Board are not permitted. On a Total Fund basis, the combined economic exposure introduced through both cash and derivative market positions is subject to the asset allocation ranges, risk limits, and other portfolio parameters described in this Policy.

Position Limits: For futures and options positions TRS will comply with all position and aggregate limits established by the applicable regulatory and legal organizations and authorities within each jurisdiction.

9.8. Derivatives Risk Management and Compliance

To ensure compliance with this Article 9, all internally and externally managed derivatives (other than derivatives held in Hedge Funds) must be marked to market on a daily basis by the Fund's external custodian(s), and such daily reports will be reviewed for accuracy by the TRS Risk Management staff and Investment Administration Center personnel. Compliance with the requirements of this Policy will be monitored by the Chief Compliance Officer using information systems and data from internal and external sources. Any violations of this Article 9 will be reported immediately to the Executive Director and to the

CIO, who will determine, if considered material as determined by Chief Compliance Officer, Chief Investment Officer, and Executive Director, the appropriate remedy and report promptly to the Board (and the appropriate Board committee, as applicable).

ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT

10.1. Market Risk Management

The Investment Division will establish a framework for measuring enterprise-level risk for both the Total Fund Portfolio and the established benchmark, including any transition benchmarks employed during asset allocation shifts. At a minimum, this framework must include a quantified estimate of downside risk (e.g., value-at-risk (“VaR”), estimated shortfall, or various parametric and non-parametric statistics). The Investment Division will monitor the relative positioning of the Total Fund Portfolio vis-à-vis the benchmark no less frequently than monthly.

- a. **Asset allocation limits** – In addition to the Total Fund Portfolio level risk limits, the portfolio will be constrained to the asset allocation percentages and ranges prescribed by this Policy. Accordingly, the total exposure to each asset class must be based on the individual exposures of each cash security and each outstanding derivative contract. The foregoing does not apply to those accounts designated as using strategy leverage to better align the investment with the characteristics of the policy benchmark.
- b. **Risk limit** – The Investment Division will model and monitor the Total Fund Portfolio and benchmark to ensure that the total estimated risk for the Public Markets portion of the Portfolio is within the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- c. **Proxy securities and indices** – If necessary and prudent, the Investment Division will employ proxies to approximate the economic characteristics of actual investments if the terms and conditions of the actual investments or the underlying holdings are not readily available or where the complexity of the underlying investment renders a deterministic model impractical.
- d. **Private market assets holdings** – The Investment Division may include private investments in this analysis either by proxy or by actually modeling the terms and conditions of the underlying exposures; however, if the inclusion of these investments is deemed to distort the true risk characteristics of the portfolio, the Board may approve the use of an alternative methodology for analyzing the risk characteristics of those investments.
- e. **Active risk limits** – In addition to the portfolio-level risk statistics described above, a target tracking error will be imposed on each public asset class mandate. Additionally, a target tracking error will be imposed on the entire public portfolio that takes into account both internally and externally managed portfolios and Private Funds as well as both asset allocation and security selection decisions. These limits are specified in Appendix A.

10.2. Foreign-Exchange Risk Management

The objective of the Foreign-Exchange (“F/X”) policy is to effectively manage portfolio return volatility associated with foreign currency risk. F/X risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. The F/X policy sets forth a structure and implementation plan to determine the level of strategic currency risk that the Fund is willing to tolerate.

Currency hedge ratios will be separately applied to the Fund’s public-markets and private-markets non-dollar exposures. Each currency hedge ratio is the percentage of aggregate, non-dollar currency exposure to be passively hedged. The hedging horizon is intermediate (one to three years). The results of the currency hedge ratio decisions will be presented to the Board (or the appropriate Board committee, as applicable) for approval by the Board and incorporated into the benchmark as prescribed in Appendix C.

From an implementation perspective, an F/X overlay manager would have responsibility for implementing the currency hedge ratio decisions and would not exercise delegated investment discretion. The F/X overlay may be implemented internally or externally. If external, the non-discretionary F/X overlay manager would not fall

under the definition of either an External Manager or a Hedge Fund. A non-discretionary external F/X overlay manager would merely implement the investment decision that has already been made by the IIC.

10.3. Credit Risk Management

- a. **Counterparty exposures** – The maximum allowable unsecured counterparty exposure for OTC derivative transactions is \$500 million, based on the total net market value of all OTC positions held with each counterparty. The total counterparty exposure for each counterparty, including the collateralized portions of these agreements, may not exceed 5% of the market value of the Total Fund. The minimum credit rating (which may be a counterparty risk assessment or rating), based on a nationally recognized statistical rating organization (“NRSRO”), must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level, subsequent to the inception of transaction, additional eligible collateral may be posted, or the transaction may be terminated.
- b. All OTC derivatives must be governed by an ISDA Master Agreement and Credit Support Annex or, if centrally cleared, by clearing agreements, and must include both close-out netting provisions and collateralization provisions.
- c. Each ISDA Master Agreement must also include a table that delineates the excess purchased securities margin (haircut) required, based on the collateral type, duration, and credit quality.
- d. **Repurchase agreements** – The limit for each counterparty for repurchase transactions and tri-party repurchase transactions may not exceed 5% of the market value of the Total Fund. Each repurchase agreement will be entered into under a widely accepted industry-approved form, such as one approved by SIFMA. A counterparty to a repurchase agreement must be an organization rated A3/A- or better by a NRSRO, unless (i) the counterparty is another entity created by the Texas legislature; (ii) the counterparty is a money-market fund regulated under Rule 2a-7 under the Investment Company Act of 1940 or a fund designed to resemble such a money-market fund regulated under Rule 2a-7 or (iii) the counterparty is a pension fund or retirement system created by a government entity, whether non-U.S. or domestic and approved by the CIO.
- e. **Securities lending** – When securities lending activity is performed by an external third-party lending agent, Investment Division will examine the credit underwriting practices of the lending agent, including enforcement of collateral requirements, counterparty analysis, and surveillance. Additionally, Investment Division will periodically review the securities lending lines by counterparty. A securities lending agent must be an organization rated A- or better by a NRSRO. More detailed information about TRS securities lending activities is specified in the separate Securities Lending Policy.

10.4. Liquidity Risk Management

The objective of Liquidity Risk Management is to ensure that the Fund maintains ample liquidity to meet its funding requirements. The two kinds of requirements which necessitate prudent liquidity are:

- a. Disbursements of benefits and related obligations to plan participants, including retirement, death, health, and disability benefits payments.
- b. TRS investment activities: These are mainly associated with risk management and funding of External Managers and Private Funds. Some examples include:
 - i. Use of derivative instruments requires liquidity for collateral, margin and payment obligations at the time of a reset, call or maturity;
 - ii. TRS funds accounts managed by External Managers; and
 - iii. TRS manages unfunded capital commitments that the Fund is legally obligated to fund when called by general partners.

External Funding Authority

The Investment Division is authorized to establish external funding mechanisms (such as master repurchase agreements with one or more counterparties) and the flexibility to operate in all types of market liquidity environments to allow prudent

management of these funding requirements while achieving a long-term rate of return and adhering to the asset allocation limits outlined in this Policy. In addition to these external funding mechanisms, TRS will maintain adequate funds in its custodial account to cover investment-related obligations. Finally, the Board authorizes the Investment Division to access the cash holdings backing OTC swaps to manage its commitments.

10.5. Operations Risk Management

- a. **Overdrafts** – The Investment Division will monitor the frequency and costs associated with all overdraft activity.
- b. **Custodial Bank(s)** – The Investment Division will conduct on-site due diligence to review the operational controls set in place by all custodial banks. The Investment Division will also consider the extent of remedies provided by the custodian and its overall ability to fulfill its commitments should operational failures occur.

10.6. Settlement Risk Management

The Investment Division will monitor unsettled trade activity by counterparty and instrument type.

10.7. Legal Risk Management

Legal documentation for all accounts, investment subscriptions, External Managers, investments in Private Investment Funds, and derivatives will be reviewed, negotiated and approved for TRS execution by internal or external legal counsel, or both. The Investment Division, in consultation with Legal and Compliance, will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. The Investment Division will seek the assistance, review, and advice of legal counsel whenever it is prudent to do so. Legal and Compliance has primary responsibility for the engagement of outside legal counsel for investment matters, subject to applicable statutes and rules adopted by the Office of the Attorney General.

10.8. Risk Management Compliance Cure Periods and Remedies

Passive violations – A passive violation occurs when the portfolio breaches a prescribed policy limit as the result of changing market or credit conditions. The Investment Division will report the violation to the Board and will remedy the violation within 90 days of the violation or prepare a written action plan that must be approved by Board resolution to extend the cure period beyond 90 days.

Active violations – An active violation is caused by entering into an agreement or investment that breaches a policy limit at inception or thereafter through failure to monitor. In this case, a thorough analysis of controls will ensue and be reported to the CIO, the Executive Director and the Chairman of the appropriate Board committee, as soon as practical, and to the full Board at its next regularly scheduled meeting at which investment matters will be discussed. The Investment Division will seek to remedy the violation when possible. In instances where the costs of immediate remedies are prohibitive, the Investment Division will develop a corrective action plan that will be submitted to the CIO within a reasonable time after the violation occurs, not to exceed 15 days, depending on the nature and complexity of the investment holding and transactions needed to remedy the violation. The Board will be apprised of the violation at its next regularly scheduled meeting along with the corrective action plan.

10.9. Permitted Sources of Leverage Financing

The Investment Division is authorized to use the following in order to create Strategy or Asset Allocation Leverage:

- a. Derivative strategies in accordance with the risk parameters established by the asset allocation ranges of this Policy and applicable legal restrictions;
- b. Short sales in accordance with this Policy;
- c. F/X hedging in accordance with this Policy;
- d. Risk Parity investments in accordance with this Policy;
- e. Embedded leverage within the Total Fund's Private Fund investments; and
- f. Collateralized fundings including securities lending activities, pledges, repurchase and reverse repurchase agreements and other external funding mechanisms.

Leverage will not be used to exceed the risk parameters established by the asset allocation ranges of this Policy.

ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO

11.1. Health Insurance Program Portfolio Objective

The primary objective of the Health Insurance Program Portfolio is to preserve capital through investment in conservative, short-term securities.

11.2. Authorized Investments for the Health Insurance Program Portfolio

Section 404.024, Texas Government Code describes the Authorized Investments employed by the comptroller when he or she invests state funds. The Investment Division shall employ this list of Authorized Investments when the Investment Division invests the Health Insurance Program Portfolio.

ARTICLE 12 – INVESTMENT INTEGRITY POLICY

12.1. Scope

The Investment Integrity Policy (the "IIP") applies to all TRS investment transactions, including without limitation new agreements (including SPACs, follow-on funding and co-investments), sales or transfers of investment interests, increases in funding or capital commitment to an existing relationship or fund, or an amendment that increases management fees or compensation under an agreement. This IIP does not apply to Direct Investments or transactions in publicly traded securities.

The IIP also applies to attempts to influence TRS investment decisions through contacts with TRS trustees, or contacts with, or political contributions made for the benefit of, one or more Texas Candidates or Elected Officials, and also applies to contacts with persons employed by any such candidate or official.

If any provision of the IIP conflicts with a provision of another policy adopted by the Board, the stricter provision shall apply.

This Article 12 does not apply to direct TRS engagements of Consultants and agents in connection with buying or selling privately issued investment interests in the secondary market. A seller in a secondary market transaction is not required to complete an Investment Integrity Questionnaire if the transaction's closing

documents include appropriate representations, warranties and covenants as to the matters addressed in this Article 12 and the Investment Integrity Questionnaire.

12.2. Purpose

The purpose of the IIP is to ensure the integrity of all TRS investment transactions and decisions and conformity with the highest fiduciary, ethical, and legal standards by all parties involved. All investment decisions made by the Board and the Investment Division must be based solely on the merits in conformity with fiduciary standards and applicable law. All advice and investment recommendations made by Consultants must be based solely on the merits after the necessary due diligence. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

12.3. Philosophy

The Board desires that the Investment Division obtain full disclosure of all matters having the potential to harm TRS's reputation or the integrity of TRS's investment processes, or that could constitute unethical or unlawful conduct during the investment due diligence process.

12.4. Required Disclosures and Questionnaire

All external Fund or Manager Parties and if applicable, all Placement Agents that will receive a Placement Fee in connection with an investment or commitment by TRS, shall provide true and complete written responses to the questionnaire attached hereto as Appendix E prior to IIC consideration or other investment authorization. The Executive Director is authorized to approve such revisions to Appendix E from time to time as he or she deems to be in the best interest of TRS and consistent with the IIP.

In addition, all Fund or Manager Parties who disclose the involvement of a Placement Agent shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The Investment Division shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The Investment Division shall provide all prospective Fund or Manager Parties with a copy of the IIP and the Appendix E questionnaire upon commencement of due diligence.

12.5. Contractual Representations, Warranties, and Covenants

Each Fund or Manager Party shall represent and warrant to TRS in the executed closing documents for the transaction that its responses to Appendix E to this Policy and any supplemental inquiries are true, correct, and complete in all material respects as of the closing date, and shall also covenant to update or correct any such responses within 10 business days of becoming aware of any change in the responses. The obligation to update responses survives the closing of the relevant investment transaction.

In addition, each Placement Agent shall fully disclose the terms of its arrangements with a Fund or Manager Party for payment of a Placement Fee and any political contributions by the Placement Agent to any Texas Candidates or Elected Officials, and shall certify as to the matters addressed in Appendix E, as applicable, to TRS in a writing executed by an authorized officer that the disclosures required by the IIP are true and complete in all material respects.

A Placement Agent must agree in writing to pay to TRS a sum equal to its Placement Fees relating to TRS's investment if the Placement Agent's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

A Fund or Manager Party using a Placement Agent must agree in writing to pay to, credit to TRS's capital account, or offset TRS's management fees or outstanding funding commitment with, a sum equal to the Placement Fees due to the Placement Agent with respect to TRS's investment agreement or commitment if the

Fund or Manager Party's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

12.6. Prohibitions

Neither TRS nor any TRS investment shall be burdened with or liable for any Placement Fee. No TRS investment may be made if the transaction involves either (a) a Placement Agent who is not registered with either of the Securities and Exchange Commission or the Financial Industry Regulatory Authority ("FINRA"), or (b) the sharing of a Placement Fee with a non-registered person or entity. No TRS investment may be made if an authorized officer or the board, in consultation with legal counsel, determines that a disclosed contact with a Board member or Texas Candidate or Elected Official, or a

contribution to a Texas Candidate or Elected Official, has created an unacceptable risk to the integrity and reputation of the TRS investment program or has been made in violation of a TRS policy or applicable law. A contact-based referral, without more, by a TRS trustee of either an investment opportunity or a Manager or Fund Party contact to the Executive Director, or Chief Investment Officer does not constitute such a risk or a violation of the IIP.

12.7. Reporting

The investment staff shall compile all responses to the questionnaire and report the results to the Board at least semi-annually. Reports shall include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Candidate or Elected Official, as applicable.

12.8. Definitions

Affiliate – means a person or entity controlled by or under common control with another person or entity.

Direct Investment – means any private placement investment where TRS is a purchasing signatory to a binding securities purchase agreement or any similar acquisition agreement (including an option or rights agreement to acquire such securities in the future), and when delivered, intends to hold the restricted securities directly in the TRS custodian bank.

Fund or Manager Party – means any person or entity offering, sponsoring, proposing, or soliciting a TRS investment transaction or opportunity, purchase or sale of securities, investment contract, investment management agreement, or commitment, and includes:

- a. As to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm;
- b. As to an external investment manager to be engaged to invest TRS assets pursuant to an investment management agreement, the investment management entity and the parent of such asset management entity; and
- c. As to a private company or similar issuer in a direct or principal investment in securities of the issuer, the entity and an agent, representative, broker or investment bank, officer, director, trustee, manager, or employee of the company or issuer involved.

Without limiting the foregoing, Fund or Manager Party includes any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection with a prospective TRS investment. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under the IIP.

Placement Agent – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee in connection with a TRS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent's Placement Fee is also deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, agent, owner, officer, shareholder, director, managing member, or employee of the first Placement Agent. For the avoidance of doubt, a finder, broker-dealer, originator, fundraiser, financing arranger, or investment bank receiving a Placement Fee is a Placement Agent. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under this policy.

Placement Fee – includes any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a party other than the relevant Fund or Manager Party in connection with a TRS investment, agreement or commitment. An underwriting fee or discount charged in a 144A or registered public offering of securities is not a Placement Fee.

Relative – means a spouse (including an ex-spouse), parent, child (including adopted), sibling, niece, nephew, aunt, or uncle.

SPAC – means a "special purpose acquisition company" with no commercial operations that is formed to raise capital through an initial public offering for the purpose of acquiring an existing company, whether or not pre-identified.

Texas Candidate or Elected Official – includes any candidate for a statewide office or an elected official of the State of Texas, including the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, and also includes a campaign fund or political action committee, or PAC organized for or on behalf of a Texas statewide candidate or elected official, and any Relative of a Texas statewide candidate or elected official. This definition does not apply to candidates for, or elected officials holding, offices in counties, municipalities, or other local subdivisions of the State of Texas, to state or local judicial candidates or offices of the State of Texas, or to any federal office or judicial position. A candidate for an elective federal office who holds a statewide office is deemed to be a Texas Candidate or Elected Official for purposes of this policy.

TRS Person – means any person listed on Exhibit A attached to Appendix E to this Policy or to any other due diligence document, and includes without limitation any current or former TRS board member, Executive Director, Deputy Director, Chief Financial Officer, Investment Division or Legal and Compliance employee, any investment consultant or actuary, any outside counsel engaged by TRS, and any Relative of a TRS Person, whether or not listed on an Exhibit A, TRS Persons.

APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)¹

	Neutral
Equity (USA)	300
Equity (International; Non-US Developed, EAFE)	300
Equity (International; Emerging Markets)	300
Equity (World Equity)	300
Stable Value Hedge Funds	400
Risk Parity	400

	Neutral	Maximum
Government Bonds		300
Total Public Fund Tracking Error	100	300

¹ Tracking error will be measured on a realized basis over a three year period.

APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS

Allocations to a single manager organization may only exceed the limits specified in this Appendix B with the prior authorization of the Board.

Article Affected	Portfolio	Initial Allocation or Commitment with Manager, by Portfolio	Additional or Follow-On Allocation or Commitment with the same Manager, by Portfolio	Total Manager Organization Market Value Limits, by Portfolio	Total Manager Organization Exposure Limits, by Portfolio
2	Public Markets Portfolios	0.5%	1%	3%	5%
4.2	Private Equity Portfolio	0.5%	1%	3%	5%
5.2	Real Estate Portfolio	0.5%	1%	3%	5%
6.2	Energy, Natural Resources and Infrastructure Portfolio	0.5%	1%	3%	5%
Total IIC Approval Authority, each Manager Organization				6%	10%

All allocation or commitment limits are expressed as a percentage of the Total Fund value and are to be calculated as of the date the applicable investment is approved by the IIC or other investment authorization. Exposure is defined as the sum of the market value and unfunded commitments for the purposes of Appendix B. All external investments must be assigned to one of the four portfolios at the time of approval. For the purposes of the Manager Organization Market Value Limit, market value is based on the most recent month-end values provided by the custodian and does not include the proposed investment under consideration.

“Affiliate” means any person directly or indirectly controlling, controlled by, or under common control with, another person. A “manager organization” includes its Affiliates without regard to the names of the entities. The Chief Compliance Officer will be responsible for determining the manager organization’s Affiliates that are applicable for the above limits.

The percentage limit for additional or follow-on allocations or commitments applies to each additional or follow-on allocation or commitment by a listed portfolio to a manager and is in addition to, and not cumulative of, the limit specified for initial allocations or commitments. By way of example, if a portfolio initially allocates 0.2% of the Total Fund to a manager, the portfolio may thereafter allocate or commit up to 1.0% in a single additional or follow-on allocation or commitment to the same manager for a total of 1.2% allocated or committed to the same manager (0.2%+1.0%). If a portfolio initially allocates 0.2%, then makes an additional allocation or commitment of 0.8%, and desires to make a further additional or follow-on allocation to the same manager, the applicable limit for the further additional or follow-on allocation is 1.0% of the Total Fund, for a total of 2.0% allocated or committed to the manager (0.2%+0.8%+1.0%). All investments occurring in the six months prior to the follow-on investment, co-investment or additional investment shall be included in the calculation of the percentage limits. If the initial investment occurred less than six months prior to the current investment, the initial allocation limit of 0.5% rather than the follow-on allocation limit of 1.0% will apply.

In calculating the available limits, returned capital is excluded from the sum of existing total allocations or commitments. Committed capital is included during the applicable investment period of a fund without regard to whether the commitment amount is funded or unfunded or the fund is open-ended. Capital that has been returned but that is subject to recall by a Private Investment Fund is considered to be committed or allocated for the purposes of the limits in this Appendix B.

Authority for Special Investment Opportunities. Notwithstanding the limits set forth in this Appendix B, the CIO may designate an investment opportunity as a “Special Investment Opportunity” if the circumstances indicate a reasonable probability that a rapid investment response will be required in order for TRS to acquire the investment in excess of the limits on Investment Division authority set forth in this Appendix B. Circumstances requiring a rapid response may include, but are not limited to, distressed situations or market dislocations creating opportunities to acquire interests or assets at pricing that

indicates a reasonable probability that the interests or assets are undervalued or will increase in value. The CIO shall notify the Executive Director as promptly as possible of the Special Investment Opportunity. The CIO and the Executive Director shall consult with the Chairman of the Board and the Chairman of the Investment Management Committee and determine if it is not practicable to present the opportunity for consideration by the Board. If the opportunity will not be added to an agenda, and the CIO and the Executive Director conclude that the investment would be in the best interests of TRS, the CIO and the Executive Director may authorize and conclude an investment up to \$1 billion in that Special Investment Opportunity.

After one investment in a Special Investment Opportunity has been made, no further investment in a Special Investment Opportunity may be made until the Board has reauthorized the CIO’s authority to designate a Special Investment Opportunity. Such reauthorization shall renew the CIO’s and the Executive Director’s authority to invest up to \$1 billion in a Special Investment Opportunity under this provision.

APPENDIX C – CURRENCY HEDGE RATIOS

Portfolio	Currency Hedge Ratio
Public Markets Portfolios	0%
Private Markets Portfolios	0%

APPENDIX D – GENERAL AUTHORITY RESOLUTION

Board of Trustees

General Authority Resolutions Adopted July 15, 2022

Investment Group

Resolved, That Investment Division employees holding the following TRS working titles are members of the “Investment Group”:

Chief Investment Officer	Managing Director
Senior Managing Director	Director
Senior Director	

Resolved further, That the Executive Director is authorized and directed to designate in writing those individual members of the **Investment Group** who are authorized within the investment areas designated by the Executive Director, in addition to the Chief Investment Officer, to take any one or more of the following actions authorized below in accordance with these resolutions until the authority is revoked.

Resolved further, That the Executive Director is authorized and directed to designate in writing, by investment area and category or item designation, the specific authorities granted to each authorized member of the **Investment Group**, until the authority is revoked.

A. General Authority for Investment Matters other than Derivatives

Resolved further, That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- A.1. Buy, sell, or give orders or instructions for transactions in currencies and securities, and any amendments or modifications of such orders or instructions.
- A.2. Direct Investment Operations personnel to deliver, pay, expend, or receive cash, currencies, monies, securities (including restricted or Rule 144A securities) in connection with a contract to buy or sell securities.
- A.3. Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of securities transactions.
- A.4. Direct Investment Operations personnel to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; and to instruct other cash movements, including movements of cash to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

Notwithstanding any provision of this Section A, authority granted under this Section A does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

B. Investment Contracting Authority other than Derivatives

Resolved further, That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- B.1. Make, execute, deliver, waive, modify, amend, renew, extend, assign, terminate, or transfer, in each case in writing, investment-related documents, including without limitation, written contracts, investment management agreements, subscription agreements, capital commitments, account

agreements, consents, certificates, powers of attorney, notes, deeds, security agreements, pledges, mortgages, endorsements, directions and instructions to amend, modify, fix, and execute written investment guidelines in investment management agreements with External Managers and fund managers, and any and all documents necessary or proper to effectuate the authority granted in this Section B.1.

- B.2.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute investment fund redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash or securities to a TRS account by a third-party fund, External Manager, account, debtor, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements, side letter agreements, or other investment-related documents executed by TRS in connection with a new investment, and any amendments or modifications to such documents and agreements other than redemption and withdrawal notices and corresponding instructions for the transfer or delivery by wire or physical transfer of cash or securities.

Notwithstanding any provision of this Section B, the authority granted under this Section B does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

C. Derivatives Authority

Resolved further, That the Chief Investment Officer and any member of the **Investment Group** who is designated by the Executive Director as a member of the derivatives team, in addition to any authority expressly designated by the Executive Director under these resolutions is authorized may act on behalf of TRS to:

- C.1.** Negotiate, make, fix, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, documents related to derivatives transactions, including without limitation, master agreements, schedules, credit support annexes, collateral-management agreements, transaction confirmations, account agreements, and clearing agreements, and deliverables relating to such documents and agreements.
- C.2.** Make, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, disclosures, questionnaires, elections, certifications, or other administrative documents and deliverables related to derivatives accounts or transactions.
- C.3.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute, amend, modify, or terminate documents, directions, and instructions to deliver and pay cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.4.** Direct Investment Operations personnel to receive cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.5.** Buy, sell, or give orders or instructions for transactions in derivatives, and any amendments or modifications of such orders or instructions.
- C.6.** Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of derivatives transactions.

Financial Group

Resolved further, That the “**Financial Group**” comprises employees holding the following TRS working titles:

Chief Financial Officer	Senior Director of Investment Accounting
Deputy Chief Financial Officer	Manager of Investment Accounting
Director of Accounting Operations	Director of Budget and Financial Analysis

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Investment Group** or the **Executive Group**, to execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, margin, or securities to a TRS account by a third-party fund, account, debtor, or derivatives counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements and any amendments to subscription agreements or side letter agreements.

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, to execute authorizations to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; instruct other cash movements, including movements of assets to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS to authorize and direct members of the Investment Accounting team to verify or confirm to a custodian or prime broker any order for the transfer or delivery of currencies, monies, securities, or contracts to any other person.

Executive Group

Resolved further, That the “**Executive Group**” comprises employees holding the TRS working titles of Executive Director and Deputy Executive Director, and each member of the **Executive Group** is authorized and empowered to perform, with respect to a particular matter or transaction, any and all of the acts that any and all employees in the **Investment Group** or the **Financial Group** are authorized to perform, except that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

Trading Group

Resolved further, That the “**Trading Group**” comprises the employees holding the following TRS working titles: Managing Director, Director, and Trader. Each member of the **Trading Group** is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix, and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell securities, derivatives, forward contracts, or currency.

Fixed Income, Currency, and Commodities Trading Group

Resolved further, That the “**Fixed Income, Currency, and Commodities (“FICC”) Trading Group**” comprises the employees holding the following TRS working titles: FICC Trader. Each member of the FICC Trading Group is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell fixed income securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell fixed income securities, derivatives, forward contracts, or currency.

Chief Compliance Officer

Resolved further, That the “**Chief Compliance Officer**” is authorized and empowered on behalf of TRS to take the following actions: to execute and deliver compliance-related disclosures, reports, filings, and certifications and, with the Chief Investment Officer and Executive Director’s approval, to develop, disseminate and collect disclosure forms to monitor the requirements of the Investment Policy Statement.

APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

Date: _____

Fund, Manager Party or Placement Agent:* _____

Investment Name: _____

Completed by: _____

Date submitted: _____

Note: TRS may require completion of a new questionnaire or updating of responses at any time, including as of the closing date for any transaction investment or additional funding. All questions must be answered.

** All capitalized terms have the meaning set forth in Article 12 of the Investment Policy Statement, which is available at:*

https://www.trs.texas.gov/TRS Documents/investment_policy_statement.pdf

1. Contacts with Texas Candidates and Elected Officials; Political Contributions. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Candidate or Elected Official in connection with a prospective investment transaction with a Texas state investment entity, including TRS? If the answer is “yes,” please attach a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including TRS.

YES, see attachment

NO

2. Contacts with TRS Board Members. Has any person lobbied or otherwise communicated on behalf of one or more of the Fund, the Manager Party, or, if applicable, the Placement Agent with a current or former member of the TRS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the TRS investment staff or a TRS advisor or consultant to recommend that TRS invest? If the answer is “yes,” please attach a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

YES, see attachment

NO

3. Placement Agents and Placement Fees. Is or was the Fund or Manager Party, or if applicable, the Placement Agent, a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent (or any other Placement Agent) with respect to the investment named at the top of this questionnaire?

YES

NO

If the answer to 3 is “NO,” skip to the certification and signature block.

4. If the answer to 3 is “YES,” will a Placement Fee be paid in connection with TRS’s investment in the named investment?

YES, please describe

NO

If the answer to 4 is “NO,” skip to the certification and signature block.

5. If the answer to 4 is “YES”:

A. Please attach list of the name(s) of the person or entity acting as a Placement Agent with a copy of the written agreement or a summary of the agreement creating the obligation to pay a Placement Fee in connection with TRS’s investment. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.

B. Will or did any TRS Person or any Relative of a TRS Person receive, has any such person received, or might any such person receive a “Placement Fee” in connection with TRS’s investment? If the answer is “yes,” please list the name or names of the TRS Person or Relative of a TRS Person and provide details about the terms of the Placement Fee.

YES, see attachment

NO

C. Will or did any Texas Candidate or Elected Official or a Relative of a Texas Candidate or Elected Official receive a Placement Fee in connection with TRS’s investment? If the answer is “yes,” please state in an attachment the name or names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

YES, see attachment

NO

D. Is the Placement Agent, or any of its Affiliates, registered as a lobbyist in the State of Texas? If so, attach a list of the legal names of the entity and the individual registrants.

YES, see attachment

NO

E. Is the Placement Agent or any of its Affiliates registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States? Provide an attachment stating the details about each such registration or explaining why registration is not required.

YES, see attachment

NO

F. Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former TRS Person, either (1) recommend the Placement Agent or (2) receive a share of a Placement fee or any other economic benefit in connection with TRS’s investment, whether directly or indirectly through a Placement Agent engaged by you? If the answer to this question 5.F is “yes,” please attach the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment, stating whether the person or

entity is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association (or a similar agency outside the United States).

YES, see attachment

NO

G. Will TRS be burdened with or liable for any Placement Fee in connection with TRS's investment in the named investment?

YES

NO

The undersigned certifies, represents and warrants on behalf of the Fund, Manager Party, or Placement Agent(s), as applicable, that (a) it has reviewed and understands Article 12 of the TRS Investment Policy Statement ("Article 12") received with this Questionnaire, and agrees to abide by Article 12's requirements, including the payment obligations in Section 12.5, (b) to the best of its knowledge after due inquiry, its responses to this Questionnaire are true and complete and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (c) no other statements or representations, if any, whether oral or written, made by or on behalf of the Fund, the Manager Party, or Placement Agent(s), as applicable, relating to Article 12 and this Questionnaire in connection with TRS's due diligence inquiries or the subject investment transaction were untrue or misleading in any material respect when they were made. The undersigned acknowledges and agrees that in addition to the express remedies required in Article 12 and the transaction documents, which are not intended to be exclusive, TRS reserves all other remedies available to it in law and equity with respect to any untrue or misleading statement. The undersigned agrees to update any such information within 10 business days of becoming aware of any changes or corrections to the responses. The update obligation survives the closing of the investment.

Name of Fund or Manager Party or Placement Agent:

By: _____

Name: _____

Title: _____

Date: _____

Attachment: Exhibit A, TRS Persons

APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION

- A. External Advisory Committees or Boards and Board Observers.** A TRS investment-related agreement may provide that an Investment Division employee may represent TRS by serving:
1. On an advisory committee, advisory board, or similar advisory body to a TRS investment vehicle, whether the position is voting or non-voting; or
 2. As a non-voting TRS observer at meetings of the governing body of an investment vehicle, including a business entity, in which TRS has an interest.
- B. Board Representation by a TRS Employee.** A TRS investment-related agreement may provide for TRS representation on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- 1. Requirements:**
 - a. The TRS employee representative may not serve in a position that under applicable law has general liability to third parties, such as a general partnership position.
 - b. The TRS employee representative must comply with internal policies and procedures relating to board representation, including recusal, notice and training requirements.
 - c. An agreement for TRS representation on an external governing body must be in writing and, to the extent possible, address limitations on capacity and fiduciary duties, liability insurance, indemnification, recusal requirements, travel payments or reimbursements, and perquisites provided to persons on the governing body in the entity's ordinary course of business.
 - d. Duties that an employee owes to TRS must be primary. TRS employees representing TRS must comply with recusal determinations made by the Executive Director in consultation with the Chief Compliance Officer and the General Counsel.
 - e. The external entity's insurance and indemnification will be primary relative to any available TRS liability and indemnification coverage.
 - f. If compensation or reimbursement of expenses will be paid, the agreement must require payment of any compensation or reimbursement directly to TRS.
 - 2. Qualification:** A TRS employee representative must hold one of the following TRS titles to be eligible to serve: Senior Investment Manager, Director, Senior Director, Managing Director, Senior Managing Director, or CIO.
 - 3. Authorization:**
 - a. For a non-public (private) entity the CIO in consultation with Legal and Compliance, must authorize an employee to serve.
 - b. For an entity that has issued publicly-traded securities, the CIO and the Executive Director, in consultation with Legal and Compliance, must authorize an employee to serve.
 - c. The CIO may not serve on an external governing body without prior authorization from the Executive Director.
- C. Board Representation by a Non-Employee Independent Third Party.** A TRS investment-related agreement may grant TRS a contractual right or option to appoint, nominate, remove, or replace a non-employee independent third party to serve on the governing body of a business entity in which TRS has or will have an investment interest.
- 1. Requirements:**
 - a. A third-party may not be TRS's agent and shall have full discretion when voting as a member of the governing body.

- b. TRS will not insure or indemnify any third party representative.
- 2. **Qualification:** The third party must be free of conflicts of interest. TRS will require delivery of a background check from a reputable investigatory firm.
- 3. **Authorization:** The third party must be approved by the head of the applicable investment area or the CIO, in consultation with the Executive Director.

DEFINITIONS

In this Policy,

Consultant means a person or entity engaged by the Investment Division pursuant to a defined scope of work to provide studies, assistance, investment management services, due diligence services, and advice relating directly to investment transactions, activities and processes. This definition does not affect any definitions in the Code of Ethics for Contractors.

Custom benchmark means a benchmark created for or specified in an investment vehicle or IMA that is not a Policy Benchmark. Investment guidelines for a vehicle or IMA may include one or more custom benchmarks. Inclusion of a custom benchmark in an IMA does not modify the investments authorized in this Policy.

External Manager means an investment adviser engaged pursuant to an investment agreement to invest TRS assets on a discretionary basis pursuant to contractual guidelines negotiated, prescribed or controlled by TRS. A manager or general partner of a Private Fund is not an External Manager.

Trust or Fund means the overall investment portfolio, including cash and cash equivalents.

Fund Policy Benchmark is a target allocation-weighted aggregation of the individual Policy Benchmarks according to Section 1.6.

Investment Management Agreement or IMA means a contract between TRS and an External Manager for the discretionary investment of TRS assets in securities according to specified guidelines. The account managed by an External Manager is sometimes referred to as a separate account.

Policy Benchmark means the relevant benchmark for an asset class listed in the allocation table in Section 1.6.

Private Investment Fund or Private Fund means any non-publicly traded limited liability investment vehicle aggregating investment capital for reinvestment, including without limitation reinvestment of capital in private companies, other investment funds, real estate, debt instruments, derivatives, commodities, or publicly traded securities. Private Funds generally issue Restricted Securities to investors through private placements.

Publicly traded securities means securities that trade on a national securities exchange or in an over-the-counter market through broker-dealers who make a market in securities.

Restricted Securities means securities acquired under an exemption from registration under the securities laws, such as through private placements, 144A offerings, or Regulation D offerings. Restricted Securities may not be transferred unless they are registered or are exempt from the registration requirements. SEC Rule 144(a)(3) lists types of transactions in which Restricted Securities occur. Privately offered limited partnership and limited liability company interests are usually Restricted Securities.

Securities has the meaning assigned in Section 825.301(a). Whether notes, local access products, warrants or other financial instruments or contracts are securities requires legal analysis.

TAB 4



Legal & Compliance

Memorandum

DATE: September 15, 2022

TO: Policy Committee of the Board of Trustees (“Policy Committee”)

FROM: Heather Traeger, General Counsel

COPY: Brian Guthrie, Executive Director

RE: Proposed Amendments to Bylaws of the Board of Trustees

Introduction

TRRS asks the Policy Committee (“Committee”) to recommend to the Board of Trustees (“Board”) proposed amendments to the Bylaws of the Board of Trustees of TRRS (“Bylaws”).

Background

The Policy Review Schedule directs a comprehensive review of the Bylaws every four years. The last time the Bylaws were amended was in July 2021 to incorporate legislative changes, specifically to incorporate the Ombudsman (“Ombuds”) position. The following proposed amendments are a result of TRRS Staff’s comprehensive review of the Bylaws.

Pursuant to the Policy Review Schedule, the next comprehensive review of the Bylaws is scheduled for September 2026.

Considerations for the Committee

In addition to proposed non-substantive amendments to clarifying, reordering and reorganization of existing provisions, TRRS Staff recommends the following changes to the Bylaws:

- 1.1 - Insert “subsidiaries and affiliates” in the authority section to affirm that TRICOT is the responsibility of the Board;
- 1.7 – Insert “performance evaluation” in the Board’s responsibility regarding the CIO to reflect current practices;
- 2.2 - Insert language to address virtual public comment process;
- 3.1.2 – Insert language in the Benefits Committee responsibilities to provide a point of contact for the Ombuds when issues occur between meetings and to provide input on the Ombud’s

evaluation similar to how the Audit, Compliance and Ethics Committee provides input for the Chief Audit Executive's evaluation;

- 3.1.7(d) – Insert language to add the monitoring of the TRS classification system to the Compensation Committee's responsibilities; and
- 6.1 – Insert language to require a comprehensive review every four years to reflect current practices and consistent with the Policy Review Schedule.

A redlined and clean copy of the proposed amended Bylaws are attached to this memo.

Requested Action

TRS Staff requests that the Committee recommend that the Board adopt the attached proposed amended Bylaws.

ATTACHMENT 1

Bylaws of the
Board of Trustees of the
Teacher Retirement System of Texas
AMENDED July-September
16, 20212022

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**Bylaws of the Board of Trustees
of the
Teacher Retirement System of Texas
AMENDED July 16, 2021**

**ARTICLE 1
Organization of the Board of Trustees**

1.1 Authority. The Teacher Retirement System of Texas (“TRS” or the “system”) has been established pursuant to Article 16, Section 67 of the Texas Constitution, which requires TRS to have a Board of Trustees (the “Board”) to administer TRS and invest its funds. The assets of the TRS pension fund are required by state and federal law to be held in trust for the exclusive benefit of plan participants and beneficiaries. (See Texas Constitution, Art. 16, Section 67(a); Texas Government Code Sections 825.506 and 825.101; United States Internal Revenue Code Section 401(a).) The Board of Trustees of TRS is the trustee of all plan assets, is responsible for the general administration and operation of TRS and its subsidiaries and affiliates, and is authorized by law to adopt rules for the administration of TRS and the transaction of the business of the Board. (See Texas Government Code chapter 825.) All powers of trusteeship are held in the Board’s fiduciary capacity. The exercise or non-exercise of the Board’s powers are subject to the fundamental duties of prudence, loyalty, and impartiality (Restatement Third, Trust §§ 77-79); to a duty to respect the terms and purposes of the trust (Restatement Third, Trust § 76); and to other fiduciary duties of trusteeship. Although a trustee’s duties, like trustee powers, may be affected by the terms of the trust, the fiduciary duties of trusteeship are subject to minimum standards that require the trustee to act in good faith and in a manner consistent with the purposes of the trust and the interests of the beneficiaries. These fundamental standards of trusteeship are implicit in and normally essential to the trust relationship. (See Restatement Third, Trust §§ 70 and 86.) The Board has similar responsibilities for the health benefits programs under the Texas Public School Retired Employees Group Benefits Act and the Texas School Employees Uniform Group Health Coverage Act and other trusts or programs authorized by law to be administered by TRS.

1.2 Composition. The Board is composed of nine members, who serve for staggered terms of six years each, three of which expire on August 31 of each odd-numbered year. Trustees are appointed in accordance with statutory requirements (Texas Government Code Sections 825.001-.004).

A trustee whose term expires shall continue to perform the duties of the office until his or her successor shall be duly qualified. (Texas Constitution, Art. 16, Section 17; also see Government Code, Section 572.0211). Similarly, a trustee who tenders his or her resignation nonetheless holds over until his or her successor is duly qualified for the office. Limited exceptions may arise, one of which is the removal of an office holder in a quo warranto proceeding (Civ. Prac. & Rem. Code Section 66.001).

1.3 Chairman of the Board of Trustees.

- 1.3.1 The Governor of the State of Texas designates a member of the Board as the presiding officer of the Board. (Texas Government Code Section 825.201.)
- 1.3.2 The chairman shall preside over meetings of the Board and perform such other duties as are assigned by statute, these Bylaws, or other action of the Board.
- 1.3.3 The chairman serves at the pleasure of the Governor.

1.4 Vice Chairman of the Board of Trustees.

- 1.4.1 The Board shall elect a vice chairman who is a member of the Board.
- 1.4.2 In case of the absence, death, resignation, disability, removal, or disqualification of the chairman, the vice chairman shall perform the duties of the chairman until the chairman shall resume his or her office or a successor chairman has been appointed.
- 1.4.3 The vice chairman serves at the pleasure of the Board.

1.5 Absence of Chairman and Vice Chairman. In the case of the absence, death, resignation, disability, removal, or disqualification of both the chairman and vice chairman, the member of the Board with the longest service on the Board (considering all Board service), as certified by the executive director, shall exercise the duties of the chairman, as acting chairman, until the chairman or vice chairman shall resume his or her office or until a successor chairman has been appointed or a successor vice chairman has been elected. In the event there are two or more members with equal length of service, the executive director shall designate one of those members to serve as the acting chairman.

1.6 Elections.

- 1.6.1 Elections for vice chairman and any other positions that require election by the Board shall be conducted annually on or before the Board's first regular meeting of the fiscal year or as soon thereafter as may be practicable.
- 1.6.2 When a position subject to Board election becomes vacant, a special election for the position shall be held as soon thereafter as practicable.
- 1.6.3 Subject to the proviso that such persons serve at the pleasure of the Board, persons elected to positions under this section serve for a term that expires with the next election for that position or upon resignation from the position by the person holding it.

1.6.4 Nominations for the vice chairman of the Board and any other position that requires election by the Board will be made from the floor by Board members at a meeting of the Board or by special committee established for the purpose of making nominations. A Board member may self-nominate for any such position.

1.6.5 Elections conducted in Board meetings shall be conducted in an open meeting by acclamation or by a roll-call vote pursuant to a motion that has been seconded. Unless a different number is required by law, a majority vote of a quorum is required to elect a nominee for each election required by these Bylaws.

1.7 Responsibilities of the Board. Board members are TRS fiduciaries and shall discharge their duties in the exclusive interest of members and annuitants for the purpose of providing authorized benefits to participants and their beneficiaries. The Board is tasked with the general administration and operation of the retirement system. ~~The~~ In order for the Board to monitor and evaluate the effectiveness of the system it shall:

- (a) adopt and periodically review the TRS mission in light of the Board's constitutional and statutory authority and set clear goals for its accomplishment;
- (b) adopt rules, regulations, and bylaws as ~~deemed~~ appropriate or required by law;
- (c) establish committees to make recommendations to the Board and help carry out the Board's responsibilities; however, such committees may not exercise authority required under these Bylaws or by state or federal law to be exercised by the Board as a whole, and the Board may consider or take any action otherwise specified to be taken or considered by a committee created pursuant to article 3 of these Bylaws;
- (d) approve the annual operating budgets;
- (e) adopt and periodically review policies for the operation of the system;
- (f) consider appeals as provided in Board rules;
- (g) be responsible for the following positions:
 - (1) selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the executive director;
 - (aa) provide oversight and direction to the executive director to ensure that effective management practices are followed in the organization;
 - (bb) delegate to the executive director the responsibility for all administrative functions; and
 - (cc) delegate authority to the staff through the executive director;
 - (2) selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the chief audit executive in consultation with the Audit, Compliance and Ethics Committee and executive director;
 - (3) selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the ombudsman in

- consultation with the executive director;
- (4) selection, performance evaluation, and establish compensation of the chief investment officer, in consultation with the executive director;
- (h) ensure the establishment of a system for equitable and effective hiring, evaluation, compensation, and termination of employees;
- (i) set not-to-exceed amounts in the exempt salary schedule in consultation with the Compensation Committee and executive director; and
- (j) ensure an adequate working environment for staff members;
- (k) receive reports from the staff, investment ~~counsel~~ consultants and advisors, and others regarding the investment portfolio;
- (l) review investment performance, asset mix, portfolio characteristics, cash flow, transactions, and monitor compliance with investment policies and guidelines;
- ~~(m) monitor and evaluate the effectiveness of the system;~~
- (m) select one or more commercial banks, depository trust companies or other entities to serve as custodian(s) of TRS securities and to lend such securities for custodian banks custodial and securities lending to provide custodial services for TRS assets, provided that, for avoidance of doubt, this requirement 1) does not apply to regulated brokerage, clearing, exchange, or similar accounts into which TRS is required to deposit assets or collateral and 2); the selected securities lending entity(ies) may act independently of the selected custodian(s)
- (n) select the following consultants and advisors to the Board:
 - ~~(1) select one or more custodian banks to provide custodial services for TRS assets, provided that, for avoidance of doubt, this requirement does not apply to regulated brokerage, clearing, exchange, or similar accounts into which TRS is required to deposit assets or collateral;~~
 - (2)(1) select and evaluate investment ~~counsel or other~~ consultants or advisors to provide such expert advice and assistance to the Board as the Board deems necessary to exercise its investment and trust administration responsibilities;
 - ~~(3)(2) select and evaluate fiduciary counsel;~~
 - ~~(4)(3) select and evaluate an actuary;~~
- (o) appoint members to the following:
 - (1) the Medical Board; and
 - (2) members and officers of the Retirees Advisory Committee.

1.8 Board Travel.

- 1.8.1 Members of the Board shall be reimbursed for allowable travel expenses while on official TRS business as specified in state law and the “TRS Travel Rules and Guidelines.”
- 1.8.2 Official TRS business is defined as travel while acting as a designated representative of the Board (such as meeting with elected officials or Board

consultants and advisors on behalf of the Board whether within or outside the state), travel to and from meetings of the Board, meetings of Board committees, orientation meetings, or other travel within the state in the capacity of a member of the Board.

1.8.3 In addition to travel on official TRS business as defined in subsection 1.8.2 of this section, it is anticipated that each Board member will receive reimbursement established through the budget process of allowable Board travel expenses to attend conferences and other activities meeting the following criteria:

- (a) The purpose of the expense is related to the business of TRS and the Board; and
- (b) Attendance at the function will benefit the Board or a Board member in the exercise of TRS responsibilities.

1.8.4 Travel allocations are not compensation, nor are they in the nature of an allowance paid regardless of whether travel expenses are incurred. Any international travel must receive advance approval as required by law.

1.8.5 The Executive Director in consultation with the Legal ~~and~~ & Compliance Division shall be responsible for developing and administering procedures for travel under sections 1.8.2 and 1.8.3.

1.9 Board Education. Each Board member is encouraged to attend workshops and training sessions on such matters as fiduciary duties, actuarial valuations, investment issues, and benefits delivery, which may enable the Board member to better fulfill trustee responsibilities to the system.

ARTICLE 2

Meetings of the Board

2.1 Meetings of the Board.

2.1.1 The Board shall meet approximately five, but at least four, times per fiscal year. The dates for regular meetings will be approved annually in advance by the Board at the first regular meeting of each fiscal year or as soon thereafter as practicable. When necessary, and in addition to the provisions of subsection 2.1.6 of this article, the Board may add or cancel a regular meeting or change the date, time, or location of a regular meeting by action of the Board.

2.1.2 Special meetings of the Board may be held either upon the call of the chairman of the Board or the call of at least four members of the Board, or upon action of the Board. A call by the chairman or by other members of the Board must be communicated to the executive director within sufficient time to permit posting of the meeting as required by law. The call or action of the Board, as applicable, shall specify the date of each special meeting and may specify the time and place for each special meeting.

- 2.1.3 Meetings shall be held at TRS headquarters, ~~1000 Red River Street,~~in Austin, Texas, unless by call or action of the Board another location is specified.
- 2.1.4 Regular and special meetings shall begin at a time designated by the chairman of the Board unless a time has been specified in the call or by action of the Board in setting a particular meeting.
- 2.1.5 Emergency meetings may be called in the same manner as special meetings. The Board member who initiates the call for an emergency meeting shall provide the executive director with the reason for the emergency or urgent public necessity. An emergency meeting is one which cannot be posted within the seven day advance notice normally required by the Open Meetings Act (Texas Government Code Chapter 551, Section 551.044, or a successor statute) (the “Act”), but which is needed because of “imminent threats to public health and safety or reasonably unforeseeable situations requiring immediate action by the government body”² or as otherwise defined by the Act, as amended, court decision, or other applicable law. Emergency meetings shall be posted in accordance with applicable law, including Texas Government Code Section 551.045 (or its successor statute), requiring posting for at least two hours before the meeting is convened.
- 2.1.6 If a catastrophe prevents the Board from convening a properly posted meeting, the Board may, under Texas Government Code Section 551.0411, convene in a convenient location within 72 hours pursuant to Texas Government Code Section 551.045 by giving written notice of the date, hour, place, and agenda of the rescheduled and/or relocated meeting at least two hours before it begins. For the purposes of this subsection, the term “catastrophe” has the meaning assigned in Texas Government Code Section 551.0411. In consultation with the executive director, the chairman of the Board shall specify the date, hour, and place of a meeting rescheduled under this subsection to accommodate as many members of the public, board, and staff as possible.
- 2.1.7 In addition to the provisions of subsection 2.1.6 of this article, a special or emergency meeting of the Board may be canceled or rescheduled, or the location of the meeting changed, only by action of the Board or by a call of at least four members of the Board communicated to the executive director within sufficient time for TRS to comply with all posting requirements for the meeting. Unless a time has been specified in the call or action of the Board rescheduling the meeting, the chairman may set the time of a rescheduled meeting, though any such time must meet all posting requirements of applicable law.

2.2 Public Comment at Meetings.

- 2.2.1 The Board will allow reasonable opportunity for public comment to the Board on any issue under the jurisdiction of the Board. The chairman may determine the total time to allot to public comments at a meeting of the Board.

2.2.2 Persons who desire to deliver oral comments at a Board meeting must complete the required sign-in form, preferably before the public comment agenda item is reached during the Board meeting. Persons who desire to provide oral comments virtually at a Board meeting must complete the required electronic sign-in form preferably by 5:00 pm the day before public comment is scheduled. The chairman of the meeting will specify the length of time to be allowed for each person to speak. Persons wishing to speak before the Board shall provide the following information:

- (a) name and address/contact information;
- (b) the name of the person or group, if any, the speaker is representing;
- (c) the agenda item upon which the person wishes to speak, if any; and
- (d) if the matter does not relate to an agenda item, a brief description of the nature of the matter to be addressed by the speaker.

If the chairman determines based on the information provided that public comment is made for the purpose of soliciting TRS business and the particular solicitation is not specifically identified on the agenda, the chairman may deny the opportunity to deliver the comment.

2.3 Meeting Agendas.

2.3.1 The agenda for each Board meeting shall be set by the chairman of the Board and when appropriate other Board members in consultation with the executive director. The executive director shall prepare and distribute to the Board the agenda and relevant written materials.

2.3.2 Items may be submitted for inclusion on the agenda of any Board meeting by any Board member or by the executive director prior to posting. The executive director shall determine the initial order of the agenda items prior to posting. Board members desiring to add an agenda item must submit it to the executive director by 5:00 p.m. not later than the tenth TRS business day before the meeting.

2.3.3 Agenda items may be added to a posted agenda by the chairman, by the executive director, or by written request of any Board member, provided that the proposed addition is submitted to the executive director in time to post the amendment to the agenda in compliance with the Open Meetings Act. If the item must be added as an emergency agenda item due to insufficient time to post it as a regular item, the request to add the item must include a valid reason for the emergency, as determined by the executive director in consultation with the general counsel.

2.4 Notice of Meetings. The executive director will cause meeting notices to be posted in compliance with these Bylaws and the Open Meetings Act.

2.5 Auxiliary Aids or Services at Meetings. Persons who do not speak English or persons with disabilities may request auxiliary aids or services to be provided at a meeting, such as

language interpreters or interpreters for persons who are deaf or hearing impaired, or readers or large print or Braille texts for persons who are visually impaired. If the request is made to the executive director with adequate advance notice before the meeting, the executive director shall cause reasonable accommodations to be provided to persons with disabilities to the extent required by law and may exercise discretion to determine any other accommodations to be provided.

2.6 Procedure.

2.6.1 A quorum of the Board is a majority of the number of members fixed by statute, unless otherwise defined by applicable law. A quorum is required for the board to conduct business. Unless otherwise provided by law, a majority vote of the board (i.e., a majority vote of the members present and voting at a meeting where a quorum is present) is required for action or decision by the Board, and at least a majority of the minimum number of members needed to constitute a quorum must vote in favor of the action or decision for it to be approved by the Board. Abstentions are not counted in determining the outcome of a vote but are counted in determining a quorum. The most recent edition of *Robert's Rules of Order Newly Revised*, when not in conflict with other Board-adopted rules of procedure, these Bylaws, or applicable law, shall be the rules of parliamentary procedure and order for the Board and its committees. The TRS general counsel shall assist and advise the chairman of the Board or of a committee regarding interpretation and application of the rules of parliamentary procedure.

2.6.2 The minutes of the Board shall contain each subject of discussion and deliberation, all motions, seconds, if any, and the vote, if any, on such motions. Each Board member shall be given an opportunity to record in the minutes his or her vote on a motion and to have included in the minutes the reasons stated in the meeting for his or her vote.

ARTICLE 3 Committees

3.1 Standing Committees. In accordance with section 1.7 of these Bylaws, the Board may establish standing committees by amendment of this article. A quorum of a standing committee shall be a majority of the members of the committee. Any committee may convene in joint session with any other committee. The committees shall normally meet on a quarterly basis or at the call of its chairman. Standing committees may perform other activities related to the committees' responsibilities as requested by the Board.

3.1.1 Audit, Compliance, and Ethics Committee. The Board shall have an Audit, Compliance, and Ethics Committee, ~~which shall normally meet on a quarterly basis or at the call of its chairman.~~ The responsibilities of the Audit, Compliance, and Ethics Committee shall be as follows:

(a) Purpose

(1) To assist the Board in fulfilling its fiduciary oversight

responsibilities for

- (aa) the financial reporting process;⁵
- (bb) the risk management and internal control system;⁵
- (cc) the internal audit process;⁵
- (dd) the external audit process;⁵
- (ee) the process for monitoring compliance with laws, regulations, and policies, and
- (ff) reporting and other activities.

- (2) To coordinate and interface with the Board regarding Audit, Compliance, and Ethics Committee activities and other pertinent matters.

(b) Financial Reporting Process

- (1) Review and understand significant accounting and reporting matters requiring judgment (including those involving complex or unusual transactions), consider recent professional and regulatory pronouncements, and understand the impact of such matters and pronouncements on financial statements.
- (2) Review with management and the external and internal auditors the results of audits, including any difficulties encountered.
- (3) Review all significant suggestions for improved financial reporting made by the external financial statement auditor and by the internal auditor.
- (4) Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- (5) Review with management and the auditors all matters required to be communicated to the committee under generally accepted auditing standards.

(c) Governance, Risk Management, and Internal Control Activities

- (1) Receive reports on and discuss the internal and external auditors' assessment of the effectiveness of the organization's governance, risk management, and internal control activities, including technology governance and fraud risk prevention activities.
- (2) Obtain reports from internal and external auditors and compliance staff on significant findings and recommendations relating to governance, risk management, and internal control activities, together with management's response, including receiving reports regarding any violation of portfolio risk management standards as required by the Investment Policy Statement of the Board for (1) any passive violation of prescribed portfolio policy limits as the result of changing market or credit conditions, and (2) any active violation of prescribed portfolio policy limits as a result of entering into an agreement or investment that breaches a policy limit at inception and the corrective action plan implemented to cure such violation.

(d) Internal Audit Process

- (1) Assure and maintain, through the organizational structure and by other means, the independence of the internal audit process. Ensure there are no unjustified restrictions or limitations on the internal audit function.
- (2) Ensure that internal auditors have access to all documents, information and systems in the organization that are reasonably needed to accomplish the purpose of the audit, unless any such information is subject to a legally applicable and properly asserted privilege.
- (3) Review with management and the chief audit executive the charter, plans, activities, budget, staffing, qualifications and organizational structure of the internal audit function. Recommend to the Board an internal audit charter or modifications to such charter.
- (4) Review and recommend audit plans for approval by the Board.
- (5) ~~Receive and r~~Review all internal audit reports and management letters.
- (6) Review the responsiveness and timeliness of management's follow-up actions pertaining to any reported audit recommendations.
- (7) Receive periodic reports of advisory and consulting activities by internal auditors.
- (8) Authorize audits or investigations into any matters within the committee's scope of responsibilities and provide appropriate reports to the Board.
- ~~(9) Recommend to the Board, in consultation with the executive director, the appointment, replacement, dismissal, and compensation of the chief audit executive.~~
- ~~(10)~~(9) Provide input and advice to the Board in the appointment, replacement, dismissal and the annually in evaluating evaluation of the performance and compensation of the chief audit executive in consultation with the executive director.
- ~~(11)~~(10) Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and Texas Government Code Chapter 2102 (the Texas Internal Auditing Act).
- ~~(12)~~(11) Designate the chief audit executive as the primary point of contact for handling audit-related matters pertaining to audits, examinations, investigations or inquiries of the State Auditor's Office, other appropriate state or federal agencies, and other external audit groups.

(e) External Audit Process

- (1) Review the external auditors' proposed audit scope and approach,

including coordination of audit effort with internal audit.

- (2) Review the performance of the external auditors, and, upon request, recommend to the Board the appointment or discharge of the external auditors. Obtain input from management, the chief audit executive, and other parties as appropriate.
 - (3) Review the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the organization, including any non-audit services, and discussing the relationship with the auditors.
 - (4) Review the audited financial statements, associated management letters, attestations on the effectiveness of the internal control structure and procedures for financial reporting, and required communications.
 - (5) ~~Receive and~~ Rreview all external audit reports and management letters.
 - (6) Review the responsiveness and timeliness of management's follow-up actions pertaining to any reported audit recommendations.
- (f) Compliance Process
- (1) Access the effectiveness of the system for monitoring compliance with laws, regulations and policies, and the results of management's follow-up actions pertaining to any reported instances of non-compliance.
 - (2) Review the findings and recommendations of any examinations by oversight agencies and compliance and auditor observations.
Obtain regular updates and reports from the chief compliance officer and, as appropriate, management regarding compliance matters.
- (g) Ethics Process
- (1) ~~Make r~~ Recommendations, as deemed advisable, ~~relating to~~ reports regarding conflict of interest disclosures from the chief compliance officer or reports that are submitted directly to the chairman of the committee as prescribed in an applicable ethics policy;
 - (2) ~~Make r~~ Recommendations to the Board ~~regarding~~ waivers of any disclosed conflict of interest or a waiver of the prohibition against involvement in any matter affected by a disclosed conflict of interest, at a meeting held in compliance with the Open Meetings Act;
 - (3) ~~Make r~~ Recommendations to the Board or the executive director ~~regarding~~ the prudence of contracting on behalf of TRS with any entity or a controlled affiliate of such entity that employs or is represented by a former trustee or former employee;
 - (4) ~~Make r~~ Recommendations, as deemed advisable, ~~regarding~~ reports from the executive director of any approval given for outside employment by key employees, including the nature of

- the employment;
- (5) ~~Make r~~Recommendations to the Board ~~regarding~~ approval in advance of any outside employment by the executive director;
 - (6) ~~Make r~~Recommendations, as deemed advisable, ~~regarding~~ reports from the executive director of any disciplinary action disclosed by key employees; and
 - (7) ~~Make r~~Recommendations, as deemed advisable, ~~regarding~~ reports of violations of a TRS ethics policy and any resulting disciplinary actions.
- (h) Reporting and Other Activities
- (1) At least quarterly, report to the Board about committee activities, issues, and related recommendations.
 - (2) Provide an open avenue of communication among management, internal audit, external auditors, compliance, and the Board.
 - ~~(3) Perform other activities related to the committee's responsibilities as requested by the Board.~~
 - ~~(4) Review and assess the adequacy of this subsection 3.1.1 at least every four years.~~

3.1.2 Benefits Committee. The Board shall have a Benefits Committee. The purpose of the committee is to assist the Board in carrying out its responsibility for delivery of benefits under programs administered by TRS. The Benefits Committee shall:

- (a) ~~meet as necessary at the call of the chairman of the committee to~~ review and make recommendations to the Board ~~as needed~~ related to programs within its oversight;
- (b) receive ~~cost benefit analyses and~~ recommendations from the Retirees Advisory Committee regarding TRS-Care, and recommend related actions to the Board;
- (c) recommend to the Board persons to serve on the Retirees Advisory Committee;
- (d) establish performance standards for professional benefits consultants and participate in performance evaluations of those consultants;
- (e) recommend to the Board persons to serve on the Medical Board;
- (f) review periodic reports by TRS staff or consultants on benefit delivery services, benefit-related trends, and other significant benefit topics; and
- (g) receive reports and make recommendations regarding customer service standards and satisfaction;
- (h) the chair of the committee serves as the point of contact for the ombudsman, in consultation with the executive director, regarding member issues that occur in between committee meetings; and
- (i) provide input and advice to the Board in the appointment, replacement, dismissal and the annual evaluation of the performance and compensation of the ombudsman in consultation with the executive

director.

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3.1.3 Budget Committee. The Board shall have a Budget Committee. The purpose of the committee is to assist the Board in carrying out its fiduciary responsibility for budgeting and accounting for all expenses of the systems' funds—. ~~The Budget Committee shall, which shall meet as necessary at the call of its chairman to:~~

- (a) recommend to the Board annual operating budgets ~~for approval by the Board;~~
- (b) recommend intra-budget transfers and budget amendments for approval by the Board; and
- (c) monitor implementation of the operating budgets of the pension trust and other programs.

3.1.4 Investment Management Committee. The Board shall have an Investment Management Committee. The purpose of the Committee is to assist the Board in carrying out its responsibilities to invest and reinvest the system's assets.—. ~~The Investment Management Committee shall, which shall meet as necessary at the call of its chairman to:~~

- (a) ~~consider~~ recommending individual investments and investment-related action to the Board when the recommendation is required by the Board's Investment Policy Statement or resolutions adopted by the Board;
- ~~(b)—consider~~ recommending to the Board overarching strategies for all TRS investments, ~~including without limitation Private Equity, Real Assets, External Public Markets (including external managers and hedge~~
- ~~(c)(b)~~ funds), strategic partnerships, internally managed portfolios, and any other large tactical strategy that may arise from time to time and to monitor those strategies;
- ~~(d)(c)~~ recommending to the Board or an applicable committee investment objectives, the establishment of performance and risk measurement and attribution standards for plan assets, each asset class and component portfolios, and risk parameters and controls, and to monitor those that the Board approves;
- ~~(e)(d)~~ monitor the retirement system's investment processes and consider recommending to the Board or an applicable committee proposed changes to the system's investment processes;
- ~~(f)(e)~~ monitor the investment performance of the overall fund, receive investment reports, and recommend to the Board or an applicable committee policies for appropriate reporting and communication mechanisms to keep the committee and the Board appropriately informed about TRS investments;
- ~~(g)—~~ receive reports from staff regarding compliance with portfolio risk management standards as required by the Investment Policy Statement

- of the Board, ~~including without limitation reports pertaining to (1) aggregate asset allocation percentages and ranges, (2) risk measurement and exposure limits, (3) general portfolio liquidity risk characteristics,~~
- ~~(h)(f)~~ (4) trade errors, (5) costs associated with overdraft activity, and (6) unsettled trade activity by counterparty and instrument type;
 - ~~(i)(g)~~ recommend to the Board approval of ~~approval of~~ action plans submitted by staff to cure passive violations of prescribed policy limits when it is necessary to extend the cure period beyond the time allowed by policy for staff to cure such violation;
 - ~~(j)(h)~~ review proposed new or amended investment policies and make recommendations relating to any investment policy, including reporting and communication requirements, to the Policy Committee
 - ~~(k)(i)~~ ~~consider~~ recommending to the Board or the staff, as applicable, that TRS engage professional independent service providers, advisors, or consultants to review internal investment operations and render advice as appropriate. The committee may review responsive proposals and recommend engagement of one or more firms to the Board or the staff, as applicable; and
 - ~~(l)~~ ~~act as an advisory committee to the Board with respect to TRS investments.~~

3.1.5 Policy Committee. The Board shall have a Policy Committee, ~~which shall meet at the call of its chairman.~~ The purpose of the Policy Committee is to assist the Board in fulfilling its policy-making responsibilities, in accordance with Texas Government Code Sections 825.102 and 825.113. The Policy Committee shall:

- (a) make or review policy proposals, including those made by staff through procedures established by the executive director, and recommend new written Board policies and modifications to existing written policies as

needed;

- (b) recommend new rules and rule amendments as needed and review existing rules periodically as required by law;
- (c) adopt and follow a plan of review for each fiscal year to ensure that all written TRS Board policies are reviewed periodically; and
- (d) ensure that proposed Board policies or policy changes have been appropriately reviewed, including by staff pursuant to procedures established by the executive director or by consultants as necessary.

3.1.6 Strategic Planning Committee. The Board shall have a Strategic Planning Committee, ~~which shall normally meet on a quarterly basis or at the call of the chairman of the committee.~~ The purpose of the committee is to assist the Board in its oversight responsibilities relating to strategic planning, including related risks, opportunities, and major projects. The Strategic Planning eCommittee shall:

- (a) receive reports from staff regarding the development and execution of strategic planning, including regular updates on TRS' medium and long-term initiatives, the TRS Strategic Plan, key performance indicators, and the identification and mitigation of strategic plan risks and vulnerabilities;
- (b) provide input and guidance regarding:
 - (1) assessment of the internal and external forces and variables that - impact TRS' strategic planning;
 - (2) formulation and execution of strategic goals and objectives; and
 - (3) alignment of the organization behind the agency's strategic goals and objectives, including alignment with major projects, resource allocation, and the Executive Director's goals and objectives;
- (c) review and make recommendations to the Board on the TRS mission and vision statements and the strategic plan goals and objectives;
- (d) provide enterprise risk oversight by discussing and considering matters relating to the identification, prioritization, management, and monitoring of critical risks;
- (e) receive reports from staff regarding the identification, evaluation, and management of risk across the enterprise;
- (f) receive reports from staff regarding major project development and execution;
- (g) provide input and guidance to TRS staff on the development and execution of major projects;
- (h) make such other recommendations to the Board as the committee deems necessary pertaining to any matters regarding enterprise risk mitigation, tolerance levels, and reduction strategies; and
- ~~(i) act as an advisory committee to the Board, based in each case on a specific referral by the Board at a called meeting.~~

3.1.7 Compensation Committee. The Board shall have a Compensation Committee, ~~which shall meet as necessary at the call of the committee chair.~~

The purpose of the Committee is to assist the Board in its responsibilities to establish a system for the equitable and effective compensation of employees. —. The Compensation Ceommittee shall:

- (a) review the Performance ~~Incentive~~ Pay Plans and when needed make recommendations concerning it to the Board;
- (b) provide direction to the executive director and make recommendations to the Board on the compensation of TRS staff and other compensation matters referred to the Compensation Committee by the Board chair;
~~and~~
- (c) recommend to the Board adoption of not-to-exceed amounts in the exempt salary schedule in consultation with the executive director; and
- (d) monitor efficiency and effectiveness of the TRS classification system to attract and retain a qualified workforce.

3.2 Special Committees. Special committees other than standing committees established in section 3.1 may be created by action of the Board, which shall establish the purpose and responsibilities of the committee and may establish the term for which it shall exist.

3.3 Composition of Committees. A committee will be composed of five members of the Board unless otherwise provided by action of the Board or these Bylaws. The chairman of the Board annually shall appoint committee members subject to the consent of the Board on or before the Board's first regular meeting of the fiscal year or as soon thereafter as may be practicable. The chairman of the Board shall designate the chairman of each committee. Committee chairmen serve as chairmen at the pleasure of the chairman of the Board. The term of a committee member expires on the earlier to occur of the date of the Board's consent to the appointment of a successor committee member to fill the member's position or the date on which the member's term as a Board member has expired according to law and the person is no longer holding over and serving as a member of the Board. The chairman of the Board may appoint an interim successor to the committee for a member whose Board term has expired, who is holding over as a Board member, but who has resigned his or her committee position. Any such interim successor member of a committee may serve until the meeting of the Board at which the Board votes to consent to the appointment of committee members.

3.4 Advisory and Auxiliary Committees. If authorized or required by state law or Board policy, the Board shall appoint advisory or auxiliary committees of non-board members to assist TRS. These committees may be composed of volunteers, independent contractors, or employees. Such committees include the Medical Board and the Retirees Advisory Committee for TRS-Care. The terms, qualifications, and methods of appointment of these committees shall be governed by relevant state law or Board policy. The Board shall

designate the chairman and vice chairman, if any, of each such committee.

3.5 Committee Agendas. The agenda for each committee meeting shall be set in a manner similar to a Board meeting agenda, but with the committee chairman and members having the same authority with regard to the committee agenda of committee meetings that the Board chairman and members have with regard to the Board agenda of Board meetings.

3.6 Committee Attendance. Any member of the Board may attend a meeting of a committee of which he or she is not a member but shall not vote. Because the attendance of five or more trustees at a Board committee meeting constitutes a quorum of the full Board, public notice of a committee meeting is also posted as a Board meeting under the Open Meetings Act (Texas Government Code Chapter 551) in anticipation of a quorum of the full Board possibly attending the meeting. Also in compliance with the Open Meetings Act, a record is kept of the attendance of a quorum of the full Board at a Board committee meeting. The attendance of a quorum of the full Board at a Board committee meeting is not a regular, special, or emergency Board meeting under Article 2 of these Bylaws, relating to meetings of the Board. In addition, the attendance of a quorum of the full Board at a Board committee meeting is not a regularly scheduled Board meeting under Texas Government Code Section 825.010(a)(5), relating to grounds for removal of a trustee because of absence from Board meetings.

ARTICLE 4

Executive Director

4.1 Responsibilities of Executive Director. The Board shall employ an executive director as required by law, with such duties as may be required by law of the chief executive officer and chief administrative employee of TRS and with such other duties as may be established by the Board in its policies, resolutions, and other actions. In these Bylaws, the term “executive director” means the person appointed by the Board pursuant to Texas Government Code Section 825.202 (or a successor statute) and these Bylaws.

- 4.1.1** With respect to the operations of the Board itself the executive director shall:
- (a) make preparations, including trustee travel arrangements, for all meetings of the Board and its committees;
 - (b) under the direction of the chairman of the Board or a relevant committee, prepare and distribute the agendas and appropriate documentation for all meetings of the Board and its committees;
 - (c) under the direction of the chairman of the Board or of a relevant committee, post notices of all meetings and the subject matter thereof as may be required by law;
 - (d) cause the secretary to the Board to record, prepare, and index the official minutes of the Board and its committees;
 - (e) file and preserve all official documents, correspondence, and proceedings of the Board and its committees;

- (f) ensure proper custody, access and use of the TRS official seal and any counterparts ~~and designate in writing those employees, in addition to and not in lieu of the secretary to the Board and the assistant secretary to the Board, who may have custody of counterparts of the TRS seal and authority to affix the seal to attest or authenticate a document signed by or on behalf of TRS, the Board, or a Board committee when affixing the seal is necessary or desirable to authenticate a document consistent with section 5.9 of these Bylaws;~~
- (g) maintain the official copy of these Bylaws;
- (h) as directed by the Board, establish routine reporting mechanisms and procedures to the Board and prepare special reports to the Board; and
- (i) carry out other policies adopted by the Board.

4.1.2 The executive director is the chief executive officer of TRS and is responsible to the Board for the general administration of TRS in accordance with relevant state laws and policies adopted by the Board. The executive director shall:

- (a) manage the daily operations of TRS as its chief executive officer;
- (b) assume managerial responsibility and leadership for the planning, operation, supervision, and evaluation of programs and services;
- (c) assume authority and responsibility for the selection, job description, assignment of duties, performance evaluation, promotion, compensation, and discipline, including dismissal of all TRS personnel except for:
 - (1) the chief audit executive as provided in subsections 1.7 and 3.1.1 of these Bylaws;
 - (2) the selection of the chief investment officer as provided in subsection 1.7 of these Bylaws, ~~but t~~The executive director shall evaluate the chief investment officer in consultation with the Board and have full authority and responsibility for all other personnel matters, including the chief investment officer's assignment of duties and discipline, including dismissal; and
 - (3) the ombudsman as provided in subsection 1.7 of ~~these Bylaws~~these Bylaws, ~~but the executive director shall evaluate the ombudsman in consultation with the Board.~~
- (d) prepare and submit ~~an~~ annual operating budgets for consideration by the Board;
- (e) prepare recommendations for policies to be considered by the Board and oversee the implementation of adopted policies;
- (f) recommend to the Board, either directly or through a designee, the selection and evaluation of the actuary, custodian for securities and for securities lending, investment ~~counsel~~ consultant or advisor to the Board, and fiduciary counsel to the Board, ~~chief investment officer, and chief audit executive; and~~
- (g) organize TRS to accommodate its mission; and
- (h) develop programs designed to create a culture of diversity, inclusion,

and equity at TRS, including in the organization's recruitment, retention, position, pay and procurement practices.

4.2 Miscellaneous Duties.

- 4.2.1** The executive director shall annually provide to members of the Board information regarding their qualification for office, including Texas Government Code Sections 825.002, -.003, -.0032, and -.010, and their responsibilities under applicable laws relating to standards of conduct for state officers including Texas Government Code Sections 553.002, 572.005, 572.051, 572.056, 572.058, 825.0032, 825.210-.212, and 2254.032, and Texas Penal Code Sections 32.43, 32.45, 36.02, 36.08, 36.10, 39.01, and 39.03, and any amended, new, or successor statutes.
- 4.2.2** The executive director shall annually provide to TRS employees information regarding their qualification for employment, including Texas Government Code Sections 573.001-.084 and 825.0032 and their responsibilities under applicable laws relating to standards of conduct for state employees including Texas Government Code Sections 553.002, 572.051, 572.005, 825.0032, 825.210-.212, and 2254.032, and Texas Penal Code Sections 32.43, 32.45, 36.02, 36.08, 36.10, 39.01, and 39.03, and any amended, new, or successor statutes.
- 4.2.3** In accordance with Texas Government Code Section 825.010(c), the executive director shall notify the chairman of the Board if he has knowledge that a potential ground for removal of a trustee exists. The chairman shall then notify the appropriate appointing officer or body that a potential ground for removal exists.

4.3 Absence of Executive Director. If the executive director will be away from the TRS headquarters for a brief period, as contemplated by section 4.4 of this article, the executive director may designate the deputy director to act in his or her stead generally or for a particular purpose. If the deputy director is also unavailable, the executive director may designate the chief financial officer to act for the executive director. In the absence of the executive director due to incapacity or otherwise when the duration of the absence is unknown and the absence may be extended or permanent, the deputy director shall perform such duties as are necessary to the administration of the system and shall have the responsibility and authority of the executive director until the Board designates the person succeeding to the responsibilities and authority of the executive director. In the absence of the executive director and the deputy director, the chief financial officer shall perform such duties as are necessary to the administration of the system and shall have the responsibility and authority of the executive director and the deputy director until the earlier of the following events: the executive director or the deputy director has resumed his or her duties; or the Board has designated the person succeeding to the responsibilities and authority of the executive director or the deputy director.

For no longer than the duration of an emergency situation, the chairman of the Board shall

designate the person succeeding to the responsibilities and authority of the executive director pending approval by the Board of Trustees. A designee under this section shall have the responsibility and authority of the executive director. The chairman of the Board or the deputy director shall notify the Texas Ethics Commission whenever there is a change in the person named to the position of executive director. A member of the Board is not eligible for temporary designation or permanent appointment to serve in the capacity of the executive director under Texas law.

4.34.4 Delegating Responsibilities. The executive director shall designate an employee of TRS to serve as secretary to the Board to assist in the execution of duties enumerated in subsection 4.1.1 of this article and may assign other employees of TRS as necessary to assist in carrying out these and other duties.

ARTICLE 5

Miscellaneous Organizational Provisions

5.1 Administration of TRS. The administration of TRS is governed by these Bylaws, Board policies, and applicable ~~state laws~~. In the event of a conflict between these Bylaws and applicable state law, the applicable state law shall govern to the extent necessary to resolve the conflict.

5.2 Investments of TRS. TRS investments are authorized to be made only in accordance with policies adopted by the Board and applicable state, federal, and foreign law.

5.3 Custody of TRS Assets. TRS trust assets shall be entrusted to one or more custodians only in accordance with policies and other actions of the Board and applicable state law. The Board shall select the custodian or custodians to hold TRS assets.

5.4 Budgets and Fiscal Year. The budgets of the pension trust fund and any other trust funds administered by TRS are adopted by the Board and may be amended by the Board in subsequent meetings. The TRS fiscal year shall begin September 1 and shall end the following August 31.

5.5 Title to and Ownership of Assets. Accounts or assets of TRS may be held in the name of TRS, a nominee, or other agent in accordance with state law. The assets of TRS shall not be considered at any time to be assets of the state or any employer of TRS members but are to be held in trust for the exclusive benefit of TRS members, annuitants, beneficiaries, or other trust participants.

5.6 Authority to Act for TRS. The Board delegates authority for the following matters:

- (a) investment decisions, in accordance with actions of the Board, including investment policies and applicable state law;
- (b) contracts for the purchase of goods and services, to the executive director or his designee in accordance with the budget, subject to applicable actions of the Board;
- (c) release of assets held in the name of TRS, its nominees, or other agents, in

- accordance with actions of the Board;
- (d) approval of retirement, death, and survivor benefit payments and refunds to the executive director and his or her designees, in accordance with actions of the Board and applicable state law;
 - (e) execution of vouchers for payment of TRS funds, in accordance with actions of the Board; and
 - (f) initiation, defense, and settlement of lawsuits and other claims, to the executive director or his designee, subject to applicable actions of the Board.

5.7 TRS Rules. The executive director is authorized to draft and submit proposed rules for TRS to the Texas Secretary of State to be considered by the Board for adoption in accordance with state law.

5.8 Personnel Policies. TRS personnel policies shall be issued and disseminated to all employees by the executive director and revised from time to time, in compliance with Board policies and state law. TRS is an at-will employer.

5.9 Official Seal of TRS. The form of the official seal of TRS shall consist of a five-point star surrounded by a pair of branches and two concentric circles with the name “Teacher Retirement System of Texas” displayed in the space between the two circles. The seal may be either embossed or stamped. The executive director may designate in writing those TRS employees, in addition to and not in lieu of the secretary to the Board, who are authorized to use and affix the seal to TRS documents when the secretary is absent, incapacitated, or otherwise unavailable. Such a designated employee is authorized, in the capacity of an assistant secretary to the Board, to attest, to affix the seal, or to certify as to any matter as to which the secretary to the Board could attest, affix the seal, or certify. Purchase and use of identical counterparts of the seal is authorized when each counterpart is held by an authorized designee of the executive director. Affixing the TRS seal is not necessary to authenticate or attest a TRS document unless the seal is required by applicable law.

ARTICLE 6

Amendment of Bylaws

6.1 Amendment of Bylaws. These Bylaws may be amended only by a majority vote of the Board at any duly posted meeting of the Board for which notice of consideration of the proposed amendment has been properly given under the Open Meetings Act. At least every four years, these Bylaws shall receive a full review to determine necessity and adequacy of their need.

ATTACHMENT 2

**Bylaws of the
Board of Trustees of the
Teacher Retirement System of Texas
AMENDED September 16, 2022**

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**Bylaws of the Board of Trustees
of the
Teacher Retirement System of Texas
AMENDED July 16, 2021**

**ARTICLE 1
Organization of the Board of Trustees**

1.1 Authority. The Teacher Retirement System of Texas (“TRS” or the “system”) has been established pursuant to Article 16, Section 67 of the Texas Constitution, which requires TRS to have a Board of Trustees (the “Board”) to administer TRS and invest its funds. The assets of the TRS pension fund are required by state and federal law to be held in trust for the exclusive benefit of plan participants and beneficiaries. (See Texas Constitution, Art. 16, Section 67(a); Texas Government Code Sections 825.506 and 825.101; United States Internal Revenue Code Section 401(a).) The Board of Trustees of TRS is the trustee of all plan assets, is responsible for the general administration and operation of TRS and its subsidiaries and affiliates, and is authorized by law to adopt rules for the administration of TRS and the transaction of the business of the Board. (See Texas Government Code chapter 825.) All powers of trusteeship are held in the Board’s fiduciary capacity. The exercise or non-exercise of the Board’s powers are subject to the fundamental duties of prudence, loyalty, and impartiality (Restatement Third, Trust §§ 77-79); to a duty to respect the terms and purposes of the trust (Restatement Third, Trust § 76); and to other fiduciary duties of trusteeship. Although a trustee’s duties, like trustee powers, may be affected by the terms of the trust, the fiduciary duties of trusteeship are subject to minimum standards that require the trustee to act in good faith and in a manner consistent with the purposes of the trust and the interests of the beneficiaries. These fundamental standards of trusteeship are implicit in and normally essential to the trust relationship. (See Restatement Third, Trust §§ 70 and 86.) The Board has similar responsibilities for the health benefits programs under the Texas Public School Retired Employees Group Benefits Act and the Texas School Employees Uniform Group Health Coverage Act and other trusts or programs authorized by law to be administered by TRS.

1.2 Composition. The Board is composed of nine members, who serve for staggered terms of six years each, three of which expire on August 31 of each odd-numbered year. Trustees are appointed in accordance with statutory requirements (Texas Government Code Sections 825.001-.004).

A trustee whose term expires shall continue to perform the duties of the office until his or her successor shall be duly qualified. (Texas Constitution, Art. 16, Section 17; also see Government Code, Section 572.0211). Similarly, a trustee who tenders his or her resignation nonetheless holds over until his or her successor is duly qualified for the office. Limited exceptions may arise, one of which is the removal of an office holder in a quo warranto proceeding (Civ. Prac. & Rem. Code Section 66.001).

1.3 Chairman of the Board of Trustees.

- 1.3.1 The Governor of the State of Texas designates a member of the Board as the presiding officer of the Board. (Texas Government Code Section 825.201.)
- 1.3.2 The chairman shall preside over meetings of the Board and perform such other duties as are assigned by statute, these Bylaws, or other action of the Board.
- 1.3.3 The chairman serves at the pleasure of the Governor.

1.4 Vice Chairman of the Board of Trustees.

- 1.4.1 The Board shall elect a vice chairman who is a member of the Board.
- 1.4.2 In case of the absence, death, resignation, disability, removal, or disqualification of the chairman, the vice chairman shall perform the duties of the chairman until the chairman shall resume his or her office or a successor chairman has been appointed.
- 1.4.3 The vice chairman serves at the pleasure of the Board.

1.5 Absence of Chairman and Vice Chairman. In the case of the absence, death, resignation, disability, removal, or disqualification of both the chairman and vice chairman, the member of the Board with the longest service on the Board (considering all Board service), as certified by the executive director, shall exercise the duties of the chairman, as acting chairman, until the chairman or vice chairman shall resume his or her office or until a successor chairman has been appointed or a successor vice chairman has been elected. In the event there are two or more members with equal length of service, the executive director shall designate one of those members to serve as the acting chairman.

1.6 Elections.

- 1.6.1 Elections for vice chairman and any other positions that require election by the Board shall be conducted annually on or before the Board's first regular meeting of the fiscal year or as soon thereafter as may be practicable.
- 1.6.2 When a position subject to Board election becomes vacant, a special election for the position shall be held as soon thereafter as practicable.
- 1.6.3 Subject to the proviso that such persons serve at the pleasure of the Board, persons elected to positions under this section serve for a term that expires with the next election for that position or upon resignation from the position by the person holding it.

1.6.4 Nominations for the vice chairman of the Board and any other position that requires election by the Board will be made from the floor by Board members at a meeting of the Board or by special committee established for the purpose of making nominations. A Board member may self-nominate for any such position.

1.6.5 Elections conducted in Board meetings shall be conducted in an open meeting by acclamation or by a roll-call vote pursuant to a motion that has been seconded. Unless a different number is required by law, a majority vote of a quorum is required to elect a nominee for each election required by these Bylaws.

1.7 Responsibilities of the Board. Board members are TRS fiduciaries and shall discharge their duties in the exclusive interest of members and annuitants for the purpose of providing authorized benefits to participants and their beneficiaries. The Board is tasked with the general administration and operation of the retirement system. In order for the Board to monitor and evaluate the effectiveness of the system it shall:

- (a) adopt and periodically review the TRS mission in light of the Board's constitutional and statutory authority and set clear goals for its accomplishment;
- (b) adopt rules, regulations, and bylaws as appropriate or required by law;
- (c) establish committees to make recommendations to the Board and help carry out the Board's responsibilities; however, such committees may not exercise authority required under these Bylaws or by state or federal law to be exercised by the Board as a whole, and the Board may consider or take any action otherwise specified to be taken or considered by a committee created pursuant to article 3 of these Bylaws;
- (d) approve the annual operating budgets;
- (e) adopt and periodically review policies for the operation of the system;
- (f) consider appeals as provided in Board rules;
- (g) be responsible for the following positions:
 - (1) selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the executive director;
 - (aa) provide oversight and direction to the executive director to ensure that effective management practices are followed in the organization;
 - (bb) delegate to the executive director the responsibility for all administrative functions; and
 - (cc) delegate authority to the staff through the executive director;
 - (2) selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the chief audit executive in consultation with the Audit, Compliance and Ethics Committee and executive director;
 - (3) selection, job description, assignment of duties, performance evaluation,

compensation, and discipline, including dismissal, of the ombudsman in consultation with the executive director;

- (4) selection, performance evaluation, and establish compensation of the chief investment officer, in consultation with the executive director;
- (h) ensure the establishment of a system for equitable and effective hiring, evaluation, compensation, and termination of employees;
- (i) set not-to-exceed amounts in the exempt salary schedule in consultation with the Compensation Committee and executive director; and
- (j) ensure an adequate working environment for staff members;
- (k) receive reports from the staff, investment consultants and advisors, and others regarding the investment portfolio;
- (l) review investment performance, asset mix, portfolio characteristics, cash flow, transactions, and monitor compliance with investment policies and guidelines;
- (m) select one or more commercial banks, depository trust companies or other entities to serve as custodian(s) of TRS securities and to lend such securities, provided that, for avoidance of doubt, this requirement 1) does not apply to regulated brokerage, clearing, exchange, or similar accounts into which TRS is required to deposit assets or collateral and 2); the selected securities lending entity(ies) may act independently of the selected custodian(s)
- (n) select the following consultants and advisors to the Board:
 - (1) select and evaluate investment consultants or advisors to provide such expert advice and assistance to the Board as the Board deems necessary to exercise its investment and trust administration responsibilities;
 - (2) select and evaluate fiduciary counsel;
 - (3) select and evaluate an actuary;
- (o) appoint members to the following:
 - (1) the Medical Board; and
 - (2) members and officers of the Retirees Advisory Committee.

1.8 Board Travel.

1.8.1 Members of the Board shall be reimbursed for allowable travel expenses while on official TRS business as specified in state law and the “TRS Travel Rules and Guidelines.”

1.8.2 Official TRS business is defined as travel while acting as a designated representative of the Board (such as meeting with elected officials or Board consultants and advisors on behalf of the Board whether within or outside the state), travel to and from meetings of the Board, meetings of Board committees, orientation meetings, or other travel within the state in the capacity of a member of the Board.

1.8.3 In addition to travel on official TRS business as defined in subsection 1.8.2

of this section, it is anticipated that each Board member will receive reimbursement established through the budget process of allowable Board travel expenses to attend conferences and other activities meeting the following criteria:

- (a) The purpose of the expense is related to the business of TRS and the Board; and
- (b) Attendance at the function will benefit the Board or a Board member in the exercise of TRS responsibilities.

1.8.4 Travel allocations are not compensation, nor are they in the nature of an allowance paid regardless of whether travel expenses are incurred. Any international travel must receive advance approval as required by law.

1.8.5 The Executive Director in consultation with the Legal & Compliance Division shall be responsible for developing and administering procedures for travel under sections 1.8.2 and 1.8.3.

1.9 Board Education. Each Board member is encouraged to attend workshops and training sessions on such matters as fiduciary duties, actuarial valuations, investment issues, and benefits delivery, which may enable the Board member to better fulfill trustee responsibilities to the system.

ARTICLE 2

Meetings of the Board

2.1 Meetings of the Board.

2.1.1 The Board shall meet approximately five, but at least four, times per fiscal year. The dates for regular meetings will be approved annually in advance by the Board at the first regular meeting of each fiscal year or as soon thereafter as practicable. When necessary, and in addition to the provisions of subsection 2.1.6 of this article, the Board may add or cancel a regular meeting or change the date, time, or location of a regular meeting by action of the Board.

2.1.2 Special meetings of the Board may be held either upon the call of the chairman of the Board or the call of at least four members of the Board, or upon action of the Board. A call by the chairman or by other members of the Board must be communicated to the executive director within sufficient time to permit posting of the meeting as required by law. The call or action of the Board, as applicable, shall specify the date of each special meeting and may specify the time and place for each special meeting.

2.1.3 Meetings shall be held at TRS headquarters, in Austin, Texas, unless by call or action of the Board another location is specified.

2.1.4 Regular and special meetings shall begin at a time designated by the chairman

of the Board unless a time has been specified in the call or by action of the Board in setting a particular meeting.

2.1.5 Emergency meetings may be called in the same manner as special meetings.

The Board member who initiates the call for an emergency meeting shall provide the executive director with the reason for the emergency or urgent public necessity. An emergency meeting is one which cannot be posted within the seven day advance notice normally required by the Open Meetings Act (Texas Government Code Chapter 551, Section 551.044, or a successor statute) (the “Act”), but which is needed because of “imminent threats to public health and safety or reasonably unforeseeable situations requiring immediate action by the government body”² or as otherwise defined by the Act, as amended, court decision, or other applicable law. Emergency meetings shall be posted in accordance with applicable law, including Texas Government Code Section 551.045 (or its successor statute), requiring posting for at least two hours before the meeting is convened.

2.1.6 If a catastrophe prevents the Board from convening a properly posted meeting, the Board may, under Texas Government Code Section 551.0411, convene in a convenient location within 72 hours pursuant to Texas Government Code Section 551.045 by giving written notice of the date, hour, place, and agenda of the rescheduled and/or relocated meeting at least two hours before it begins. For the purposes of this subsection, the term “catastrophe” has the meaning assigned in Texas Government Code Section 551.0411. In consultation with the executive director, the chairman of the Board shall specify the date, hour, and place of a meeting rescheduled under this subsection to accommodate as many members of the public, board, and staff as possible.

2.1.7 In addition to the provisions of subsection 2.1.6 of this article, a special or emergency meeting of the Board may be canceled or rescheduled, or the location of the meeting changed, only by action of the Board or by a call of at least four members of the Board communicated to the executive director within sufficient time for TRS to comply with all posting requirements for the meeting. Unless a time has been specified in the call or action of the Board rescheduling the meeting, the chairman may set the time of a rescheduled meeting, though any such time must meet all posting requirements of applicable law.

2.2 Public Comment at Meetings.

2.2.1 The Board will allow reasonable opportunity for public comment to the Board on any issue under the jurisdiction of the Board. The chairman may determine the total time to allot to public comments at a meeting of the Board.

2.2.2 Persons who desire to deliver oral comments at a Board meeting must complete the required sign-in form, preferably before the public comment agenda item is reached during the Board meeting. Persons who desire to

provide oral comments virtually at a Board meeting must complete the required electronic sign-in form preferably by 5:00 pm the day before public comment is scheduled. The chairman of the meeting will specify the length of time to be allowed for each person to speak. Persons wishing to speak before the Board shall provide the following information:

- (a) name and contact information;
- (b) the name of the person or group, if any, the speaker is representing;
- (c) the agenda item upon which the person wishes to speak, if any; and
- (d) if the matter does not relate to an agenda item, a brief description of the nature of the matter to be addressed by the speaker.

If the chairman determines based on the information provided that public comment is made for the purpose of soliciting TRS business and the particular solicitation is not specifically identified on the agenda, the chairman may deny the opportunity to deliver the comment.

2.3 Meeting Agendas.

2.3.1 The agenda for each Board meeting shall be set by the chairman of the Board and when appropriate other Board members in consultation with the executive director. The executive director shall prepare and distribute to the Board the agenda and relevant written materials.

2.3.2 Items may be submitted for inclusion on the agenda of any Board meeting by any Board member or by the executive director prior to posting. The executive director shall determine the initial order of the agenda items prior to posting. Board members desiring to add an agenda item must submit it to the executive director by 5:00 p.m. not later than the tenth TRS business day before the meeting.

2.3.3 Agenda items may be added to a posted agenda by the chairman, by the executive director, or by written request of any Board member, provided that the proposed addition is submitted to the executive director in time to post the amendment to the agenda in compliance with the Open Meetings Act. If the item must be added as an emergency agenda item due to insufficient time to post it as a regular item, the request to add the item must include a valid reason for the emergency, as determined by the executive director in consultation with the general counsel.

2.4 Notice of Meetings. The executive director will cause meeting notices to be posted in compliance with these Bylaws and the Open Meetings Act.

2.5 Auxiliary Aids or Services at Meetings. Persons who do not speak English or persons with disabilities may request auxiliary aids or services to be provided at a meeting, such as language interpreters or interpreters for persons who are deaf or hearing impaired, or readers or large print or Braille texts for persons who are visually impaired. If the request is made to the executive director with adequate advance notice before the meeting, the executive

director shall cause reasonable accommodations to be provided to persons with disabilities to the extent required by law and may exercise discretion to determine any other accommodations to be provided.

2.6 Procedure.

2.6.1 A quorum of the Board is a majority of the number of members fixed by statute, unless otherwise defined by applicable law. A quorum is required for the board to conduct business. Unless otherwise provided by law, a majority vote of the board (i.e., a majority vote of the members present and voting at a meeting where a quorum is present) is required for action or decision by the Board, and at least a majority of the minimum number of members needed to constitute a quorum must vote in favor of the action or decision for it to be approved by the Board. Abstentions are not counted in determining the outcome of a vote but are counted in determining a quorum. The most recent edition of *Robert's Rules of Order Newly Revised*, when not in conflict with other Board-adopted rules of procedure, these Bylaws, or applicable law, shall be the rules of parliamentary procedure and order for the Board and its committees. The TRS general counsel shall assist and advise the chairman of the Board or of a committee regarding interpretation and application of the rules of parliamentary procedure.

2.6.2 The minutes of the Board shall contain each subject of discussion and deliberation, all motions, seconds, if any, and the vote, if any, on such motions. Each Board member shall be given an opportunity to record in the minutes his or her vote on a motion and to have included in the minutes the reasons stated in the meeting for his or her vote.

ARTICLE 3 Committees

3.1 Standing Committees. In accordance with section 1.7 of these Bylaws, the Board may establish standing committees by amendment of this article. A quorum of a standing committee shall be a majority of the members of the committee. Any committee may convene in joint session with any other committee. The committees shall normally meet on a quarterly basis or at the call of its chairman. Standing committees may perform other activities related to the committees' responsibilities as requested by the Board.

3.1.1 Audit, Compliance, and Ethics Committee. The Board shall have an Audit, Compliance, and Ethics Committee. The responsibilities of the Audit, Compliance, and Ethics Committee shall be as follows:

- (a) Purpose
 - (1) To assist the Board in fulfilling its fiduciary oversight responsibilities for
 - (aa) the financial reporting process;
 - (bb) the risk management and internal control system;

- (cc) the internal audit process;
 - (dd) the external audit process;
 - (ee) the process for monitoring compliance with laws, regulations, and policies, and
 - (ff) reporting and other activities.
- (2) To coordinate and interface with the Board regarding Audit, Compliance, and Ethics Committee activities and other pertinent matters.
- (b) Financial Reporting Process
- (1) Review and understand significant accounting and reporting matters requiring judgment (including those involving complex or unusual transactions), consider recent professional and regulatory pronouncements, and understand the impact of such matters and pronouncements on financial statements.
 - (2) Review with management and the external and internal auditors the results of audits, including any difficulties encountered.
 - (3) Review all significant suggestions for improved financial reporting made by the external financial statement auditor and by the internal auditor.
 - (4) Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
 - (5) Review with management and the auditors all matters required to be communicated to the committee under generally accepted auditing standards.
- (c) Governance, Risk Management, and Internal Control Activities
- (1) Receive reports on and discuss the internal and external auditors' assessment of the effectiveness of the organization's governance, risk management, and internal control activities, including technology governance and fraud risk prevention activities.
 - (2) Obtain reports from internal and external auditors and compliance staff on significant findings and recommendations relating to governance, risk management, and internal control activities, together with management's response, including receiving reports regarding any violation of portfolio risk management standards as required by the Investment Policy Statement of the Board for (1) any passive violation of prescribed portfolio policy limits as the result of changing market or credit conditions, and (2) any active violation of prescribed portfolio policy limits as a result of entering into an agreement or investment that breaches a policy limit at inception and the corrective action plan implemented to cure such violation.
- (d) Internal Audit Process
- (1) Assure and maintain, through the organizational structure and by

other means, the independence of the internal audit process. Ensure there are no unjustified restrictions or limitations on the internal audit function.

- (2) Ensure that internal auditors have access to all documents, information and systems in the organization that are reasonably needed to accomplish the purpose of the audit, unless any such information is subject to a legally applicable and properly asserted privilege.
 - (3) Review with management and the chief audit executive the charter, plans, activities, budget, staffing, qualifications and organizational structure of the internal audit function. Recommend to the Board an internal audit charter or modifications to such charter.
 - (4) Review and recommend audit plans for approval by the Board.
 - (5) Review all internal audit reports and management letters.
 - (6) Review the responsiveness and timeliness of management's follow-up actions pertaining to any reported audit recommendations.
 - (7) Receive periodic reports of advisory and consulting activities by internal auditors.
 - (8) Authorize audits or investigations into any matters within the committee's scope of responsibilities and provide appropriate reports to the Board.
 - (9) Provide input and advice to the Board in the appointment, replacement, dismissal and the annual evaluation of the performance and compensation of the chief audit executive in consultation with the executive director.
 - (10) Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and Texas Government Code Chapter 2102 (the Texas Internal Auditing Act).
 - (11) Designate the chief audit executive as the primary point of contact for handling audit-related matters pertaining to audits, examinations, investigations or inquiries of the State Auditor's Office, other appropriate state or federal agencies, and other external audit groups.
- (e) External Audit Process
- (1) Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
 - (2) Review the performance of the external auditors, and, upon request, recommend to the Board the appointment or discharge of the external auditors. Obtain input from management, the chief audit executive, and other parties as appropriate.
 - (3) Review the independence of the external auditors by obtaining

statements from the auditors on relationships between the auditors and the organization, including any non-audit services, and discussing the relationship with the auditors.

- (4) Review the audited financial statements, associated management letters, attestations on the effectiveness of the internal control structure and procedures for financial reporting, and required communications.
 - (5) Review all external audit reports and management letters.
 - (6) Review the responsiveness and timeliness of management's follow-up actions pertaining to any reported audit recommendations.
- (f) Compliance Process
- (1) Access the effectiveness of the system for monitoring compliance with laws, regulations and policies, and the results of management's follow-up actions pertaining to any reported instances of non-compliance.
 - (2) Review the findings and recommendations of any examinations by oversight agencies and compliance and auditor observations.
Obtain regular updates and reports from the chief compliance officer and, as appropriate, management regarding compliance matters.
- (g) Ethics Process
- (1) Recommend, as deemed advisable, reports regarding conflict of interest disclosures from the chief compliance officer or reports that are submitted directly to the chairman of the committee as prescribed in an applicable ethics policy;
 - (2) Recommend to the Board waivers of any disclosed conflict of interest or a waiver of the prohibition against involvement in any matter affected by a disclosed conflict of interest, at a meeting held in compliance with the Open Meetings Act;
 - (3) Recommend to the Board or the executive director the prudence of contracting on behalf of TRS with any entity or a controlled affiliate of such entity that employs or is represented by a former trustee or former employee;
 - (4) Recommend, as deemed advisable, reports from the executive director of any approval given for outside employment by key employees, including the nature of the employment;
 - (5) Recommend to the Board approval in advance of any outside employment by the executive director;
 - (6) Recommend, as deemed advisable, reports from the executive director of any disciplinary action disclosed by key employees; and
 - (7) Recommend, as deemed advisable, reports of violations of a TRS ethics policy and any resulting disciplinary actions.

- (h) Reporting and Other Activities
 - (1) At least quarterly, report to the Board about committee activities, issues, and related recommendations.
 - (2) Provide an open avenue of communication among management, internal audit, external auditors, compliance, and the Board.

3.1.2 Benefits Committee. The Board shall have a Benefits Committee. The purpose of the committee is to assist the Board in carrying out its responsibility for delivery of benefits under programs administered by TRS. The Benefits Committee shall:

- (a) review and make recommendations to the Board related to programs within its oversight;
- (b) receive recommendations from the Retirees Advisory Committee regarding TRS-Care, and recommend related actions to the Board;
- (c) recommend to the Board persons to serve on the Retirees Advisory Committee;
- (d) establish performance standards for professional benefits consultants and participate in performance evaluations of those consultants;
- (e) recommend to the Board persons to serve on the Medical Board;
- (f) review periodic reports by TRS staff or consultants on benefit delivery services, benefit-related trends, and other significant benefit topics; and
- (g) receive reports and make recommendations regarding customer service standards and satisfaction;
- (h) the chair of the committee serves as the point of contact for the ombudsman, in consultation with the executive director, regarding member issues that occur in between committee meetings; and
- (i) provide input and advice to the Board in the appointment, replacement, dismissal and the annual evaluation of the performance and compensation of the ombudsman in consultation with the executive director.

3.1.3 Budget Committee. The Board shall have a Budget Committee. The purpose of the committee is to assist the Board in carrying out its fiduciary responsibility for budgeting and accounting for all expenses of the systems' funds. The Budget Committee shall:

- (a) recommend to the Board annual operating budgets;
- (b) recommend intra-budget transfers and budget amendments for approval by the Board; and
- (c) monitor implementation of the operating budgets of the pension trust and other programs.

3.1.4 Investment Management Committee. The Board shall have an Investment Management Committee. The purpose of the Committee is to assist the Board in carrying out its responsibilities to invest and reinvest the system's assets. The Investment Management Committee shall:

- (a) recommend individual investments and investment- related action to the Board when the recommendation is required by the Board's Investment Policy Statement or resolutions adopted by the Board;
- (b) recommend to the Board overarching strategies for all TRS investments, and to monitor those strategies;
- (c) recommend to the Board or an applicable committee investment objectives, the establishment of performance and risk measurement and attribution standards for plan assets, each asset class and component portfolios, and risk parameters and controls, and to monitor those that the Board approves;
- (d) monitor the retirement system's investment processes and consider recommending to the Board or an applicable committee proposed changes to the system's investment processes;
- (e) monitor the investment performance of the overall fund, receive investment reports, and recommend to the Board or an applicable committee policies for appropriate reporting and communication mechanisms to keep the committee and the Board appropriately informed about TRS investments;
- (f) receive reports from staff regarding compliance with portfolio risk management standards as required by the Investment Policy Statement of the Board;
- (g) recommend to the Board approval of action plans submitted by staff to cure passive violations of prescribed policy limits when it is necessary to extend the cure period beyond the time allowed by policy for staff to cure such violation;
- (h) review proposed new or amended investment policies and make recommendations relating to any investment policy, including reporting and communication requirements, to the Policy Committee
- (i) recommend to the Board or the staff, as applicable, that TRS engage professional independent service providers, advisors, or consultants to review internal investment operations and render advice as appropriate. The committee may review responsive proposals and recommend engagement of one or more firms to the Board or the staff, as applicable; and

3.1.5 Policy Committee. The Board shall have a Policy Committee. The purpose of the Policy Committee is to assist the Board in fulfilling its policy-making responsibilities, in accordance with Texas Government Code Sections 825.102 and 825.113. The Policy Committee shall:

- (a) make or review policy proposals, including those made by staff through procedures established by the executive director, and recommend new

written Board policies and modifications to existing written policies as needed;

- (b) recommend new rules and rule amendments as needed and review existing rules periodically as required by law;
- (c) adopt and follow a plan of review for each fiscal year to ensure that all written TRS Board policies are reviewed periodically; and
- (d) ensure that proposed Board policies or policy changes have been appropriately reviewed, including by staff pursuant to procedures established by the executive director or by consultants as necessary.

3.1.6 Strategic Planning Committee. The Board shall have a Strategic Planning Committee. The purpose of the committee is to assist the Board in its oversight responsibilities relating to strategic planning, including related risks, opportunities, and major projects. The Strategic Planning Committee shall:

- (a) receive reports from staff regarding the development and execution of strategic planning, including regular updates on TRS' medium and long-term initiatives, the TRS Strategic Plan, key performance indicators, and the identification and mitigation of strategic plan risks and vulnerabilities;
- (b) provide input and guidance regarding:
 - (1) assessment of the internal and external forces and variables that impact TRS' strategic planning;
 - (2) formulation and execution of strategic goals and objectives; and
 - (3) alignment of the organization behind the agency's strategic goals and objectives, including alignment with major projects, resource allocation, and the Executive Director's goals and objectives;
- (c) review and make recommendations to the Board on the TRS mission and vision statements and the strategic plan goals and objectives;
- (d) provide enterprise risk oversight by discussing and considering matters relating to the identification, prioritization, management, and monitoring of critical risks;
- (e) receive reports from staff regarding the identification, evaluation, and management of risk across the enterprise;
- (f) receive reports from staff regarding major project development and execution;
- (g) provide input and guidance to TRS staff on the development and execution of major projects;
- (h) make such other recommendations to the Board as the committee deems necessary pertaining to any matters regarding enterprise risk mitigation, tolerance levels, and reduction strategies; and

3.1.7 Compensation Committee. The Board shall have a Compensation Committee.

The purpose of the Committee is to assist the Board in its responsibilities to establish a system for the equitable and effective compensation of employees. The Compensation Committee shall:

- (a) review the Performance Pay Plans and when needed make recommendations concerning it to the Board;
- (b) provide direction to the executive director and make recommendations to the Board on the compensation of TRS staff and other compensation matters referred to the Compensation Committee by the Board chair;
- (c) recommend to the Board adoption of not-to-exceed amounts in the exempt salary schedule in consultation with the executive director; and
- (d) monitor efficiency and effectiveness of the TRS classification system to attract and retain a qualified workforce.

3.2 Special Committees. Special committees other than standing committees established in section 3.1 may be created by action of the Board, which shall establish the purpose and responsibilities of the committee and may establish the term for which it shall exist.

3.3 Composition of Committees. A committee will be composed of five members of the Board unless otherwise provided by action of the Board or these Bylaws. The chairman of the Board annually shall appoint committee members subject to the consent of the Board on or before the Board's first regular meeting of the fiscal year or as soon thereafter as may be practicable. The chairman of the Board shall designate the chairman of each committee. Committee chairmen serve as chairmen at the pleasure of the chairman of the Board. The term of a committee member expires on the earlier to occur of the date of the Board's consent to the appointment of a successor committee member to fill the member's position or the date on which the member's term as a Board member has expired according to law and the person is no longer holding over and serving as a member of the Board. The chairman of the Board may appoint an interim successor to the committee for a member whose Board term has expired, who is holding over as a Board member, but who has resigned his or her committee position. Any such interim successor member of a committee may serve until the meeting of the Board at which the Board votes to consent to the appointment of committee members.

3.4 Advisory and Auxiliary Committees. If authorized or required by state law or Board policy, the Board shall appoint advisory or auxiliary committees of non-board members to assist TRS. These committees may be composed of volunteers, independent contractors, or employees. Such committees include the Medical Board and the Retirees Advisory Committee for TRS-Care. The terms, qualifications, and methods of appointment of these committees shall be governed by relevant state law or Board policy. The Board shall

designate the chairman and vice chairman, if any, of each such committee.

3.5 Committee Agendas. The agenda for each committee meeting shall be set in a manner similar to a Board meeting agenda, but with the committee chairman and members having the same authority with regard to the committee agenda of committee meetings that the Board chairman and members have with regard to the Board agenda of Board meetings.

3.6 Committee Attendance. Any member of the Board may attend a meeting of a committee of which he or she is not a member but shall not vote. Because the attendance of five or more trustees at a Board committee meeting constitutes a quorum of the full Board, public notice of a committee meeting is also posted as a Board meeting under the Open Meetings Act (Texas Government Code Chapter 551) in anticipation of a quorum of the full Board possibly attending the meeting. Also in compliance with the Open Meetings Act, a record is kept of the attendance of a quorum of the full Board at a Board committee meeting. The attendance of a quorum of the full Board at a Board committee meeting is not a regular, special, or emergency Board meeting under Article 2 of these Bylaws, relating to meetings of the Board. In addition, the attendance of a quorum of the full Board at a Board committee meeting is not a regularly scheduled Board meeting under Texas Government Code Section 825.010(a)(5), relating to grounds for removal of a trustee because of absence from Board meetings.

ARTICLE 4

Executive Director

4.1 Responsibilities of Executive Director. The Board shall employ an executive director as required by law, with such duties as may be required by law of the chief executive officer and chief administrative employee of TRS and with such other duties as may be established by the Board in its policies, resolutions, and other actions. In these Bylaws, the term “executive director” means the person appointed by the Board pursuant to Texas Government Code Section 825.202 (or a successor statute) and these Bylaws.

- 4.1.1** With respect to the operations of the Board itself the executive director shall:
- (a) make preparations, including trustee travel arrangements, for all meetings of the Board and its committees;
 - (b) under the direction of the chairman of the Board or a relevant committee, prepare and distribute the agendas and appropriate documentation for all meetings of the Board and its committees;
 - (c) under the direction of the chairman of the Board or of a relevant committee, post notices of all meetings and the subject matter thereof as may be required by law;
 - (d) cause the secretary to the Board to record, prepare, and index the official minutes of the Board and its committees;
 - (e) file and preserve all official documents, correspondence, and proceedings of the Board and its committees;

- (f) ensure proper custody, access and use of the TRS official seal and any counterparts consistent with section 5.9 of these Bylaws;
- (g) maintain the official copy of these Bylaws;
- (h) as directed by the Board, establish routine reporting mechanisms and procedures to the Board and prepare special reports to the Board; and
- (i) carry out other policies adopted by the Board.

4.1.2 The executive director is the chief executive officer of TRS and is responsible to the Board for the general administration of TRS in accordance with relevant state laws and policies adopted by the Board. The executive director shall:

- (a) manage the daily operations of TRS as its chief executive officer;
- (b) assume managerial responsibility and leadership for the planning, operation, supervision, and evaluation of programs and services;
- (c) assume authority and responsibility for the selection, job description, assignment of duties, performance evaluation, promotion, compensation, and discipline, including dismissal of all TRS personnel except for:
 - (1) the chief audit executive as provided in subsections 1.7 and 3.1.1 of these Bylaws;
 - (2) the selection of the chief investment officer as provided in subsection 1.7 of these Bylaws. The executive director shall evaluate the chief investment officer in consultation with the Board and have full authority and responsibility for all other personnel matters, including the chief investment officer's assignment of duties and discipline, including dismissal; and
 - (3) the ombudsman as provided in subsection 1.7 of these Bylaws. .
- (d) prepare and submit annual operating budgets for consideration by the Board;
- (e) prepare recommendations for policies to be considered by the Board and oversee the implementation of adopted policies;
- (f) recommend to the Board, either directly or through a designee, the selection and evaluation of the actuary, custodian for securities and for securities lending, investment consultant or advisor to the Board, and fiduciary counsel to the Board,;
- (g) organize TRS to accommodate its mission; and
- (h) develop programs designed to create a culture of diversity, inclusion, and equity at TRS, including in the organization's recruitment, retention, position, pay and procurement practices.

4.2 Miscellaneous Duties.

4.2.1 The executive director shall annually provide to members of the Board information regarding their qualification for office, including Texas Government Code Sections 825.002, -.003, -.0032, and -.010, and their responsibilities under applicable laws relating to standards of conduct for state

officers including Texas Government Code Sections 553.002, 572.005, 572.051, 572.056, 572.058, 825.0032, 825.210-.212, and 2254.032, and Texas Penal Code Sections 32.43, 32.45, 36.02, 36.08, 36.10, 39.01, and 39.03, and any amended, new, or successor statutes.

4.2.2 The executive director shall annually provide to TRS employees information regarding their qualification for employment, including Texas Government Code Sections 573.001-.084 and 825.0032 and their responsibilities under applicable laws relating to standards of conduct for state employees including Texas Government Code Sections 553.002, 572.051, 572.005, 825.0032, 825.210-.212, and 2254.032, and Texas Penal Code Sections 32.43, 32.45, 36.02, 36.08, 36.10, 39.01, and 39.03, and any amended, new, or successor statutes.

4.2.3 In accordance with Texas Government Code Section 825.010(c), the executive director shall notify the chairman of the Board if he has knowledge that a potential ground for removal of a trustee exists. The chairman shall then notify the appropriate appointing officer or body that a potential ground for removal exists.

4.3 Absence of Executive Director. If the executive director will be away from the TRS headquarters for a brief period, as contemplated by section 4.4 of this article, the executive director may designate the deputy director to act in his or her stead generally or for a particular purpose. If the deputy director is also unavailable, the executive director may designate the chief financial officer to act for the executive director. In the absence of the executive director due to incapacity or otherwise when the duration of the absence is unknown and the absence may be extended or permanent, the deputy director shall perform such duties as are necessary to the administration of the system and shall have the responsibility and authority of the executive director until the Board designates the person succeeding to the responsibilities and authority of the executive director. In the absence of the executive director and the deputy director, the chief financial officer shall perform such duties as are necessary to the administration of the system and shall have the responsibility and authority of the executive director and the deputy director until the earlier of the following events: the executive director or the deputy director has resumed his or her duties; or the Board has designated the person succeeding to the responsibilities and authority of the executive director or the deputy director.

For no longer than the duration of an emergency situation, the chairman of the Board shall designate the person succeeding to the responsibilities and authority of the executive director pending approval by the Board of Trustees. A designee under this section shall have the responsibility and authority of the executive director. The chairman of the Board or the deputy director shall notify the Texas Ethics Commission whenever there is a change in the person named to the position of executive director. A member of the Board is not eligible for temporary designation or permanent appointment to serve in the capacity of the executive director under Texas law.

4.4 Delegating Responsibilities. The executive director shall designate an employee of TRS to serve as secretary to the Board to assist in the execution of duties enumerated in subsection 4.1.1 of this article and may assign other employees of TRS as necessary to assist in carrying out these and other duties.

ARTICLE 5

Miscellaneous Organizational Provisions

5.1 Administration of TRS. The administration of TRS is governed by these Bylaws, Board policies, and applicable laws. In the event of a conflict between these Bylaws and applicable state law, the applicable state law shall govern to the extent necessary to resolve the conflict.

5.2 Investments of TRS. TRS investments are authorized to be made only in accordance with policies adopted by the Board and applicable state, federal, and foreign law.

5.3 Custody of TRS Assets. TRS trust assets shall be entrusted to one or more custodians only in accordance with policies and other actions of the Board and applicable state law. The Board shall select the custodian or custodians to hold TRS assets.

5.4 Budgets and Fiscal Year. The budgets of the pension trust fund and any other trust funds administered by TRS are adopted by the Board and may be amended by the Board in subsequent meetings. The TRS fiscal year shall begin September 1 and shall end the following August 31.

5.5 Title to and Ownership of Assets. Accounts or assets of TRS may be held in the name of TRS, a nominee, or other agent in accordance with state law. The assets of TRS shall not be considered at any time to be assets of the state or any employer of TRS members but are to be held in trust for the exclusive benefit of TRS members, annuitants, beneficiaries, or other trust participants.

5.6 Authority to Act for TRS. The Board delegates authority for the following matters:

- (a) investment decisions, in accordance with actions of the Board, including investment policies and applicable state law;
- (b) contracts for the purchase of goods and services, to the executive director or his designee in accordance with the budget, subject to applicable actions of the Board;
- (c) release of assets held in the name of TRS, its nominees, or other agents, in accordance with actions of the Board;
- (d) approval of retirement, death, and survivor benefit payments and refunds to the executive director and his or her designees, in accordance with actions of the Board and applicable state law;
- (e) execution of vouchers for payment of TRS funds, in accordance with actions of the Board; and
- (f) initiation, defense, and settlement of lawsuits and other claims, to the executive

director or his designee, subject to applicable actions of the Board.

5.7 TRS Rules. The executive director is authorized to draft and submit proposed rules for TRS to the Texas Secretary of State to be considered by the Board for adoption in accordance with state law.

5.8 Personnel Policies. TRS personnel policies shall be issued and disseminated to all employees by the executive director and revised from time to time, in compliance with Board policies and state law. TRS is an at-will employer.

5.9 Official Seal of TRS. The form of the official seal of TRS shall consist of a five-point star surrounded by a pair of branches and two concentric circles with the name “Teacher Retirement System of Texas” displayed in the space between the two circles. The seal may be either embossed or stamped. The executive director may designate in writing those TRS employees, in addition to and not in lieu of the secretary to the Board, who are authorized to use and affix the seal to TRS documents when the secretary is absent, incapacitated, or otherwise unavailable. Such a designated employee is authorized, in the capacity of an assistant secretary to the Board, to attest, to affix the seal, or to certify as to any matter as to which the secretary to the Board could attest, affix the seal, or certify. Purchase and use of identical counterparts of the seal is authorized when each counterpart is held by an authorized designee of the executive director. Affixing the TRS seal is not necessary to authenticate or attest a TRS document unless the seal is required by applicable law.

ARTICLE 6

Amendment of Bylaws

6.1 Amendment of Bylaws. These Bylaws may be amended only by a majority vote of the Board at any duly posted meeting of the Board for which notice of consideration of the proposed amendment has been properly given under the Open Meetings Act. At least every four years, these Bylaws shall receive a full review to determine necessity and adequacy of their need.

TAB 5



Memorandum

DATE: September 15, 2022
TO: TRS Policy Committee
FROM: Heather Traeger, General Counsel & CCO
RE: Review of the Correction of Errors and Other Edits Resolution

ACTION REQUESTED

Staff asks the Policy Committee to:

- Conduct the comprehensive review of the Resolution Regarding Correction of Errors and Other Edits (Resolution), which is slated for its five-year review under the Policy Review Schedule; and
- Maintain the Resolution with no recommended changes, continuing with the five-year review cycle.

BACKGROUND AND DISCUSSION

Pursuant to the Policy Review Schedule, a review of the Resolution Regarding Correction of Errors and Other Edits occurs every five years. The Resolution provides the Executive Director and Deputy Director the authority to make technical non-substantive corrections or to clarify the action of the Board in order to reflect accurately the intent of the Board without having to return to the Board for approval. The delegation of such authority has improved administrative efficiency. Since the last review on September 21, 2017, the Resolution has been utilized for the following:

Date of Correction	Board Action	Technical Non-substantive Correction
Oct. 2018	Investment Policy Statement (“IPS”)	Addition of inadvertently omitted footnote and associated text in Appendix A of the IPS
Dec. 2018	Sept. 2018 Compensation Committee Minutes	Minutes corrected to reflect PIPPs were approved by motion not by resolution
May 2019	Code of Ethics for Contractors and Disclosure Statement for Financial Services Providers	Minor content edits
Jan. 2020	Pension Funding Policy	Edits to policy to better reflect Board direction from Dec. 2019 meeting
July 2022	Key Employee Resolution and GAR	Correction of title

Staff recommends maintaining the Resolution with no recommended changes for it continues to serve the purpose for which it was adopted. If the Committee finds no changes to the Resolution, then no further action is required from the Committee.

Resolution Regarding Correction of Errors and Other Edits

September 2022

WHEREAS, the Board of Trustees (the “Board”) of the Teacher Retirement System of Texas (“TRS”) desires to express its intent and authorization for staff to modify resolutions, motions, policies, rules, or a written document adopted at any time by the Board for any purpose and on any topic, provided that the sole purpose of the staff’s modification is to make technical non-substantive corrections or to clarify the action of the Board in order to reflect accurately the intent of the Board or to comply with publication requirements; now, therefore, be it

RESOLVED, That, with regard to a resolution, motion, policy, rule, or a written document adopted previously or hereafter by the Board for any purpose and on any topic, the staff is authorized (i) to make technical non-substantive corrections thereto, such as to correct syntax, grammar, numbering, punctuation, formatting, mathematical, and typographical errors; and (ii) to substitute the intended option or language or to add or to delete a word or phrase when such substitution, addition, or deletion is necessary to correct an inadvertent mistake, including without limitation identifying the wrong version of a document or the wrong section number of a rule, statute, or document, and thereby clarify the action of the Board to reflect accurately the Board’s intent either as such intent is clearly and unequivocally expressed in the records evidencing the Board’s deliberation of the matter or is necessarily implied from all the relevant circumstances; and (iii) to work with the Office of the Secretary of State in preparing and filing rules and related documents that must be filed and to make any technical changes required by law or by the Secretary of State for publication of Board-adopted rules; and

RESOLVED FURTHER, That the Executive Director or the Deputy Director is authorized and directed to exercise their judgment and discretion in evaluating whether any correction, substitution, addition, or deletion is warranted under the circumstances and should be implemented by staff or, instead, brought to the attention of the Board for further review and consideration, it being the expectation of the Board that the authority granted by these resolutions will be used to correct manifest errors or comply with publication requirements and to avoid cluttering the Board’s agenda with such evident clarifications and ministerial edits; and such revised version of the resolution, motion, policy, rule, or written document as modified by staff under the authority of these resolutions shall constitute the version adopted by the Board.

TAB 6



Memorandum

DATE: September 16, 2022

TO: Policy Committee of the Board of Trustees (Policy Committee)

FROM: Barbie Pearson, Chief Benefit Officer

THROUGH: Brian Guthrie, Executive Director

RE: Benefit Counseling Policy

Introduction

During the September 2020 Board of Trustees (Board) meeting, the Board adopted a proposed Counseling Policy. The policy has been reviewed for updates and staff has determined no changes are needed.

Requested Action

In accordance with Tex. Gov't Code §825.601, TRS staff request that you approve continued use of the 2020 adopted Benefit Counseling Policy which defines the process for:

- addressing the manner in which the retirement system makes group and member retirement benefits counseling available throughout the state;
- identifying the geographic regions of the state most in need of retirement counseling services and the manner in which that need will be met; and
- clarifies that the retirement system does not provide financial or legal advice.

Background and Reasons for Policy

Benefit Services annually develops a schedule to provide Benefit Presentations and opportunities for members to meet one-on-one with a benefit counselor in locations across Texas. Tex. Gov't Code §825.601 requires TRS to have a written policy that is adopted by the Board. Continued approval of this policy satisfies this requirement.

Conclusion

If the Policy Committee approves the policy as it exists today it will reflect a review date of September 16, 2022.



Board of Trustees, Teacher Retirement System of Texas
BENEFIT COUNSELING POLICY
Adopted September 16, 2020 to be effective September 16, 2020

Purpose

To adopt a written policy under Tex. Gov't Code §825.601 governing retirement benefits counseling provided to TRS members, including:

- address the manner in which the retirement system makes group and member retirement benefits counseling available throughout the state;
 - identify the geographic regions of the state most in need of retirement counseling services and the manner in which that need will be met; and
 - clarify that the retirement system does not provide financial or legal advice.
-

Authority

Tex. Gov't Code §822.001 – Membership Requirement
Tex. Gov't Code §824.001 – Types of Benefits
Tex. Gov't Code §825.601 – Policies Governing Retirement Benefit Counseling
Tex. Gov't Code §825.602 – Retirement Benefits Counseling for Individuals
Tex. Gov't Code §825.506 – Plan Qualification
26 U.S.C. §401(a)

Definitions

Benefit Counseling Department: Department within Benefit Services Division that is responsible for providing service to TRS members. Service is delivered through: telephone; email; chat; office visits; group retirement sessions; and benefit presentations.

Benefit Processing Department: Department responsible for the accurate and timely calculation and processing of benefits.

Office Visit (OV) Counselor: TRS employee position that is responsible for providing in-person benefit counseling, benefit presentations and group retirement presentations.

Telephone Counselor: TRS employee position that is responsible for providing telephone, email and chat responses to member questions.

Benefit Presentation: General presentation delivered by a TRS OV counselor that provides information on TRS member benefits.

Group Retirement Session: Retirement sessions specifically for members that intend to retire by January of the following year. During these sessions, attendees are guided by an OV counselor through retirement paperwork preparation. Attendees can ask questions and submit retirement paperwork during session.

Office Visit Appointment: In-person appointments available to members to discuss questions about their benefits. These appointments are primarily used by members preparing to submit their retirement paperwork. These appointments are available at TRS headquarters in Austin, Texas.

Board of Trustees, Teacher Retirement System of Texas
BENEFIT COUNSELING POLICY
Adopted September 16, 2020 to be effective September 16, 2020

Field Office Visit Appointment: In-person appointments available to members at Educational Service Centers across the state. These appointments are limited to members that intend to retire within a year.

Educational Service Centers (ESC): Established in 1967 by the Texas Legislature, there are 20 Regional Service Centers that: 1) assist school districts in improving student performance in each region of the system; 2) enable school districts to operate more efficiently and economically; and 3) implement initiatives assigned by the legislature or the Commissioner of Education.

Board of Trustees means the Board of Trustees of the Teacher Retirement System of Texas as defined by Tex. Gov't Code §821.001(5).

Roles of Staff

All Benefit Services employees are responsible for maintaining pension benefits knowledge. Benefit Counseling provides counseling services to members and their beneficiaries. Benefit Processing provides support for member services.

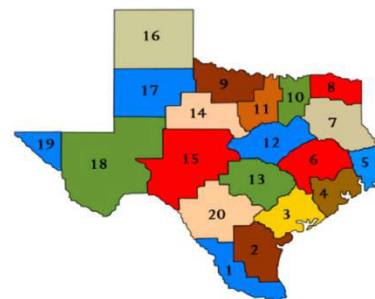
Counseling Objectives

Provide accurate timely service for members throughout their career. Service includes: telephone counseling; office visit appointments; group retirement sessions and benefit presentations.

Geographical Regions

Geographical regions are defined by ESCs allowing for reasonable commute within the area. Regions and average distance from TRS headquarters.

- South Texas: ESC 1 & 2 (average miles: 256)
- Houston: ESC 3, 4, 5, 6 (average miles: 171)
- Dallas-Fort Worth: ESC 7, 8, 9, 10 & 11 (average miles: 256)
- Central Texas: ESC 12, 13 & 20 (average miles: 64)
- Panhandle: ESC 16 & 17 (average miles: 428)
- West Texas: ESC 14, 15 & 18 (average miles: 247)
- El Paso: ESC 19 (average miles: 615)



Member Service Planning

The Teacher Retirement System of Texas (TRS) provides in-person counseling services and information about TRS benefits. To ensure TRS is offering services in geographical areas most in need, Benefit Services will take the following actions annually to plan and then provide services across geographical regions.

- Analyze member demographics to determine member populations by region of the state. This includes identifying members that are:
 - new to TRS;
 - mid-career; and
 - within five years of retirement eligibility.
-

Board of Trustees, Teacher Retirement System of Texas
BENEFIT COUNSELING POLICY
Adopted September 16, 2020 to be effective September 16, 2020

- Develop targeted presentations that address questions common to each of the above distinct categories.
 - Using defined geographical regions, determine need for services based on average distance from TRS headquarters and number of members eligible to retire within five years.
 - Plan in-person counseling appointments, group retirement sessions and delivery of presentations proportionate with population for regions in most need of services.
 - Schedule services outside of normal working hours creating the opportunity for members to attend without interrupting their work schedule.
 - Make counseling appointments available in-person, through live-video, and by telephone.
 - Make benefit presentations available in-person and virtually.
 - Make group retirement sessions available in-person and virtually.
 - Identify locations, open and operate regional offices in areas most in need of services. Specifically, consider regions with dense member populations where travel to headquarters is not within a day's commute.
 - Maintain appropriate employee staffing to support contact center and counseling operations that are responsive to member needs.
 - Publish and promote services and schedule.
-

*Backoffice
Processing*

Supports member service planning by: generating service credit purchase cost statements; generating retirement estimates; processing retirement applications; processing refunds; processing death claims; and maintaining member accounts.

*Tax, Legal, or
Financial
Advice*

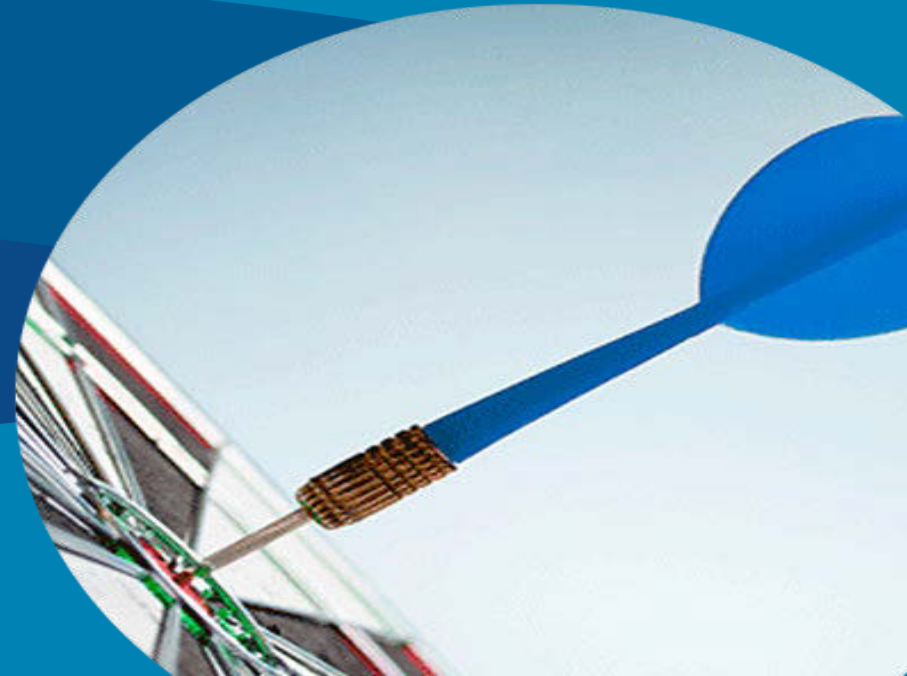
All counseling provided by TRS to its members includes all TRS benefit plans. TRS counseling is not intended to provide, and should not be relied on for, tax, legal or general financial advice. TRS recommends that its members consult their own tax, legal and financial planning advisors for all tax and legal questions and for general financial planning.

TAB 7



Teacher Retirement System of Texas

2022 Funding Policy Assessment



Agenda

- Why are we doing this assessment?
 - Direction from Statute
 - 4-year Actuarial Calendar and TRS' Policy Review Schedule
- What is a Funding Policy?
- What are the elements of TRS' current Funding Policy?
- Recommendations for Modifications
- Questions

SB 2224 (2019)

“(b) The governing body of a public retirement system shall:

(1) adopt a written funding policy that details the governing body's plan for achieving a funded ratio of the system that is equal to or greater than 100 percent;”

Had to be adopted no later than January 1, 2020

- Accordingly, the TRS Board adopted a Funding Policy in 2019

4-Year Actuarial Calendar

- Year 1 - Experience Study and Funding Policy Assessment (2022)
- Year 2 – Legislative Session (2023)
- Year 3 – Actuarial Audit (2024)
- Year 4 – Legislative Session (2025)
- Repeat

Calendar Year	Item
2019	Session / Funding Policy
2020	Actuarial Audit
2021	Session
2022	Experience Study / Funding Policy
2023	Session
2024	Actuarial Audit
2025	Session
2026	Experience Study / Funding Policy
2027	Session
2028	Actuarial Audit
2029	Session

Funding Policy Defined

- The “Funding Policy” of a pension plan is a systematic set of procedures used to determine the annual contributions to be made by the employer in a specific year and *series* of years
- Under a “typical” funding policy the total contribution requirement equals:
 - Normal Cost (new accruals), plus
 - Amortization of Unfunded Liability

The Purpose for a Funding Policy Adopted by the TRS Board

- In “real-world” terms, a written funding policy can provide a mechanism for the TRS Board to communicate with decision-makers and publicly state their goals:
 - Help decision-makers come to a better understanding of the principles and practices that help sustain benefits (and ultimately contributions) over the long-term
 - Provide decision-makers a framework for understanding the tradeoffs related to reaching the goals of the Statute

Important since the TRS Board lacks the discretion and authority to set or alter either contribution rates or retirement benefits.

Breaking Down the Statute

- *“plan for achieving a funded ratio of the system that is equal to or greater than 100 percent”*
- The only way for the funded ratio to be 100% is for the Unfunded Actuarial Accrued Liability (UAAL) to be \$0
 - currently \$48 billion and expected to increase for 8 to 12 years
- The UAAL is a more trackable, more explicitly manageable, and less manipulatable number than the funded ratio or a funding period
 - There are situations where the funded ratio can increase over the short to medium term, but that does not mean that the “plan” will ultimately achieve 100% funded ratio (at least over a determinable period)
 - However, any plan that systematically decreases the UAAL over time will ultimately achieve a 100% funded ratio

The Board adopted a Funding Policy in 2019

- *“the TRS Board of Trustees supports contribution and benefit policies that will systematically decrease the UAAL over time in order to achieve a funded ratio of the system that is equal to or greater than 100 percent.”*

Funding Policy: Monitoring Progress

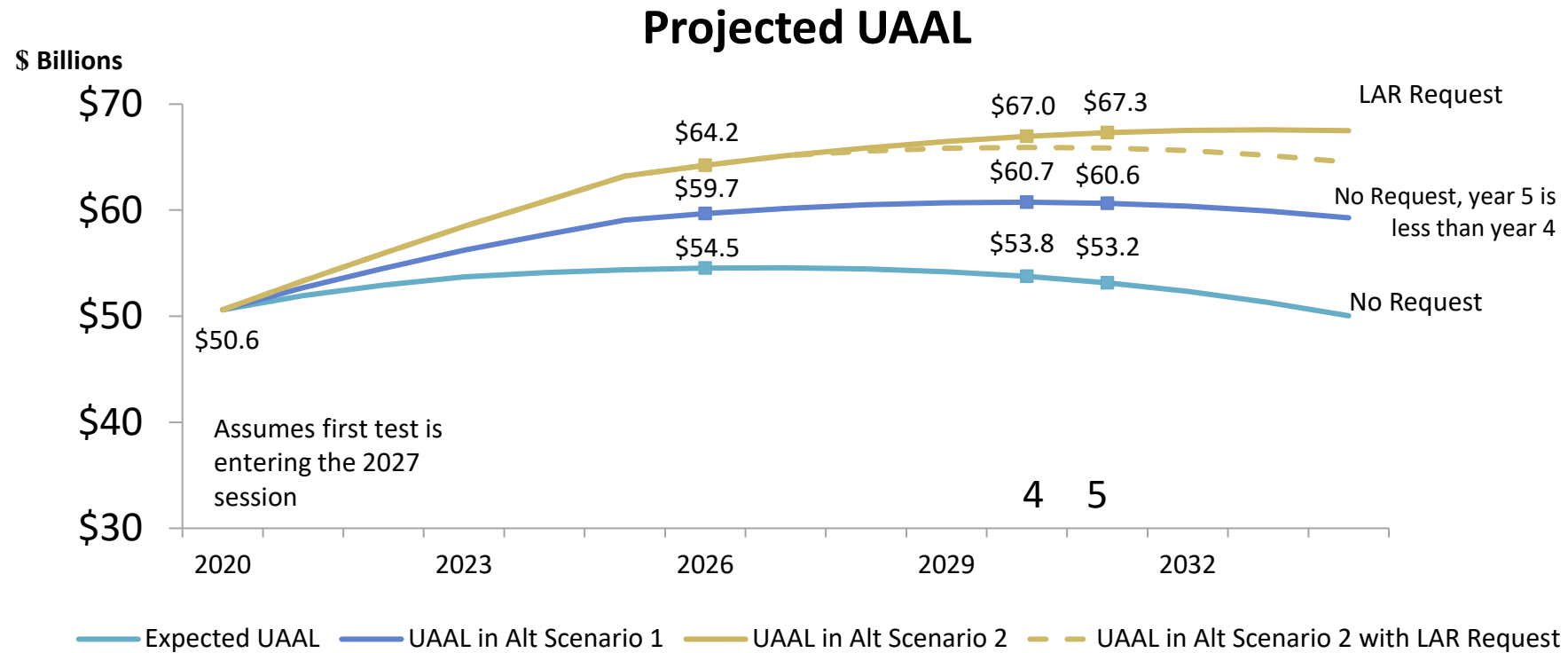
- *“A declining UAAL over time will evidence that contribution and benefit policies are being implemented consistent with Tex. Gov’t Code § 802.2011.”*

Funding Policy: When to Request Additional Contributions

- If at any time the annual valuation of TRS does not project the UAAL to begin to decline in the next 5 years, then
 - the LAR request for TRS will include an increase in contribution rates so that the UAAL would be projected to begin to decline the year following the legislative session.
- This will not be effective until after the phase-in of contributions in SB 12
- Thus, the first test would be based on the 2025 valuation results and apply to the LAR request in the summer of 2026 for the 2028-29 biennium

Illustrated Example from When Funding Policy was Adopted

Visual Illustration of Funding Policy Request



Impact on Probability of Adverse Outcomes

- The Board's policy, by reacting sooner and in an appropriate manner, provides substantial downside protection to the funded status of the System
- The following are based on a stress tests, assuming either the current contributions in statute remain in place in all scenarios, or the legislature would adopt contributions along the way when the Board requested an increase per the current policy

	Probability At Least 80% Funded Ratio	
	Fixed Contributions at Current Levels (Statutory)	Contributions following Board Policy
In 2042 (20 years)	59%	67%
In 2052 (30 years)	60%	75%

Current TRS Policy: Guidance for Benefit Enhancements

- At any time, the Board supports a cost of living increase or supplemental payment to its retirees if the legislature provides a one-time appropriation in an amount necessary to cover the actuarial liability associated with the enhancement.
- The Board recognizes that there may be alternative methods of financing benefit enhancements and will evaluate any proposal for consistency with the goal of a declining UAAL.

In Summary

- Funding (Governance) Policy has shown to be the most distinctive factor between outcomes of pension systems
 - More than assumptions
 - More than benefit provisions
 - And even more than experience itself
- As required by Statute, this is the TRS Board's opportunity to influence future decisions towards a more sustainable path
- We have no recommended changes to the Funding Policy

APPENDIX

Typical Elements of a Funding Policy

- **Actuarial Cost Method:** allocates the total present value of future benefits to each year (Normal Cost) including all past years (Actuarial Accrued Liability or AAL)
- **Asset Smoothing Method:** reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets
- **Amortization Method:** determines the length of time and the structure of the increase or decrease in contributions required to systematically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any Surplus, i.e., any assets in excess of the AAL
 - Level dollar vs Level Percentage of Payroll/Budget
 - For initial liabilities
 - For changes in assumptions
 - For changes in benefit provisions
 - For gains and losses (deviations from expectation) that naturally occur
- **Contribution stabilization techniques:** or “direct rate smoothing” in addition to both asset smoothing and UAAL/Surplus amortization
- **Procedures for Plans with lower funded ratios**
- **Surplus management**
- **Risk management**

Difference in this Case

- The typical funding policy details every step on how to determine the employer contribution, sometimes to a specific dollar amount
 - Clearly, this would need to be a comprehensive document
- However, in TRS' case, as the Board has no authority on the amount of contribution, the policy should be more general and principles-based

Board of Trustees, Teacher Retirement System of Texas

Pension Funding Policy

Date: September 16, 2022

Interpretation Contact: Executive Director

Purpose

To formalize a funding policy, including a detailed plan that will systemically decrease the UAAL (Unfunded Actuarial Accrued Liability) over time in order to achieve a funded ratio of the system that is equal to or greater than 100 percent.

References

- Tex. Gov't Code § 821.001 [Definitions]
 - Tex. Gov't Code § 821.006, [Action Increasing Amortization Period]
 - Tex. Gov't Code § 821.008 [Purpose of Retirement System]
 - Tex. Gov't Code § 825.108 [Reports]
 - Tex. Gov't Code § 825.206 [Actuary]
 - Tex. Gov't Code § 802.2011 [Funding Policy]
 - Tex. Gov't Code § 825.402 [Rate of Member Contributions]
 - Tex. Gov't Code § 825.4035 [Employer Contributions for Certain Employed Members]
 - Tex. Gov't Code § 825.404 [Collection of State Contributions]
-

Definitions

Actuarial Value of Assets: A smoothed value of the System's fair market assets on the valuation date, used for long term decision making.

Actuarial Liability: The target value of assets that would be needed in the trust as of the valuation date to be able to fully fund benefits based on past service.

Unfunded Actuarial Accrued Liability (UAAL): Any amount of the Actuarial Liability not covered by the Actuarial Value of Assets (positive difference between the two numbers).

Funded Ratio: The ratio of the Actuarial Liability currently covered by the Actuarial Value of Assets.

Benefit Enhancement: A monetary benefit as described in Tex. Gov't Code § 821.006 that is provided to retirees, such as a cost-of-living adjustment (COLA) or one-time supplemental payment.

Board of Trustees means the Board of Trustees of the Teacher Retirement System of Texas as defined by Tex. Gov't Code § 821.001(5).

Policy

Consistent with its charge to protect the funds of the retirement system as required under Tex. Gov't Code § 821.008 and adopt a written funding policy under Tex. Gov't Code § 802.2011, the TRS Board of Trustees supports contribution and benefit policies that will systematically decrease the UAAL over time in order to achieve a funded ratio of the system that is equal to or greater than 100 percent. A declining UAAL over time will evidence that contribution and benefit policies are being implemented consistent with Tex. Gov't Code § 802.2011.

***Funding Policy
Measurements***

Actuarial Valuation

The Board of Trustees will conduct and publish an actuarial valuation of the system's asset and liabilities as of August 31 of each year.

Mid-Year Valuation

The Board of Trustees will conduct and make public a limited actuarial valuation of the assets and liabilities of the retirement system as of February 28 in those years when the Texas Legislature meets in regular session;

Unfunded Actuarial Accrued Liability (UAAL)

Both the actuarial valuation and the mid-year valuation will include a calculation of the extent to which the system's liabilities are unfunded as provided in Tex. Gov't Code § 825.108(b). The Board will annually assess the trend of the UAAL as part of every valuation.

***Achieving the Stated
Funding Objective of
at Least 100%
Funded***

The primary goal of the pension plan is to accumulate sufficient assets and achieve a stated funding objective to pay promised benefits. This funding policy establishes the funding objective as equal to or greater than 100 percent funded and identifies the following detailed plan for achieving the funding objective:

- Contribution Stability and Predictability – The contribution rates and scheduled increases, as described in Tex. Gov't Code §§ 825.402, 825.4035, and 825.404, are expected to eliminate the UAAL over a period of 29 years.
-

Eliminating the UAAL is predicated on the contribution increases being funded as set forth in statute. Therefore, the Board does not support legislative action that would reduce or fail to fund the statutory contribution rates.

- Legislative Appropriation Request of Contribution Rates – In advance of the legislative session, TRS prepares a legislative appropriation request (LAR) with the requested contribution rate. For the six fiscal years in which contribution rates are being increased under Tex. Gov't Code §§ 825.402, 825.4035, and 825.404, TRS will request a contribution rate consistent with Tex. Gov't Code § 825.404.

After the phase-in of all scheduled contribution rate increases, the Executive Director, in consultation with the TRS Board of Trustees and based on a current annual actuarial valuation, will determine the appropriate contribution rate to request in the LAR, except that if, after the phase-in of all contribution rates, the annual valuation projects that the UAAL will not begin to decline by the fifth year following the valuation, then TRS will request contribution rate increases sufficient to begin to reduce the UAAL in the even-numbered fiscal year following the legislative session.

- Benefit Enhancements – The Board recognizes that there may be alternative methods of financing benefit enhancements and will evaluate any proposal for consistency with the goal of a declining UAAL and pursuant to Tex. Gov't Code § 821.006.

***Actuarial
Assumptions and
Methods***

- The actuary of the System will use the assumptions and methods approved by the Board in making the annual calculation of the UAAL, including the smoothed value of assets as of the valuation date.
- The assumptions and methods will be reviewed at least once every four years in an Experience Study, with the next one scheduled to follow the August 31, 2021 actuarial valuation.

Administrative Policy
Reviewer: Strategy Office
Review Cycle: 4 years
Adopted by: TRS Board of Trustees

First Issued: December 13, 2019
Last Board Review: December 13, 2019
Next Review Due: September 2026
Dated: September 16, 2022

TAB 8



Memorandum

DATE: September 15, 2022

TO: TRS Policy Committee

FROM: Katherine H. Farrell, Board Secretary

Through: Brian Guthrie, Executive Director

RE: Policy Review Schedule Update

ACTION REQUESTED

Staff asks the Policy Committee to:

- Conduct the review of TRS Board policy review schedule and adopt the proposed updates.

BACKGROUND AND DISCUSSION

TRS Board Bylaws Subsection 3.1.5(c) provides that the Policy Committee (Committee) is to adopt and follow a plan of review for each fiscal year to ensure that all written TRS Board policies are reviewed periodically. To accomplish this requirement, the Committee adopts the Policy Review Schedule (Schedule), which provides for the regular review of all written board policies and is to be adopted every September.

Included in your materials are “redlined” and “clean” copies of the Schedule. At the Committee meeting, staff will propose for the Committee to adopt the following updates to the Schedule. There are two substantive changes proposed this year for adoption. One is the inclusion of the Inactive Account Policy that was adopted over the past year. The other proposed substantive change is the deletion of the Pension Funding Policy’s explanatory footnote.

The Schedule is only adopted at the Policy Committee level. Therefore, at the September meeting, the Policy Committee will consider updating the Schedule but will not make a recommendation on the matter to the full Board.

**TEACHER RETIREMENT SYSTEM OF TEXAS
POLICY REVIEW SCHEDULE
APPROVED BY THE POLICY COMMITTEE SEPTEMBER 16~~5~~, 202~~12~~**

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
ADMINISTRATIVE					
Authorization to Approve and Sign Vouchers	Financial; Legal	3 years	April 20 19 <u>22</u>	April 2019 December 2018	April 202 2 <u>5</u>
Performance Incentive Pay Plan	Executive Director; OE; Legal	1 year	September 202 1 <u>2</u>	September 2021 <u>2022</u>	September 202 2 <u>3</u>
	Investments; OE; Legal		September 202 1 <u>2</u>	September 2021 <u>2022</u>	September 202 2 <u>3</u>
Resolution Regarding Correction of Errors and Other Edits	Executive Director	5 years	September 20 22 <u>17</u>	September 2012	September 20 27 <u>22</u>
Rules of the Board of Trustees – Rule Review, Chapters 21–51	Legal; Finance; Benefits; HIB	4 years ⁱⁱⁱ	September 20 22 <u>18</u>	September December 2018 <u>2022</u>	April 202 6 <u>2</u> ^{iv}
Litigation Policy	Legal	3 years	April 2021	April 2021	April 2024
Policy on Negotiated Rulemaking and Alternative Dispute Resolution	Executive Director; Legal	5 years	July 2018	June 2013	July 2023

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
Procurement Policy	Legal	3 years	July 2021	July 2021	July 2024
At Will Employment	OE; Legal	10 years	September 2013	September 2013	September 2023
Member Engagement Policy	Communications	4 years	December 2020	December 2020	December 2024
Benefit Counseling Policy	Benefits	2 years	September 202 20	September 2020	September 202 22 ⁴²
Outreach Plan ^v	Communications; Benefits	5 years	July 2021	July 2021	July 2026
<u>Inactive Accounts Policy^{vi}</u>	<u>Benefits</u>	<u>4 years</u>	<u>December 2021</u>	<u>December 2021</u>	<u>December 2025</u>
BOARD GOVERNANCE & ETHICS					
Bylaws of the Board of Trustees	Legal	4 years	September 20 21 ¹⁸	July 2021 <u>September 2022</u>	September 20 22 ²²
Board Training Policy	Executive Director; OE	4 years	December 2018	December 2018	December 2022
Trustees External Communication Policy	Communica- tions	5 years	April 2019	December 2019	April 2024
Trustee Ethics Policy and Position Description	Legal	4 years	December 20 21 ¹⁷	April 2018 / December 2011 <u>December 2021</u>	December 20 22 ²¹
Pension Funding Policy ^{vi}	Executive	4 years	December 20 22 ¹⁹	December 2019	September 202 22 ²⁶

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
EMPLOYEE & VENDOR ETHICS					
Designation of Key Employees	Executive Director	2 years	December 2019 <u>September 2021</u>	September 2020 <u>July 2022</u>	December 2021 <u>2023</u>
Employee Ethics Policy	Legal	4 years	December 2017 <u>2021</u>	April 2018 <u>December 2021</u>	December 2021 2021 <u>25</u>
Conflict of Interest Disclosure Statement (for use with the Employee Ethics Policy)	Legal	4 years	December 2017 <u>2021</u>	April 2018 <u>December 2021</u>	December 2021 2021 <u>25</u>
Ethics Compliance Statement for Employees (for use with the Employee Ethics Policy)	Legal	4 years	December 2017 2021	April 2018 <u>December 2021</u>	December 2021 2021 <u>25</u>
Disciplinary Action Disclosure Statement (for use with the Employee Ethics Policy)	Legal	4 years	December 2017 2021	April 2018 <u>December 2021</u>	December 2021 2021 <u>25</u>
Code of Ethics for Contractors	Legal	4 years	April 2019	April 2019	April 2023
Contractor Annual Ethics Compliance Statement	Legal	4 years	April 2019	April 2019	April 2023
Expenditure Reporting Memorandum	Legal	4 years	April 2019	April 2019	April 2023

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
Expenditure Reporting Form for Contractors	Legal	4 years	April 2019	April 2019	April 2023
Disclosure Statement for Brokers and Financial Advisors and Financial Providers	Legal	4 years	April 2019	April 2019	April 2023
INVESTMENTS					
General Authority Resolution (GAR)	Financial; Investments	2 years	September 202 0	September 202 0 <u>2</u>	September 202 2 <u>4</u>
Investment Policy Statement	Investments	2 years	September 202 0 <u>1</u>	September 2020 <u>July 2022</u>	September 202 2 <u>3</u>
Commission Credit Policy	Investments	3 years	December 2019	December 2019	December 2022
Proxy Voting Policy	Investments	3 years	December 2019	April 2017 <u>February 2022</u>	December 2022
Securities Lending Policy	Financial; Investments	3 years	December 2019	April 2019	December 2022

ⁱ Reviews scheduled or rescheduled to begin and to end at the meeting when the current Policy Review Schedule is approved are assumed to have been completed at that meeting, so that date is shown in this column, "Date of Last Policy Committee Comprehensive Review."

ⁱⁱ Initial review and discussion of the applicable policy occurs at the Board committee level on or about the date listed. Reviews may continue throughout one or more subsequent meetings.

ⁱⁱⁱ Texas Gov't Code § 2001.039 requires a comprehensive rule review every four years.

^{iv} The last review of the rules in Chapters 21-51 was completed on ~~October 12, 2018~~July 14, 2022. Subsequent Rule amendments and repeals recommended based upon this review.

^v The Outreach Plan is required by statute to be reviewed and updated every five years. The plan provides for Communications to annual update the Board on the implementation of the plan.

~~^{vi} The Funding Policy was adopted at the December 2019 meeting. The policy recommends a review at least once every four years in line with the Experience Study with the next one scheduled to follow the August 2021 actuarial valuation.~~

^{vi} Benefit Services shall report on an annual basis regarding the outreach efforts including the number of notification letters sent and the number of accounts that have refunded or rolled over as a result of the efforts.

**TEACHER RETIREMENT SYSTEM OF TEXAS
POLICY REVIEW SCHEDULE
APPROVED BY THE POLICY COMMITTEE SEPTEMBER 15, 2022**

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Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026
EMPLOYEE & VENDOR ETHICS					
Designation of Key Employees	Executive Director	2 years	September 2021	July 2022	December 2023

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
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Disciplinary Action Disclosure Statement (for use with the Employee Ethics Policy)	Legal	4 years	December 2021	December 2021	December 2025
Code of Ethics for Contractors	Legal	4 years	April 2019	April 2019	April 2023
Contractor Annual Ethics Compliance Statement	Legal	4 years	April 2019	April 2019	April 2023
Expenditure Reporting Memorandum	Legal	4 years	April 2019	April 2019	April 2023
Expenditure Reporting Form for Contractors	Legal	4 years	April 2019	April 2019	April 2023
Disclosure Statement for Brokers and Financial Advisors and Financial Providers	Legal	4 years	April 2019	April 2019	April 2023

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
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Securities Lending Policy	Financial; Investments	3 years	December 2019	April 2019	December 2022

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