February 2026

TRUSTEES

TRS Board of Trustees Meeting

Teacher Retirement System of Texas
4655 Mueller Blvd.
Austin, Texas 78723

TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES

AGENDA

February 12, 2026 – 9:00 a.m.
February 13, 2026 – 9:00 a.m.

All or part of the February 12 - 13, 2026, meeting of the TRS 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 physically present at the following location, which will be open to the public during the open portions of the meeting: 4655 Mueller Blvd, 2nd Floor, Boardroom.

Members of the public may provide virtual public comment by registering first with the Board Secretary by submitting an email to publiccomment@trs.texas.gov identifying the name of the speaker and topic, no later than 5:00 pm on February 12, 2026.

NOTE: The Board may take up any item posted on the agenda during its meeting on Thursday, February 12, 2026, or during the meeting on the following day, February 13, 2026, beginning at the time and place specified on this agenda.

The open portions of the February 12 - 13, 2026, Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided at www.trs.texas.gov.

1. Call roll of Board members.

2. Consider the following administrative matters including approval of the December 2025 proposed meeting minutes – Robert H. Walls, Jr.

3. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

    A. Administrative operational matters, including updates on financial, audit, legal, staff services, special projects, strategic planning, legislative, personnel matters and trustee ethics training.
    B. Board operational matters, including a review of draft agendas for upcoming meetings.
    C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.

4. Receive an overview of the proposed Fiscal Year 2027-31 Strategic Plan Goals, Objectives and Strategies – Don Green and Michelle Pagán.

5.   Review and consider the TRS Experience Study findings and recommendations – Joe Newton, Gabriel, Roeder, Smith & Co.

6.   Receive the CIO Update including Talent Management; Accomplishments; Notices; Awards; Key Dates and Upcoming Events – Jase Auby.

7.   Receive the Annual Review of the Emerging Manager Program - Kirk Sims.

8.   Receive the Ombudsman's Annual Report – Lori LaBrie.

9.   Receive a TRS-Care and TRS-ActiveCare health plans including a review of annual performance with benchmark comparisons as well as updates on new dental and vision plans – Katrina Daniel and Kyle McKay.

10. Consider selecting Health Plan Administrators (HPAs) for TRS-ActiveCare and TRS-Care Standard; and a Medicare Advantage carrier for TRS-Care, including considering a finding that deliberating or conferring in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Katrina Daniel, Yimei Zhao, and Jeff Bain.

11. Receive an update and consider leases for the TRS' regional offices in the El Paso and Rio Grande Valley area, including considering a finding that deliberating or conferring in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Barbie Pearson and Martin Cano.

12. Receive an annual update on TRS Data Governance and Security – Caasi Lamb, Frank Williams, Chris Cutler and Heather Traeger.

13. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, investment matters and open records and on legal or regulatory matters involving certain TRS vendors, investment managers, or other counterparties – Heather Traeger.

14. Receive an update on the TEAM Program – Jennifer Whitman, Billy Lowe and Adam Fambrough.

15. Receive an overview of TRS Performance Payment Plans – Christine Bailey, Katy Hoffman; Josh Wilson and Susan Lemke, Mercer Consulting.

NOTE: The Board meeting likely will recess after the last item above and resume February 13, 2026, Friday morning, to take up items listed below.

16. Provide opportunity for public comment – Robert H. Walls, Jr.

17.   Receive the Deputy Director's Update including an update on the Pension Design Study - Caasi Lamb.

18.   Receive an overview on TRS' AI Strategy, Implementation and Considerations - Brian Guthrie, Chris Cutler, Kyle Weigum, Michelle Gray, Adam Fambrough, Kyle McKay, Tim Koek, Kristi Glasgall, Beth Hallmark, Heather Traeger.

19.   Receive an overview on TRS' AI Governance and Risk Assurance - Heather Traeger, Frank Williams, Amanda Jenami.

The Board may convene in Executive Session under the following but not limited to:

   A. Texas Government Code, Section 551.071: Consultation with Attorney;
   B. Texas Government Code, Section 551.072: Deliberation Regarding Real Property;
   C. Texas Government Code, Section 551.074: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees including but not limited to the Executive Director, Deputy Executive Director, Chief Auditor Executive, Chief Investment Officer.
   D. Texas Government Code, Section 551.076: Deliberation Regarding Security Devices or Security Audits;
   E. Texas Government Code, Section 551.0761: Deliberation Regarding Critical Infrastructure Facility
   F. Texas Government Code, Section 551.089: Deliberation Regarding Security Devices or Security Audits;
   G. Texas Government Code, Section 825.115(e): Regarding a Procurement; or
   H. Texas Government Code, Section 825.3011: Certain Consultations Concerning Investments.

Minutes of the Board of Trustees

December 4, 2025

The Board of Trustees of the Teacher Retirement System of Texas met on Thursday, December 4, 2025, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 4655 Mueller Blvd, Austin, Texas, 78723.

The following Board members were present:
Robert H. Walls, Jr., Chair
Michael Ball, Vice Chair
Brittny Allred
David Corpus
John Elliott
Laronda Graf
John R. Rutherford
Elvis Williams

Others present:

Brian Guthrie, TRS	Keith Brown, Investment Advisor
Caasi Lamb, TRS	Colin Bebee, Meketa
Heather Traeger, TRS	Mika Malone, Meketa
Jase Auby, TRS	Suzanne Dugan, Cohen Millstein
Don Green, TRS	Damian Esquibel, UHC
Barbie Pearson, TRS	
Katrina Daniel, TRS	
Amanda Jenami, TRS	
Lori LaBrie, TRS	
Janice Ehlert, TRS	
Adam Fambrough, TRS	
Jennifer Whitman, TRS	
Billy Lowe, TRS	
Katherine Farrell, TRS	

Mr. Robert H. Walls, Jr. called the meeting to order at 9:00 a.m.

1. **Call roll of Board members.**

Ms. Farrell called the roll. A quorum was present.

2. **Consider the following administrative matters including approval of the September 2025 proposed meeting minutes – Robert H. Walls, Jr.**

On a motion by Mr. Corpus, seconded by Mr. Rutherford, the Board unanimously voted to approve the proposed September 2025 meeting minutes as presented.

3. **Review and discuss the Executive Director's report on the following matters – Brian Guthrie:**
   A. **Administrative operational matters, including updates on financial, audit, legal, staff services, special projects, strategic planning, legislative, personnel matters, and notification of contract renewals.**
   B. **Board operational matters, including a review of draft agendas for upcoming meetings.**
   C. **Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.**

Mr. Brian Guthrie reviewed upcoming and past conferences and meetings including the 103rd Annual Conference of NCTR. He announced that, under his delegated authority, he intended to renew the Mercer Board contract for one year. He reviewed items for the upcoming February and April Board meetings.

Mr. Guthrie concluded by announcing recipients of numerous awards beginning with TRS receiving Top Workplace in Austin for 2025. He then recognized the individual Golden Apple Award winners. He shared the winner of the Executive Director's Award of Excellence. This award is for ad hoc projects. This year's winner was the Multi-year Headquarters Relocation Cross-Functional team. He then announced the winners of the Shining Example Award. This award is for special service to members with ongoing projects and efforts to benefit members and provide quality customer service. He shared this year's winners were the Finance Accounting and Reporting Team, IMD operations Team, EDM Platform Team and the Learning and Development Team. Mr. Walls expressed the Board's appreciation to the employees for their hard work, efforts and dedication to the members.

4. **Receive TRS Quarterly Complaint Report – Lori LaBrie.**

Ms. Lori LaBrie reviewed the communications the Ombuds office received from January through October. She said there were a total of 569 communications. She said the top three social media hot topics for the period covering August to October were health care, investments and beneficiaries. She said for this time period there were 30 point-in-time complaints, all having been addressed and resolved with zero outstanding.

5. **Receive the annual evaluation of Gabriel, Roeder, Smith & Co. as the provider of pension actuarial and consulting services – Janice Ehlert.**

Ms. Janice Ehlert presented the annual evaluation of the actuary, Gabriel, Roeder, Smith, & Co (GRS). She reviewed the work GRS provided over the past year, professional advice and technical support on all types of pension-related matters. She reported GRS met all contractual requirements regarding timeliness of communication and materials. She said the surveyed staff concluded that GRS met expectations. She said the contract which was approved in July starts in January and will run through 2030.

6. **Receive an update on the TEAM Program – Chris Cutler, Jennifer Whitman, Billy Lowe and Adam Fambrough**.

Ms. Jennifer Whitman reported the annuity payroll and tax reporting release (PBT), remains on schedule. She noted in November the regression testing work stream was updated to a caution due to not meeting targeted completion of testing in October. She reported as of this week though, the regression testing was 100 percent complete. She announced the work stream status was back to green and the short time spent in caution status did not affect the overall release date which remains go live beginning of March. In response to Mr. Rutherford's inquiry, Ms. Whitman said once the release of PBT is completed, there are plans for a next phase to add functionality for business modernizing technology that will include some AI components.

Mr. Billy Lowe reported on the remaining defects, a significant decrease from defects reported at the previous meeting. He said even with the change in status to yellow regarding the regression work stream, the timeline remains ahead of the scheduled quality date, leaving three weeks of contingency. He said the team felt confident that the regression testing would finish this week and user acceptance testing next week. Mr. Adam Fambrough reported the user acceptance survey has trended to more positive results.

Mr. Walls without objection, called up agenda item 13.

13. **Receive the Deputy Director's Update including considering the Procurement and Contracting Report – Caasi Lamb.**

Ms. Caasi Lamb provided the quarterly contract report pursuant to the Board Procurement Policy for the Board's acceptance.

On a motion by Mr. Elliott, seconded by Mr. Williams, the Board voted to accept the procurement report as presented by staff.

At 9:55 a.m., Mr. Walls announced the Board would recess to take up the scheduled committee meetings for the rest of the day resuming tomorrow morning.

December 5, 2025

The Board of Trustees of the Teacher Retirement System of Texas met on December 5, 2025 in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 4655 Mueller Blvd, Austin, Texas, 78723.

The following Board members were present:

Robert H. Walls, Jr., Chair
Michael Ball, Vice Chair
Brittny Allred
David Corpus
John Elliott
Laronda Graf
John R. Rutherford
Elvis Williams

Others present:

Brian Guthrie, TRS	Michael Lee (virtual)
Caasi Lamb, TRS	Beaman Floyd
Don Green, TRS	Joe Newton, GRS
Heather Traeger, TRS	Karli Fehrman, GRS
Jase Auby, TRS	Mika Malone, Meketa
Barbie Pearson, TRS	Colin Bebee, Meketa
Katrina Daniel, TRS	Keith Brown, Investment Advisor
Amanda Jenami, TRS	
Chris Cutler, TRS	
Janice Ehlert, TRS	
Sunitha Downing, TRS	
Katherine Farrell, TRS	
Suzanne Dugan, Cohen Millstein	

At 9:00 am the Chair reconvened the board meeting.

7. **Provide an opportunity for public comment.**

Mr. Mike Lee shared his concerns regarding the time it takes when a TRS member passes away and their spouse as a beneficiary receives their monthly checks. He shared a second concern regarding TRS' assertion of violating HIPAA rights of the health insurance account holder who does not have medical power of attorney over a dependent on the insurance account.

8. **Receive the report of the Benefits Committee on its December 4, 2025 meeting and consider the following – Committee Chair:**
   A. Acceptance of the Medical Board Meeting minutes of the September 2025 meetings; and

B. Approval of the Benefit Payments for September 2025 to November 2025; and

C. Consider the appointment of a member to the Active School Administrator position on the RAC.

Mr. Williams, Committee Chair, provided the following report of the Benefits Committee:

The Benefits Committee met on December 4, 2025. The committee approved the proposed minutes of the Benefits Committee for the September 2025 meeting.

Ms. Barbie Pearson, the Chief Benefit Officer, presented updates on the Medical Board and recommended acceptance of the September 2025 Medical Board meeting minutes.

Ms. Barbie Pearson also reported on benefit payments for the first quarter of fiscal year 2026, recommending approval of payments for September through November of 2025.

The committee received updates on the Pension Services workload and service levels for fiscal year 2025. Ms. Pearson highlighted staffing and accomplishments for all Pension Services. In addition, Ms. Pearson highlighted the annual activities from benefit operations support, reporting all service levels were met or exceeded, and discussed future initiatives for Pension Services.

Mr. Adam Fambrough, Deputy Chief Benefit Officer, reviewed annual activities from member services, noting all areas met or exceeded service levels for fiscal year 2025, and he discussed employee engagement plans and provided an update on the hiring for the future Rio Grande Valley regional office.

Ms. Jennifer Gasior, Deputy Chief Benefit Officer, provided an update on account services, confirming all areas met or exceeded service levels for fiscal year 2025, and provided the annual report on inactive accounts.

Next, Ms. Katrina Daniel, the chief Health Care officer, introduced Ms. Nancy Byler, the chair of the Retirees Advisory Committee for the TRS-Care. She gave a brief update on the October committee meeting. Ms. Daniel recommended extending four RAC members' service for another term, ending January 31 of 2030.

Ms. Meaghan Bludau, the Health Chief of Staff, gave a TRS-ActiveCare update, highlighting the per member cost growth has been nearly half of its peers over the past decade. She noted that affordability remains a key factor influencing employee enrollment and innovation and procurement strategies that aim to improve affordability and maintain access and quality.

Next, Mr. Chris Herrick, the Deputy Chief of Health Operations, presented an update for TRS-Care dental and vision enrollment, which continues to grow as it's enhanced by members' ability to enroll online through the web self-service.

Mr. Herrick also highlighted the health engagement team, noting the arrival of Ms. Cindy Wright, the new Director of Health Engagement and Operations Excellence. The engagement team continues to keep members well informed through over 4.5 million touchpoints and drive efficiency through streamlining mailings and automation of communication reviews..

Next, Ms. Sunitha Downing, the director of Enterprise Program Management, and Dr. Rene Paulson, from Elite Research, provided an update on the annual member satisfaction survey, reporting an increase in overall satisfaction for both active and retired members.

Mr. Williams concluded the report with the following motions:

On a motion by Mr. Williams, the Board unanimously voted to accept the Medical Board's meeting minutes for September 2025 meeting, as recommended by the Benefits Committee.

On a motion by Mr. Williams, the Board unanimously voted to approve the benefit payments for September through November 2025, as recommended by the Benefits Committee.

On a motion by Mr. Williams, the Board unanimously voted to adopt the following resolution regarding the appointment of members to the RAC, as recommended by the Benefits Committee:

REAPPOINTING MEMBERS TO THE
RETIREES ADVISORY COMMITTEE
December 4 & 5, 2025

Whereas, Chapter 1575, Insurance Code (the "Texas Public School Retired Employees Group Benefits Act"), governs the Texas Public School Retired Employees Group Benefits Program, hereinafter referred to as TRS-Care, and authorizes the Teacher Retirement System of Texas ("TRS"), as trustee, to take actions necessary to devise, implement, and administer TRS-Care, as described in the statute;

Whereas, Chapter 1575, Insurance Code defines "Trustee" to mean TRS; Chapter 821, Government Code defines the Board of trustees ("Board") to be the board appointed to administer TRS;

Whereas, Subchapter I of Chapter 1575 (Sections 1575.401 through 1575.408) of the Insurance Code creates the Retirees Advisory Committee ("RAC"), whose duties include holding public hearings on group coverage, and recommending to the trustee minimum standards and features for TRS-Care and desirable changes in rules and legislation affecting TRS-Care;

Whereas, Section 1575.402 of the Insurance Code mandates the RAC be composed of seven
Whereas appointed by the trustee: one member who is an active school administrator, one member who is a retired school administrator, two members who are active teachers, and three members who are retired teachers;

Whereas, Section 1575.403 of the Insurance Code establishes that RAC members serve staggered four-year terms. The terms of the active school administrator, active teacher, and two retired teachers expire on February 1, 2002, and every fourth year after that date; and the remaining three members' terms expire February 1, 2004, and every fourth year after that date;

Whereas, Section 1575.404 of the Insurance Code requires the trustee to fill vacancies on the RAC by appointing a person who meets the qualifications applicable to the vacated position;

Whereas, Nancy Byler, who currently fills the role of a retired teacher RAC member and continues to qualify as a retired teacher, has agreed to serve another four-year term on the RAC after her current term expires on January 31, 2026;

Whereas, Dr. Mary Widmier, who currently fills the role of a retired teacher RAC member and continues to qualify as a retired teacher, has agreed to serve another four-year term on the RAC after her current term expires on January 31, 2026;

Whereas, Anita Kay Young, who currently fills the role of an active teacher RAC member continues to qualify as an active teacher, has agreed to serve another four-year term on the RAC after her current term expires on January 31, 2026;

Whereas, Pete Pape, who currently fills the role of an active school administrator RAC member and continues to qualify as an active school administrator, has agreed to serve another four-year term on the RAC after his current term expires on January 31, 2026;

Whereas, the Board desires to reappoint Nancy Byler, Dr. Mary Widmier, Anita Kay Young, and Pete Pape to the RAC upon the expiration of their current term on January 31, 2026, and who will serve another four-year term from February 1, 2026 through January 31, 2030, effective immediately upon approval of this resolution; now, therefore, be it

Resolved, That the Board reappoints to the RAC Nancy Byler as a retired teacher, Dr. Mary Widmier as a retired teacher, Anita Kay Young as an active teacher, and Pete Pape as an active school administrator, whose reappointments will take effect immediately upon the expiration of their current terms on January 31, 2026, and who will serve the another four year term from February 1, 2026 through January 31, 2030.

9. **Receive the report of the Investment Management Committee on its December 4, 2025 meeting – Committee Chair.**

Mr. Corpus, Committee Chair, provided the following report of the Investment Management Committee:

> The Investment Management Committee met on December 4, 2025. The committee approved the proposed minutes of the Investment Management Committee for its September 2025 meeting.

Jase Auby began with his CIO Update. The Third Quarter 2025 Performance Review was then presented by Collin Bebee and Mika Malone of Meketa. Following, Kendall Courtney provided an update on the Investment Operations group.

Concluding the Investment Management Committee, James Nield and Mark Telschow presented an annual review of risk and portfolio management.

10. **Receive the report of the Governance Committee on its December 4, 2025 meeting and consider adoption of the following – Committee Chair:**
    A. **Proposed amendments to the Inactive Accounts Policy;**
    B. **Proposed amendments to the Commission Credits Policy;**
    C. **Proposed amendments to the Securities Lending Policy;**
    D. **Proposed amendments to the Proxy Voting Policy;**
    E. **Proposed amendments to the Designation of Key Employees;**
    F. **Proposed amendments to the Employee Ethics Policy;**
    G. **Proposed amendments to the Trustees Ethics Policy and Position Description;**
    H. **Proposed amendments to TRS Rules in Chapter 27 of Title 34, Part 3 of the Texas Administrative Code, related to Contested Cases:**
       i. §27.6 Reinstatement of an Account
       ii. §29.9 Survivor Benefits
       iii. §29.56 Minimum Distribution Requirements
    I. **Proposed amendments to TRS Rules in Chapter 25, 31, and 41 of Title 34, Part 3 of the Texas Administrative Code:**
       i. §25.1 Compensation Subject to Deposit and Credit
       ii. §31.1 Return-to-work Employer Pension Surcharge
       iii. §41.1 Employer Health Benefit Surcharge

Mr. Elliott, Committee Chair, provided the following report of the Policy Committee:

The Governance Committee met on December 4, 2025. The committee approved the proposed minutes of its September 2025 Governance Committee meeting.

The committee recommended to the Board adoption of the proposed amendments to the following policies: the Inactive Accounts Policy, the Commission Credits Policy, the Securities Lending Policy, the Proxy Voting Policy, the Designation of Key Employees, and the Employee Ethics Policy.

The committee recommended to the Board re-adoption of the Board of Trustees Ethics Policy and the position description, without changes.

The committee recommended to the Board adoption of the proposed amendments to TRS Rules 27.6, 29.9, and 29.56, Title 34, Part 3 of the Texas Administrative Code, related to the reinstatement of an account, survivor benefits, and minimum distribution requirements.

The committee recommended to 1 the Board adoption of the proposed amendments to TRS Rules 25.21, 31.3, and 41.4 of Title 34, Part 3 of the Texas Administrative Code, related to compensation subject to deposit and credit, return-to-work employer pension surcharge, and employer health benefit surcharge.

Mr. Elliott concluded his report with the following motions:

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the Inactive Accounts policy, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the Commission Credits policy, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the Securities Lending policy, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the Proxy Voting policy, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the Designation of Key Employees, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the Employee Ethics policy, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to re-adopt the Board of Trustees Ethics Policy and the position description without changes, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the amendments to TRS Rules 27.6, 29.9, and 29.56, Title 34, Part 3 of the Texas Administrative Code, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the amendments to TRS Rules 25.21, 31.3, and 41.4, Title 34, Part 3 of the Texas Administrative Code, as recommended by the Governance Committee.

11. **Receive the report of the Budget Committee on its December 4, 2025 meeting – Committee Chair:**

Mr. Rutherford, Committee Chair, provided the following report of the Budget Committee:

The Budget Committee met Thursday, December 4th. The first item of business was approval of the minutes of the July 2025 Budget Committee meeting.

Ms. Cynthia Goodwin presented the Annual Comprehensive Financial Report for fiscal year 2025, noting TRS's recognition as a 2023 Triple Crown winner. She highlighted pension financials and membership data.

Ms. Patricia Carrington reviewed TRS-Care and TRS-ActiveCare. Ms. Simin Pang summarized investment performances across multiple time horizons, assets under management, and net position of the Trust Fund. Finally, Roberto Vasquez explained return methodologies and emphasized the program's resilience in maintaining positive positions despite fluctuations in money-weighted returns.

Ms. Jessica Brown presented a high level overview of the fiscal year 2025 year-end budget and addressed unexpended balances. She then provided an overview of the fiscal year 2025 FTEs.

12. **Receive the report of the Audit, Compliance, and Ethics Committee on its December 4, 2025 meeting– Committee Chair.**

Ms. Allred, Committee Chair, provided the following report of the Audit, Compliance and Ethics Committee:

The Audit, Compliance and Ethics Committee met on Thursday, December 4, 2025. The Committee approved the minutes of its September 2025 meeting.

The committee received SAO's report on the results of the financial audit on the Annual Comprehensive Financial Report for fiscal year 2025. The committee received Crowe LLP's report on the results of the financial audit of the TRS Investment Company of Texas, TRICOT, for fiscal year 2025.

The committee received routine 1 compliance and enterprise risk reports from General Counsel and the Chief Compliance Officer and staff. The committee received reports from the Chief Audit Executive and staff, including the Chief Audit Executive's disclosure of Internal Audit's affirmations regarding independence, ethics and professionalism, and an update on Internal Audit's data analytics program.

Lastly, the committee received the Internal Audit annual report for fiscal year 2025, a status update on prior audit recommendations and various administrative matters.

14. **Receive the TRS Pension Trust Fund Actuarial Valuation for the fiscal year ending August 31, 2025 – Joe Newton, Gabriel, Roeder Smith & Co.**

Mr. Joe Newton provided a high-level overview of the valuation noting it is essentially an assessment of the contributions' adequacy. He said there were bills passed this legislative session that increased by about eight years the finding period. He said the most impactful was the salary increases depending on how it is paid out. He reported due to the strong investment performance, the unfunded liability period went down to 27 years. However, he said with the new legislation adding 8 years, the unfunded liability time frame is at 35 years, which is outside the definitions of actuarial soundness for the state.

Ms. Karli Fehrman provided a comparison with the 125 largest plans in the country. She reported 94 plans had funding periods of 20 years or less and eight plans had over 25 years. She said the 35 year funding period was not reasonable per industry standards and noted the Actuarial Standards of Practice defined reasonable as contributions that achieve a positive amortization or an unfunded accrued liability that is declining every year. She said the Texas Pension Review Board currently had a limit of 30 years but are looking at targeting 20 years as the new maximum.

Mr. Joe Newton concluded that with the increase in the unfunded liability, the Board's Funding Policy is expected to be triggered with the next valuation. Mr. Guthrie, in response to Mr. Corpus inquiry, reviewed the various options available to the state to address this including a lump sum payment, an increase in contributions rates or an increase in the minimum salary schedule that the public education employer's contributions is based upon.

15. **Receive the TRS-Care Actuarial Valuation and Other Post-Employment Benefits (OPEB) reports for the fiscal year ending August 31, 2025 – Joe Newton, Gabriel, Roeder Smith & Co.**

Ms. Fehrman presented the valuation update for this year, as of August 31, 2025. She reported the OPEB liability decreased from the prior year from $30.4 billion to about $25 billion

16. **Receive an overview of the upcoming TRS of Texas Experience Study – Joe Newton, Gabriel, Roeder Smith & Co.**

Mr. Newton provided an overview noting that the policy requires an experience study to be conducted every four years. He said data will be gathered, analyzed and a report will be issued for the Board to approve at a future meeting. He reviewed the major assumptions such as turnover assumption, retirement age, salary increase assumption, mortality assumption and investment returns. Mr. Newton in response to Mr. Guthrie's inquiry, discussed the need for stable assumptions in the face of unknown possibilities. He discussed the demographic grouping and observations of possible two distinct demographic and behavioral groupings, teachers and administrators as one and the second group as other public education positions coupled with higher ed. He said teachers have low turnover and long-life expectancies where the other group tend to have higher entry ages, more male and higher turnover. He said splitting these groups could save a year or two on the funding period. Mr. Newton concluded with noting the portion of payroll, the two percent paid by public education on state minimum salary schedule has been declining in light of total payroll, meaning an estimated cost of two years on the funding period. He said the last time the minimum salary schedule was legislatively updated was in 2019.

17. **Receive an update regarding the Pension Design and Firefighters' Studies – Caasi Lamb.**

Ms. Lamb provided an overview of the timing as to the experience study, the pension design and firefighter's study, the funding policy and another valuation prior to the beginning of the next legislative session. She reviewed the rider language for the pension plan design study that required a review of workforce and demographic trends among members and retirees. She reported on

membership data over the last 20 years that saw contributing members, active membership has grown by about 32 percent with annuitant growth had a 111 percent increase. She then reviewed the growth in public education and higher education institutions. She noted that teachers who reach vesting, five years, are 51 percent more likely to stay until retirement. Mr. Newton confirmed this trend on a national level as identified in a recent NIRS report.

Ms. Lamb then reviewed the impact of Social Security on participants. She said they surveyed over 1,300 employers reporting into TRS, representing about 1.3 million individuals. She said the response rate was 99.5 percent with six charter schools not responding but have since verified as not participating in Social Security. She reported 77 percent of TRS members, over a million people, do not participate in Social Security. She said higher education is the mirror opposite with 87 percent of employees participating in Social Security. She stated those who do not participate are more of the junior colleges and community colleges, but not all of them. She said 88% of TRS employers, 94% of public education employers, and 71% of higher education employers do not participate in Social Security. Mr. Newton stated whether a member participates in Social Security or not is important when deciding what kind of other pension plan may be better suited for members. Ms. Lamb concluded by stating active members have a different need based on whether they participate in Social Security or not. In addition, she said that teachers and other education professionals are very career-oriented and the defined benefit plan is serving its intended purpose as a retention tool for that particular population. She concluded by reporting on the firefighters study. She said they met with the Forest Service earlier in the summer and have data on a number of positions. She said the plan was to work on the Pension Design Study first and whatever model is used in that study to use it in the firefighters study as well. She said the firefighters study is due after the pension design study.

At 11:15 a.m., Mr. Corpus left the meeting.

18. **Discuss and consider the selection and engagement process for the Board Investment Consultant, including considering a finding that deliberating or conferring in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person – Heather Traeger.**

On a motion from Ms. Graf, seconded by Mr. Williams, the Board voted to find that deliberating or conferring on item 18 in public would have a detrimental effect on the position of the retirement system in negotiations with a third person.

At 11:35 a.m., Mr. Walls announced the Board would go into executive session on the following agenda items under sections of the Government Code: item 18 under Sections 825.11(e) and 551.071, to discuss the selection and engagement process for the Board investment consultant and to consult with legal counsel as needed; and item 20 under Section 551.071 to consult with legal counsel as needed.

19. **Receive Quarterly Data Governance and Information Security Update – Frank Williams.**

This item was not taken up for discussion.

20. **Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, beneficiary benefits, retirement benefits, health-benefit programs, investment matters and open records and on legal or regulatory matters involving certain TRS vendors, investment managers, or other counterparties – Heather Traeger and J.R. Morgan.**

At 1:16 p.m., Mr. Walls reconvened the Board meeting in open session.

On a motion by Mr. Williams, seconded by Mr. Rutherford, the Board voted to establish a special committee of the Board of Trustees, consisting of Trustee Allred, Trustee Ball and Trustee Elliott for the purpose of bringing a recommendation to the full Board at the April 2026 meeting regarding the Board investment consultant.

At 1:17 p.m., Mr. Walls adjourned the meeting.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE __ DAY OF FEBRUARY 2026.

ATTESTED BY:

_____   _____
Katherine H. Farrell   Date
Secretary to the TRS Board of Trustees

TAB 3

Discussion Topics:

- Summary of February Meeting

- Overall Updates

- Ethics Training for Trustees

- Demographic Overview of TRS Workforce

- Agendas for Upcoming Board Meetings

- Appendix

    Executive Director's Key Priorities and February Agenda Items

Presentation improved with the assistance of AI

Overview – February 2026 Board Meeting

Strategic & Operational Updates:
- Ombud's Annual Report
- Proposed Strategic Plan
- Experience Study
- Deputy Director's Report
- Information Security
- AI Strategy, Implementation
- AI Governance & Risk Assurance

Program Updates:
- CIO Update
- Health's Annual Report & Analytics
- TEAM Update

Consideration Items:
Regional Office Leases
Health Service Provider Contracts

General Updates

Upcoming Conferences and Meetings:

- February 28 – March 2, 2026: NCTR/NASRA Winter Meeting, Washington D.C.

- March 9 – 11, 2026: CII's 2026 Spring Conference

Past Meetings and Updates:

- January 13, 2026: TRS EC Strategic Planning Session

- February 10, 2026: TRS/ERS Emerging Manager Conference, Virtual

Trustee Ethics Training

Annual Ethics Training Requirement

Trustees must complete yearly ethics training in accordance with the Trustee Ethics Policy to uphold and maintain high ethical standards.

Comprehensive Video Training

Legal & Compliance is creating video training, which will be released by **March** for all Trustees to meet the training requirement.

Upholding Integrity and Accountability

The training reinforces Trustees' understanding of ethical standards, compliance obligations and promotes integrity within TRS.

TRS Workforce Demographics

Average Age	44 Years
Average TRS Tenure	6.7 Years
FY 2025 Turnover Rate	8.7%
Gender	56% Female 44% Male
Average State Tenure	9.3 Years
Employees Eligible to Retire	8.8%
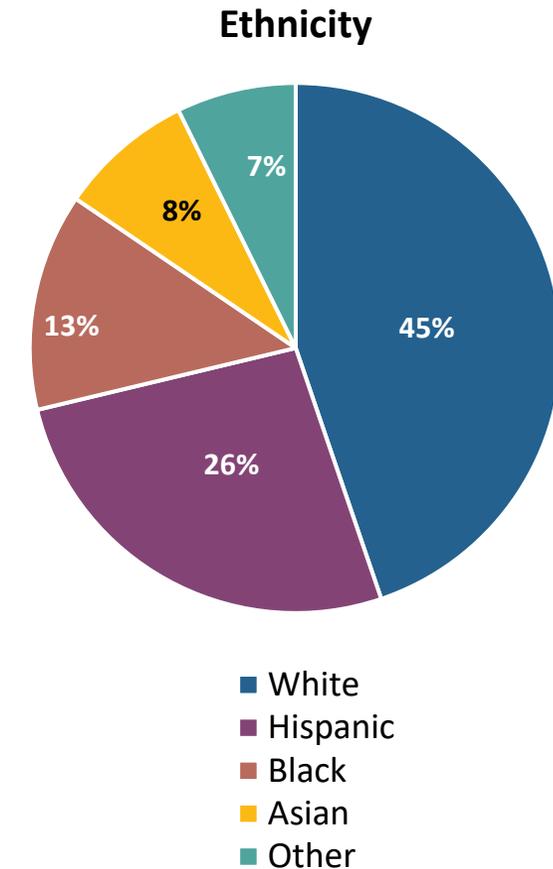
Ethnicity

- White — 45%
- Hispanic — 26%
- Black — 13%
- Asian — 8%
- Other — 7%

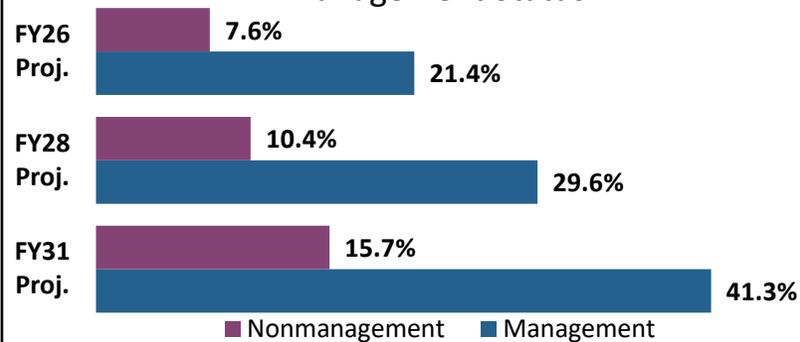*Estimates are based on active employees as of 11/30/2025. Estimates for FY 2026, 2028, and FY 2031 are made using the rule of 80.

Retirement Eligibility

Percent of Employees Eligible for Retirement

FY	Percent
FY22	8.6%
FY23	8.3%
FY24	7.5%
FY25	8.7%
FY26 YTD	8.8%
FY26 Proj.	9.9%
FY28 Proj.	13.5%
FY31 Proj.	19.8%
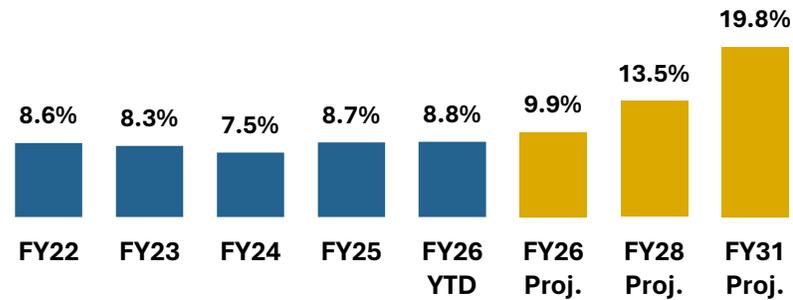
Percent of Retirement Eligibility by Management Status

	Nonmanagement	Management
FY26 Proj.	7.6%	21.4%
FY28 Proj.	10.4%	29.6%
FY31 Proj.	15.7%	41.3%

Percent of Retirement Eligibility by Division

Division	FY 26 Projected	FY 28 Projected	FY 31 Projected	Headcount
Health	6.0%	9.0%	14.9%	67
Investment Management	6.0%	8.5%	14.9%	235
Pension Services	5.8%	9.6%	13.7%	395
Administrative Services	22.2%	25.9%	30.9%	81
Contract Services	18.5%	22.2%	40.7%	27
Executive	13.6%	27.3%	31.8%	22
Financial Services	21.2%	21.2%	32.7%	52
Internal Audit	20.0%	20.0%	30.0%	20
Information Security Office	0.0%	0.0%	4.3%	23
Information Technology	12.4%	16.7%	25.3%	233
Legal & Compliance	12.3%	17.5%	24.6%	57
Organizational Excellence	13.0%	18.5%	22.2%	54

*Estimates are based on active employees as of 11/30/2025. Estimates for FY 2026, 2028, and FY 2031 are made using the rule of 80.

Retirement Eligibility

EC Retirement Eligibility

- FY26 YTD: Eligible 66.7%, Not Eligible 33.3%
- FY26 Proj.: Eligible 66.7%, Not Eligible 33.3%
- FY28 Proj.: Eligible 73.3%, Not Eligible 26.7%

Eligible ■ Not Eligible ■

ELT Retirement Eligibility
(Excluding EC & Admin Staff)

- FY26 YTD: Eligible 24.1%, Not Eligible 75.9%
- FY26 Proj.: Eligible 31.0%, Not Eligible 69.0%
- FY28 Proj.: Eligible 41.5%, Not Eligible 58.5%

Eligible ■ Not Eligible ■

*Estimates are based on active employees as of 11/30/2025. Estimates for FY 2026, 2028, and FY 2031 are made using the rule of 80.

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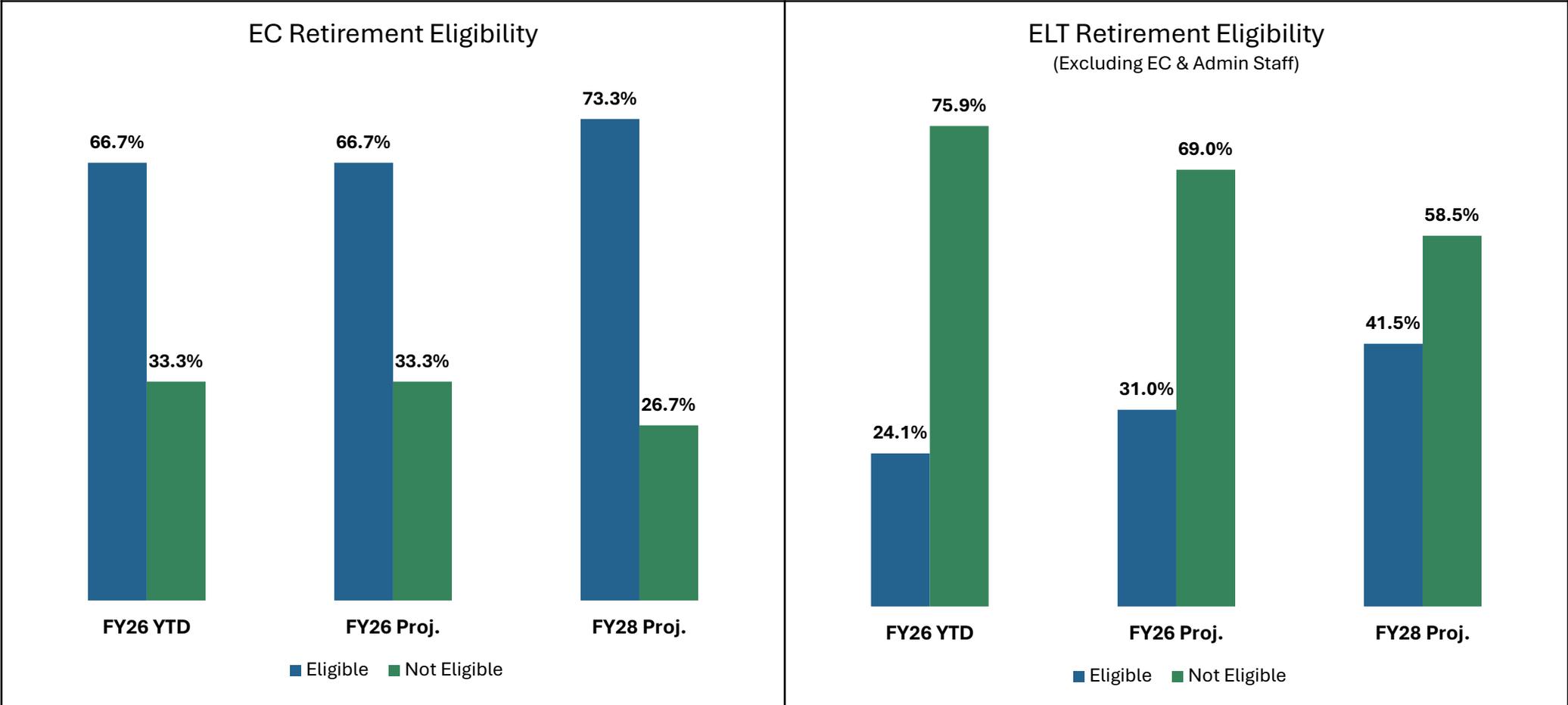
Upcoming Board Meeting Agendas

April 30, 2026

Benefits Committee

•Operational Updates

•Approval of Benefits

•Medical Board Minutes

•TRS-ActiveCare rates & benefits, including HMO

Investment Management Committee

•CIO Update

•Fourth Quarter Performance Review

•Annual Public Markets Review

Budget Committee

•FY 2026 Mid-Year and FTE Report

•Review of LAR and FY 2027 Budget Proposal

Governance Committee

•Funding Policy Review

•TRS Rule Review

•Proposed Adoption of Strategic Plan

ACE Committee

•Internal Audit and Compliance Reports

May 1, 2026

•Committee Reports

•ED Report

•Experience Study

•Pension Design Study Update

•Deputy Director Report

•Information Security Update

•Litigation Update

Upcoming Board Meeting Agendas

July 16, 2026

Benefits Committee

•Operational Updates

•Approval of Benefits

•Medical Board Minutes

•TRS-Care Standard and MA rates & benefits

•TRS-Care Dental and Vision rates & benefits

Investment Management Committee

•CIO Update

•1st Quarter Performance Review

•Annual Review of External Private Markets

Budget Committee

•Proposed Adoption of FY 2027 Budget

Governance Committee

•Outreach Plan Review

•Proposed changes to ED's Areas of Focus (if needed)

•Proposed Changes to Performance Pay Plans (if needed)

ACE Committee

•Internal Audit and Compliance Reports

July 17, 2026

•Committee Reports

•ED Report

•Ombuds Report

•Deputy Director Report

•Information Security Update

Appendix

February Board Agenda Items by Area of Focus

Member Focused	Leadership Effectiveness	Talent Effectiveness	Operational Effectiveness	Continuous Improvement	Agenda Item
	✓	✓			3. Executive Director's Report
✓	✓	✓	✓	✓	4. Proposed Fiscal Year 2027-31 Strategic Plan Goals, Objectives and Strategies
✓			✓		5. TRS Experience Study Findings and Recommendations
	✓	✓			6. CIO Update
	✓				7. Annual Review of Emerging Manager Program
✓				✓	8. Ombudsman's Annual Report
✓	✓			✓	9. TRS-Care and TRS-ActiveCare Health Plans including Review of Annual Performance with Benchmark Comparisons and Updates on new Dental and Vision Plans
✓	✓			✓	10. Consider selecting Health Plan Administrators for TRS-ActiveCare and TRS-Care Standard including Medicare Advantage Carrier for TRS-Care

Member Focused	Leadership Effectiveness	Talent Effectiveness	Operational Effectiveness	Continuous Improvement	Agenda Item
✓					11. Update and Consider Leases for TRS' Regional Offices in El Paso and Rio Grande Valley Area
			✓	✓	12. Annual Update on TRS Data Governance and Security
✓				✓	14. Update on TEAM Program
	✓	✓			15. Overview of TRS Performance Payment Plans
	✓		✓		17. Deputy Director's Update including Pension Design Study
		✓		✓	18. Overview of TRS' Artificial Intelligence (AI) Strategy, Implementation and Considerations
			✓	✓	19. Overview of TRS' AI Governance and Risk Assurance

These presentation topics align with the Executive Director's FY 26 Areas of Focus.

Executive Director's Areas of Focus
Fiscal Year 2026

Member Focused	
Areas of Focus	**Success Measures**
Improve the customer service experience for participants and reporting employers. **(G2.O1)**	**Deliverables** • Expand member self-service options within the automated phone system and MyTRS. • Increase engagement with members/participants and reporting employers regarding TRS benefits. **(G2.O1.S1)** • Expand our services to meet members where they are. **(G2.O1.S2)** • Complete leasing decisions, space build-out, and hiring and training of initial staff in anticipation of Rio Grande Valley regional office opening (fall 2026). **KPIs** • Pension Services calls answered within 3 minutes – Target: 90% • Health Division calls answered within 3 minutes – Target: 90% • Retirees receiving first annuity payment on time – Target: 98% • Death claims payments issued within 31 days of receipt of all required paperwork – Target: 95% • Number of counseling appointments available in Austin – Target: 20,000 • Number of counseling appointments available in El Paso – Target: 7,500 • Attain a reported response time within 48 hours or sooner based on Reporting Employer Satisfaction Survey – Target: 90%
Increase the value of TRS-Care and TRS-ActiveCare benefits. **(G3.O2)**	**Deliverables** • Reengineer TRS-ActiveCare to better meet employer needs. **(G3.O2.S2)** • Monitor, evaluate and expand innovative and effective savings initiatives such as member rewards. • Award competitive procurements for enrollment vendor and medical plan administrators. • Implement new TRS-Care dental and vision plans for plan year 2025. • Improve communication materials for TRS-ActiveCare and TRS-Care participants. **KPIs** • Increase the percentage of TRS-ActiveCare enrollees in the primary care driven plans from prior year – Target: 3% • Member engagement metrics as measured by percentage of members who open *The Pulse* email – Target: 25% • Member engagement metrics as measured by percentage of members who open *The Pulse* email and then click to read articles – Target: 3%

Executive Director's Areas of Focus
Fiscal Year 2026

🛆 Leadership Effectiveness	
Areas of Focus	**Success Measures**
Enhance stakeholder communication.	**Deliverables**
	• Serve as a trusted resource and engage with policymakers on pension funding and plan design. **(G1.O2.S1)** • Serve as a trusted resource and engage with policymakers on health care funding and plan design. **(G3.O1.S1)** • Implement and monitor the Member and Employer Outreach Plan to better help members and employers fully know and utilize benefits, engage with TRS, plan for retirement, and remain informed postretirement. **(G4.O6.S2)** • Increase senior leadership attendance at health fairs, association meetings and other member-related external events.
	KPI
	• Increase engagement with outreach plan communications products – Target: 20%
Achieve the trust's actuarial assumed rate of return as measured on rolling 20-year periods. **(G1.O1)**	**Deliverables**
	• Oversee State Street's commitment to deliver technology and service enhancements as outlined in the Custody Agreement (August 2026). • Successful onboarding of new investment advisor for the board of trustees. • Completion of Proxy Policy review and Proxy Advisor Request for Proposal (RFP) (March 2027). • Competitively procure board investment consultant services.
	KPIs
	• Trust rate of return measured on a rolling 20-year period – Target: 7.00% • Return in excess of the benchmark return for the total trust (3-year rolling) – Target: +100bp

Executive Director's Areas of Focus
Fiscal Year 2026

💡 👥 Talent Effectiveness

Areas of Focus	Success Measures
Attract, develop and retain top talent. **(G4.O1)**	**Deliverables**
	• Continue to evolve as an employer of choice to attract and retain best talent.
	• Maintain workforce planning strategies to align talent needs with organizational goals, enhance learning and development opportunities and expand succession planning initiatives to develop and retain future leaders. **(G4.O1.S2)**
	• Execute on Return to Office plan and monitor implementation.
	KPIs
	• Employee engagement score – Target: 4.0 or greater
	• TRS voluntary turnover rate vs. state turnover rate – Target: A minimum of 25% below state average

⚙️ Operational Effectiveness

Areas of Focus	Success Measures
Enhance the information security program to effectively counter current and emerging threats and risks facing TRS. **(G4.O3)**	**Deliverables**
	• Optimize security architecture and operational capabilities to thwart advanced threats and mitigate vulnerabilities. **(G4.O3.S1)**
	• Expand the governance, risk and compliance (GRC) program to include security and privacy management, risk/fraud forecasting and education in cooperation with Legal & Compliance and appropriate business units. **(G4.O3.S2)**
	• Procure and implement a long-term information security fraud prevention solution that aligns with organizational risk appetite and strategic objectives. Partner with Legal & Compliance and key business stakeholders to implement a fraud risk management framework.
Implementation of legislation and statutorily required actuarial reviews.	**Deliverables**
	• Plan and execute implementation of new legislation.
	• Conduct pension benefit design studies and submit reports (September 2026).
	• Successful completion of the Experience Study.

Executive Director's Areas of Focus
Fiscal Year 2026

| Continuous Improvement	
Areas of Focus	**Success Measures**
Advance and enhance information technology (IT) systems and services. **(G4.O2)**	**Deliverables**
	• Develop, maintain and enhance IT systems and infrastructure in support of TRS business needs. **(G4.O2.S1)** • Implement modern information systems across all lines of business divisions with priority on modernization of legacy systems and strategic digital transformation. **(G4.O2.S4)** • Deliver Payroll, Benefit Account Adjustment and Tax Reporting (PBT) release per TEAM Roadmap. • Initiation of final phase of the TEAM Program: Mainframe decommissioning. • Automate the Retirement Application submitted through MyTRS (Maintenance & Enhancements). • Begin optimization of TEAM Phase One code to enhance stability and performance (Technical Debt). • Deliver first release of Web Self-Service for Health, improving accessibility and user engagement.
Evaluate automation and technology solutions to enhance existing processes. **(G4.O7)**	**Deliverables**
	• Investigate best practices and feasibility of incorporating artificial intelligence into organizational processes. **(G4.O7.S1)** • Implement and support business-driven artificial intelligence technology solutions across TRS. • Identify opportunities for improved productivity, process efficiencies and performance monitoring. **(G4.O7.S2)** • Continue implementation of Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight. **(G4.O7.S3)**
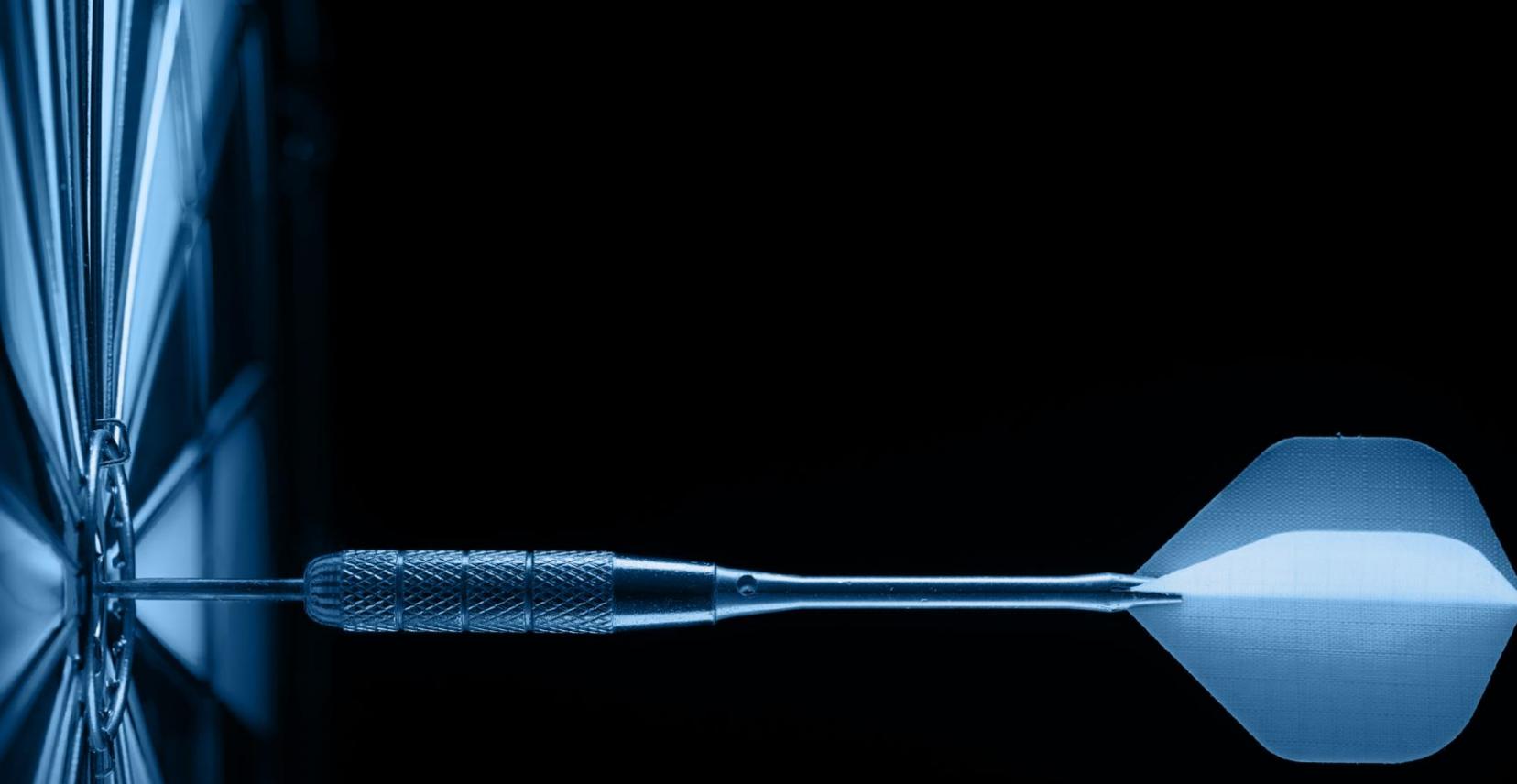
TAB 4

Overview
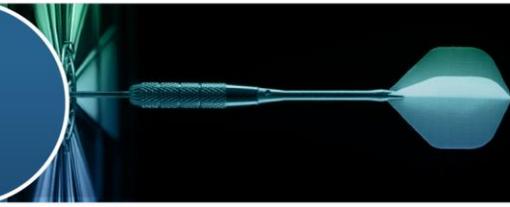
Agenda

- Background

- Summary of Proposed Changes

- Appendix

Background

Develop a new five-year plan every even-numbered year

Submit plan to Legislative **Budget Board and Governor's** Office every even-numbered year

Update plan, if needed, every odd-numbered year

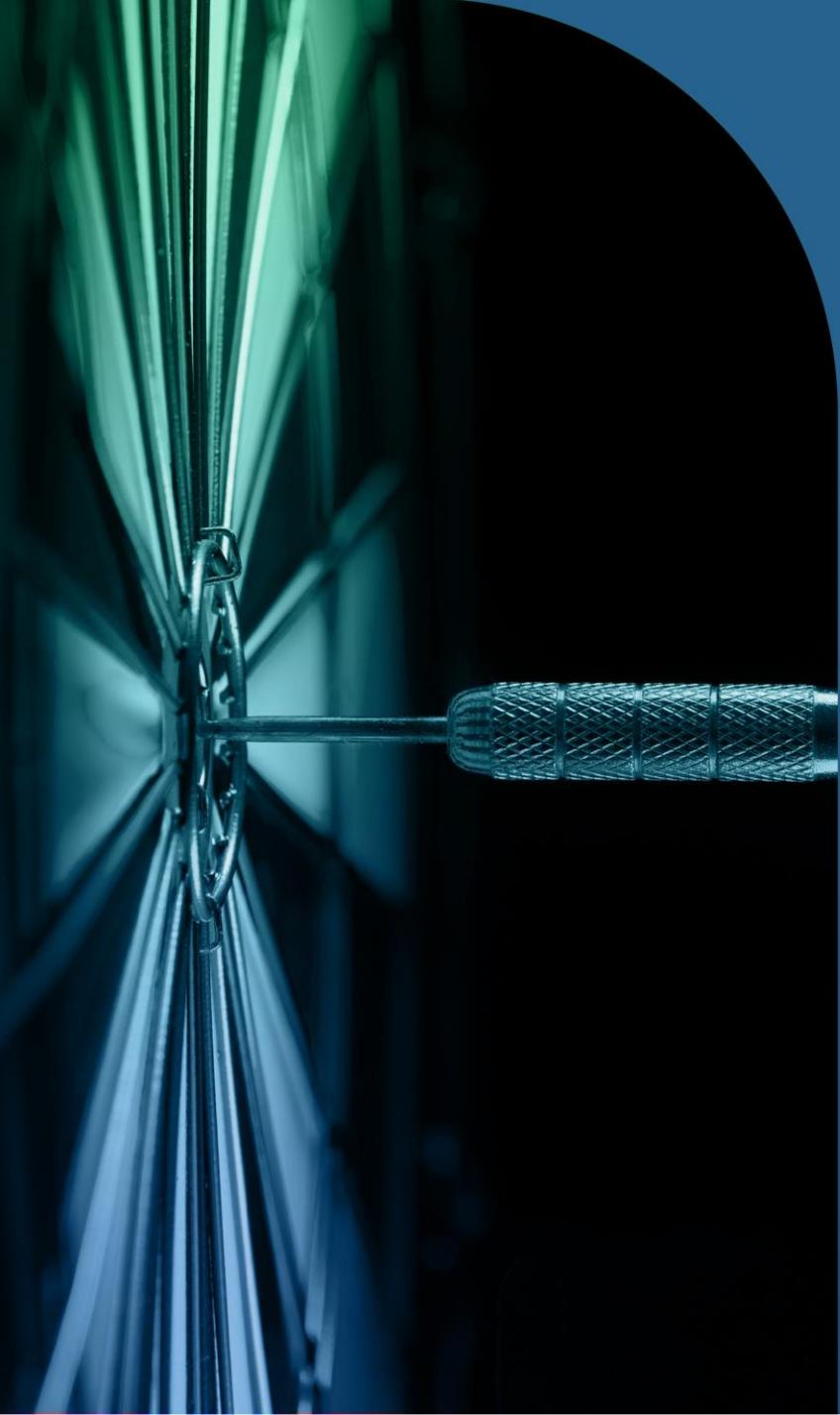Provide strategic plan progress updates to the board

Background

Current Strategic Plan

4 Goals

13 Objectives

32 Strategies

01. *Sustain an actuarially sound pension system.*

02. *Continuously improve our benefit delivery.*

03. *Facilitate access to competitive, reliable health care benefits for our members.*

04. *Align people, processes and technology to achieve excellence in service delivery.*

Background

Summary of Proposed Changes

Continuous Improvement	G4.O6
	G4.O6.S1-S3
		Evaluate automation, efficiency and technology solutions to enhance existing processes. *(REVISED)*
		
		   o Identify opportunities and implement solutions for improved productivity, process efficiencies and performance monitoring. *(REVISED)*
		   o Finalize implementation and operationalize Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight. *(REVISED)*
		   o Complete Pension Data Warehouse Project to automate and enhance data analytics and reporting capabilities for more proactive engagement with stakeholders. *(NEW)*

	G4.O7
	G4.O7.S1-S5
		Strategically employ artificial intelligence (AI) technology for the ongoing benefit of TRS members in a secure, efficient and productive way. *(NEW)*
		
		   o Integrate AI within existing organizational processes to optimize investment performance and improve member services. (Member Focus) *(NEW)*
		   o Measure and evaluate improved efficiencies, effectiveness and cost optimization achieved by leveraging AI. (Operational Excellence) *(NEW)*
		   o Explore innovative ways to improve competitiveness in product/service development and delivery. (Innovation) *(NEW)*
		   o Identify opportunities to reduce risks by the development, deployment and execution of AI applications. (Risk Mitigation) *(NEW)*
		   o Identify skill gaps and develop staff to support AI initiatives through targeted workforce and change management strategies. (Staffing) *(NEW)*

Clean-Up	G4.O5
	G4.O5.S1-S2
		Improve and maintain effective procurement and contract management practices. *(COMPLETE; DELETE)*
		   o Increase the number of utilized Historically Underutilized Businesses (HUBs). *(DELETE)*
		   o Mature third-party risk management processes. *(COMPLETE; DELETE)*

	G4.O6.S1	Investigate best practices and feasibility of incorporating artificial intelligence into organizational processes. *(COMPLETE; DELETE)*

Appendix

Proposed Changes to TRS 2027-2031 Strategic Plan (Tracked)

Proposed TRS 2027-2031 Strategic Plan - Tracked

GOAL 1 | Sustain a financially sound pension system.

Objective 1: Achieve the trust's actuarial assumed rate of return as measured on rolling 20-year periods.

    Strategy 1: Maintain an effective investment governance structure.

    Strategy 2: Enhance current competitive advantages and total returns.

    Strategy 3: Manage cost structures to increase net alpha generated.

Objective 2: Improve communication regarding pension funding and the impact of pension plan design changes.

    Strategy 1: Serve as a trusted resource and engage with policymakers on pension funding and plan design.

Proposed TRS 2027-2031 Strategic Plan - Tracked

GOAL 2 | Continuously improve our benefit delivery.

Objective 1: Improve the customer service experience for participants and reporting employers.

    Strategy 1: Increase engagement with members/participants and reporting employers regarding TRS benefits.

    Strategy 2: Expand our services to meet members where they are.

    Strategy 3: Improve the reporting employer experience.

    Strategy 4: Identify resource needs and develop project plans associated with opening additional regional offices.

Proposed TRS 2027-2031 Strategic Plan - Tracked

GOAL 3 | Facilitate access to competitive, reliable health care benefits for our members.

Objective 1: Improve communication regarding health care funding and the impact of plan design changes.

> **Strategy 1:** Serve as a trusted resource and engage with policymakers on health care funding and plan design.

Objective 2: Increase the value of TRS-Care and TRS-ActiveCare benefits.

> **Strategy 1:** Engage the best health care vendors through competitive procurement to ensure our members have the highest value health care.
>
> **Strategy 2:** Reengineer TRS-ActiveCare to better meet employer needs.
>
> **Strategy 3:** Use data analytics tools to provide assurance on health care claims compliance.
>
> **Strategy 4:** Ensure access to competitive retiree health benefits, including dental and vision plans.

Objective 3: Improve the health of our members.

> **Strategy 1:** Engage and educate plan participants to help them achieve better health outcomes.

Proposed TRS 2027-2031 Strategic Plan - Tracked

GOAL 4 | Align people, processes and technology to achieve excellence in service delivery. (cont'd)

Objective 1: Attract, develop and retain top talent.

Strategy 1: Promote a strong workplace culture that fosters creativity and innovation.

Strategy 2: Maintain workforce planning strategies to align talent needs with organizational goals, enhance learning and development opportunities, and expand succession planning initiatives to develop and retain future leaders.

Objective 2: Advance and enhance information technology (IT) systems and services.

Strategy 1: Develop, maintain and enhance IT systems and infrastructure in support of TRS business needs.

Strategy 2: Optimize the work environment to provide greater scalability, flexibility and security.

Strategy 3: Provide advanced data analytics tools and data management practices to gain business intelligence and improve decision-making.

Strategy 4: Implement modern information systems across all lines of business with priority on modernization of legacy systems and strategic digital transformation.

Strategy 5: Improve digital operating technology models to enhance continuous business process improvement and provide operational efficiencies.

Proposed TRS 2027-2031 Strategic Plan - Tracked

GOAL 4 | Align people, processes and technology to achieve excellence in service delivery. (cont'd)

Objective 3: Enhance the information security program to effectively counter current and emerging threats and risks facing TRS.

 Strategy 1: Optimize security architecture and operational capabilities to thwart advanced threats and mitigate vulnerabilities.

 Strategy 2: Expand the governance, risk and compliance (GRC) program to include security and privacy management, risk/fraud forecasting and education in cooperation with Legal & Compliance and appropriate business units.

Objective 4: Foster a culture of fiduciary responsibility and ethical conduct.

 Strategy 1: Embed/Integrate culture of ethics and compliance within the business process.

 Strategy 2: Enhance visibility of, and accessibility to, Legal & Compliance throughout TRS.

GOAL 4 | Align people, processes and technology to achieve excellence in service delivery. (cont'd)

~~**Objective 5:** Improve and maintain effective procurement and contract management practices.~~

~~**Strategy 1:** Increase the number of utilized Historically Underutilized Businesses (HUBs).~~

~~**Strategy 2:** Mature third-party risk management processes.~~

Objective ~~6~~5: Provide effective communication to all stakeholders with a focus on continuous improvement.

Strategy 1: Improve strategic communications with a customer-centric focus.

Strategy 2: Implement and monitor the Member and Employer Outreach Plan to better help members and employers fully know and utilize benefits, engage with TRS, plan for retirement, and remain informed post-retirement.

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Proposed TRS 2027-2031 Strategic Plan - Tracked

GOAL 4 | Align people, processes and technology to achieve excellence in service delivery. (cont'd)

Objective ~~7~~6: Evaluate automation, efficiency and technology solutions to enhance existing processes.

~~**Strategy 1:** Investigate best practices and feasibility of incorporating artificial intelligence into organizational processes.~~

Strategy ~~2~~1: Identify opportunities and implement solutions for improved productivity, process efficiencies and performance monitoring.

Strategy ~~3~~2: Finalize implementation and operationalize ~~Implement~~ Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight.

Strategy 3: Complete Pension Data Warehouse Project to automate and enhance data analytics and reporting capabilities for more proactive engagement with stakeholders.

Objective 7: Strategically employ artificial intelligence (AI) technology for the ongoing benefit of TRS members in a secure, efficient and productive way.

Strategy 1: Integrate AI within existing organizational processes to optimize investment performance and improve member services. (Member Focus)

Strategy 2: Measure and evaluate improved efficiencies, effectiveness and cost optimization achieved by leveraging AI. (Operational Excellence)

Strategy 3: Explore innovative ways to improve competitiveness in product/service development and delivery. (Innovation)

Strategy 4: Identify opportunities to reduce risks by the development, deployment and execution of AI applications. (Risk Mitigation)
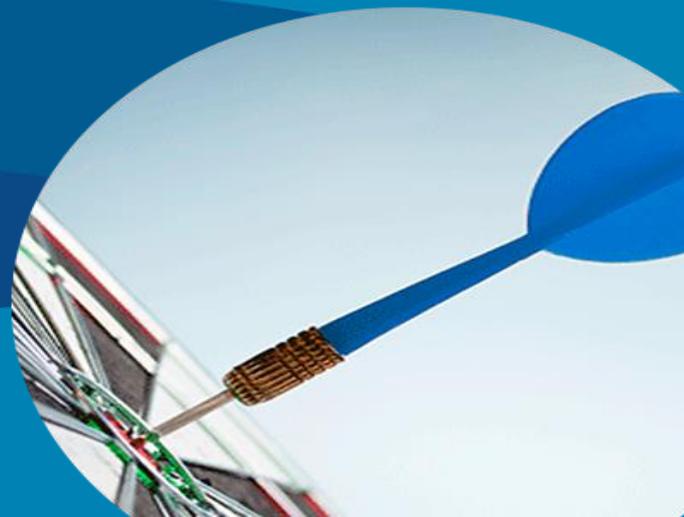
Strategy 5: Identify skill gaps and develop staff to support AI initiatives through targeted workforce and change management strategies. (Staffing)

TAB 5

TRS of Texas
Experience Study Findings and Recommendations

February 12, 2026

Purpose of Experience Study

- The calculations in the valuation process are based on a series of assumptions about future membership behavior and economic realities
- Assumptions should occasionally change to reflect:
    - New information and changing knowledge
    - Changing patterns of retirements, turnover, mortality, etc.
- The experience study is a regularly scheduled review of the assumptions and methods
    - TRS' Funding Policy requires this every four years, with 2026 being the normal schedule
- General process for setting assumptions and methods:
    - Actuary gathers data and performs the analysis
    - Actuary makes recommendations
    - Board considers actuary recommendations and makes the final decision for <u>future</u> TRS valuations

GRS

General Findings

- The current assumption set was found to be appropriate, with only minor adjustments to certain assumptions that generally offset one another:
  - The 2.0% public education employer contribution has not been growing as fast as previously assumed (was assumed to grow with total payroll). We have recommended a discount to this growth assumption, which will extend the funding period by two years.
  - We grouped the active member data into two groups for turnover and new entrant replacements. This shortens the funding period by one year and will be a more adaptive model if the demographics continue to change.
- The net impact is one additional year on the funding period
- Full list of recommendations is in the Appendix and the full report, summarized in the Executive Summary

Investment Return Assumption – National Trends

Change to Average and Median Investment Return Assumption, FY 01 to present
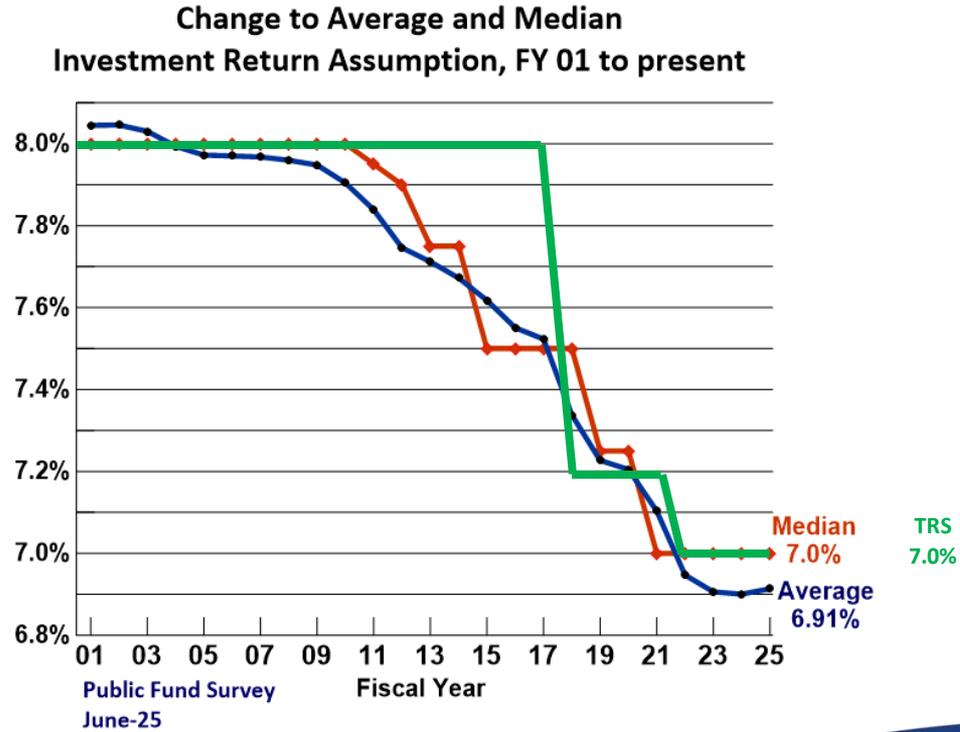
Range of Expected Returns

- Recent information given from Meketa: a 7.3% forward-looking expected return
- GRS' own survey is very close to this number at 7.17%
  - Range from 6.1% to 7.9%
- 51.9% probability of achieving 7.0%

| GRS Survey				
Capital Market Assumption Set (CMA)	Distribution of Geometric Net Nominal Return			Probability of exceeding 7.00%
	40th	50th	60th	
(1)	(2)	(3)	(4)	(5)
1	5.00%	6.10%	7.21%	41.8%
2	5.29%	6.36%	7.44%	44.0%
3	5.72%	6.80%	7.89%	48.1%
4	5.96%	6.96%	7.97%	49.6%
5	6.03%	7.10%	8.17%	50.9%
6	6.23%	7.25%	8.28%	52.5%
7	6.45%	7.38%	8.32%	54.1%
8	6.37%	7.42%	8.47%	54.0%
9	6.57%	7.52%	8.48%	55.5%
10	6.46%	7.55%	8.65%	55.1%
11	6.82%	7.72%	8.62%	58.0%
12	6.97%	7.92%	8.88%	59.6%
Average	6.16%	7.17%	8.20%	51.9%

Recommendation

- Forward-looking capital market expectations are volatile from year to year
- Taking precision and real-time volatility into account is appropriate for making investment decisions
- However, for funding purposes across multiple decades, stability has more value and is preferred
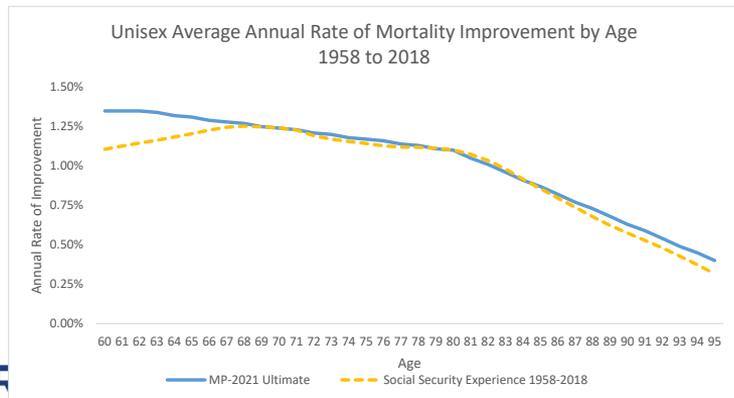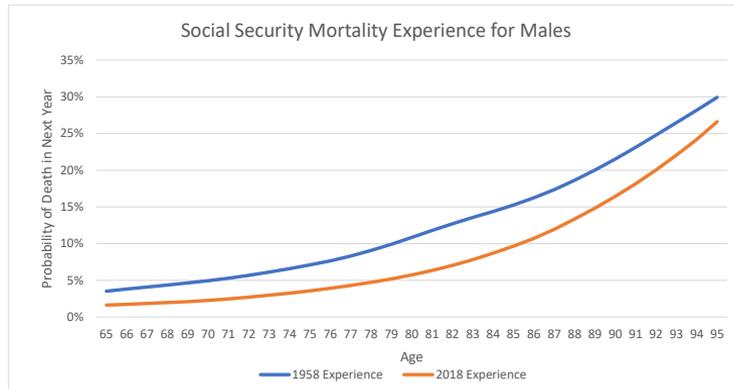- We recommend no change to the current 7.0% assumption

Expected Return of Current Portfolio					
Determined by last 5 GRS Surveys					
2021	2022	2023	2024	2025	Average
(1)	(2)	(3)	(4)	(5)	(6)
6.3%	6.0%	7.2%	7.2%	7.2%	6.8%

Base Mortality Assumption

Base Mortality Assumption
Female Healthly Retirees
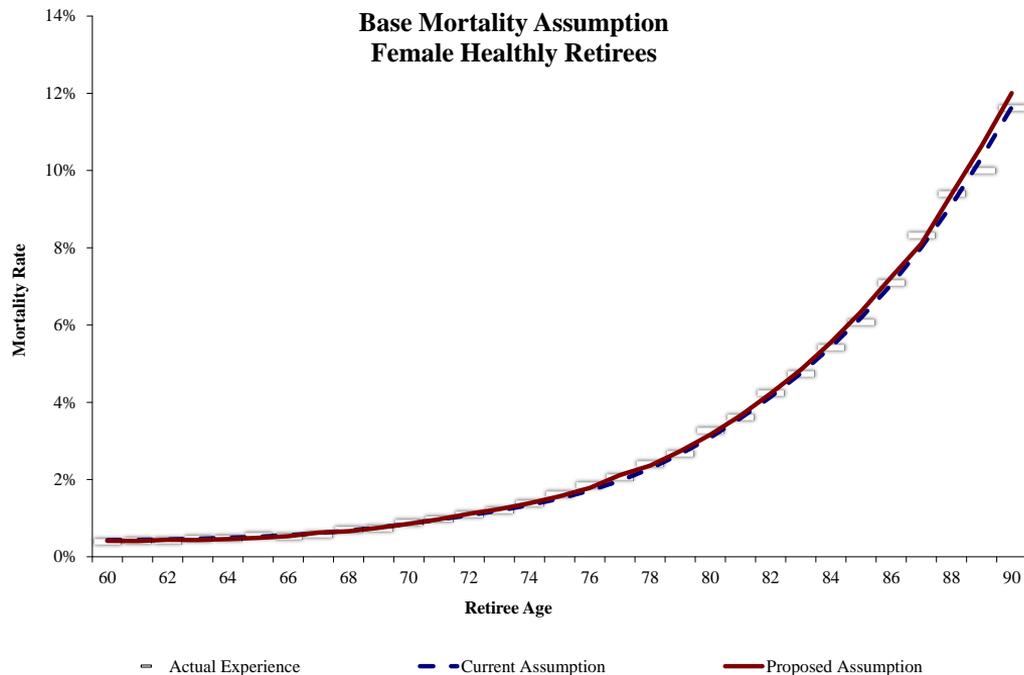
- Even excluding COVID years, mortality was slightly higher than expected

- Strategy is to refit the data with each experience study to stay current and allow for very small changes at any time

- Recommend new 2025 table using updated data, but the change is immaterial to the results

Mortality Improvement

Social Security Mortality Experience for Males

Unisex Average Annual Rate of Mortality Improvement by Age 1958 to 2018

- Generally, assume improvement is consistent with long-term trends
- Specifically use assumptions from latest published improvement scales
  - MP=2021 ultimate
- Strategy is to leave this assumption unchanged unless a clear pattern were to emerge over a long period of time
- Recommend no change

Pattern of Retirement

FEMALE RETIREMENT EXPERIENCE - AGE BASED
Unreduced Retirement
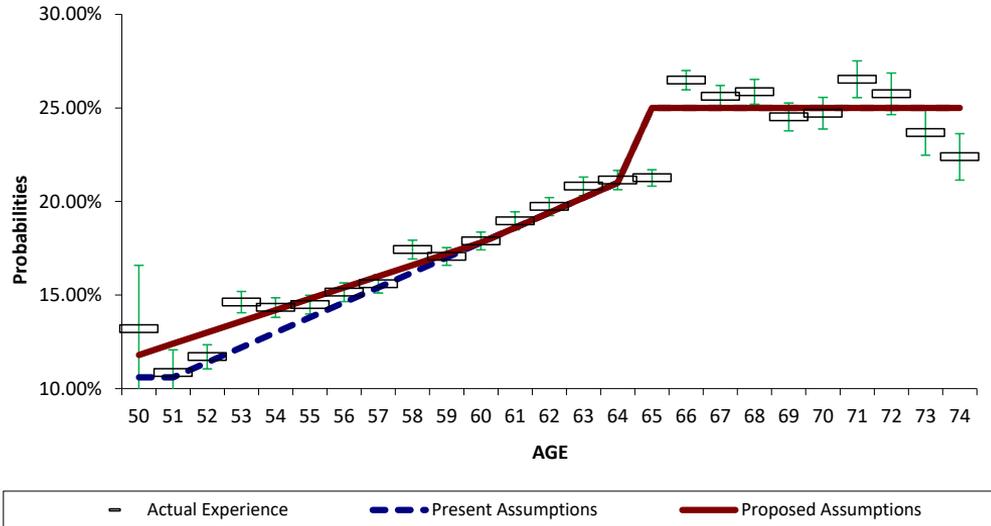
- Members prior to age 60, who are eligible for unreduced retirement, are retiring slightly earlier than expected by the current assumptions

- Otherwise, current assumptions are reasonable

- Fewer members are choosing reduced retirement

Turnover Groups

Employer Type[*]	Position[*]	Count in 2025 Actuarial Data	% Annual Turnover	Median Entry Age
Public Education	Professional/Administrative	69,885	5%	28
Public Education	Teacher, Full-time Librarian	352,213	6%	28
Public Education	Full-time Nurse/Counselor	20,670	7%	30
Senior Colleges	Professional/Administrative	39,116	11%	32
Charter Schools	Teacher, Full-time Librarian	25,359	12%	35
Medical Schools	Professional/Administrative	48,395	12%	32
Public Education	Support Staff	215,435	13%	37
Public Education	Food Service Workers	37,730	14%	41

[*]The Low-Turnover Employee group only consists of the employer type and positions shown in the table. The All-Other Employee group reflects only a sample of employer and position types for brevity.
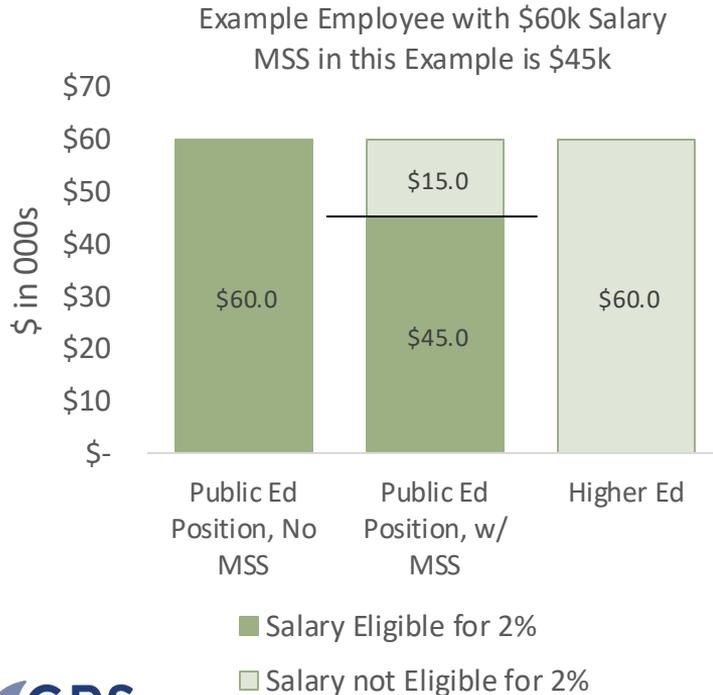
- Historically, the assumption set has combined all positions and all employer types (public education & higher education) together
- Public education teachers & full-time librarians, professional & administrative positions, and full-time nurses & counselors have lower turnover and lower entry ages compared to all other TRS positions
- We recommend splitting into two groups:
  - ■ Low-Turnover Employee group
  - ■ All-Other Employee group

Turnover Patterns FY 2016 - FY 2025

- By replacing a terminating member with a new member in the same group, the impact is slightly lower liabilities and a funding period reduction of one year
- And if the groups are growing at different paces, the model will adapt quicker to the changing demographics

Probability to Achieve:	Public Education Low Turnover			All Other Employees		
	Expected	Actual	Proposed	Expected	Actual	Proposed
New Hire Achieve 10 YOS	44%	53%	54%	44%	40%	42%
New Hire Achieve 25 YOS	32%	40%	42%	32%	27%	28%
Member with 10 YOS remaining until eligible for retirement	71%	77%	77%	71%	67%	68%

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Public Education Employer Contributions

Example Employee with $60k Salary
MSS in this Example is $45k

Chart: $ in 000s

Category	Value
Public Ed Position, No MSS	$60.0 (Salary Eligible for 2%)
Public Ed Position, w/ MSS	$45.0 (Salary Eligible for 2%), $15.0 (not Eligible)
Higher Ed	$60.0 (Salary not Eligible for 2%)

Legend:
- Salary Eligible for 2%
- Salary not Eligible for 2%

- The statutory 2.0% public education employer contribution only applies to public education employers
  - Public education salaries are 75% of total covered payroll
- When the position is subject to the State Minimum Salary Schedule (MSS), then the 2.0% only applies to salaries up to the MSS
  - In FY2025, the 2.0% was only contributed on 57.1% of total covered payroll

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Payroll Eligible for the Public Education Employer Contribution is Growing Slower than Total Payroll

Historical Changes in Payroll

Stacked bar chart, $ in billions, FY 2020–2025:

Year	Payroll Eligible for 2%	Payroll not Eligible for 2%
2020	$30.7	$17.8
2021	$31.4	$18.5
2022	$32.7	$19.9
2023	$33.9	$22.2
2024	$35.1	$24.6
2025	$35.3	$26.5

- Public education salary growth has largely occurred above the MSS, while most TRS membership growth has come from non-public education employers

- This led to the payroll eligible for the 2.0% growing 15% between FY 2020 and FY 2025, while payroll not eligible for the 2.0% grew 49%

- Payroll eligible for the 2.0% has decreased from 63% of the total in 2020 to a projected 55% in FY 2026

Recommendation

- Recommend assuming the public education employer contribution stream grows at 2.25% per year instead of the approximate 2.9% assumed for overall payroll growth

    – 0.25% discount to price inflation

    – 0.65% discount to general wage inflation

Summary of Recommendations

	Current Assumption	Proposed Assumption	Impact on Funding Period
Inflation	2.30%	2.50%	None
Investment Return	7.00%	No Change	-
Administrative Expenses	Average of Last 3 Years	No Change	-
General Wage Inflation	2.90%	No Change	-
Individual Salary Increases	4.16% average over Career	No Change	-
Public Employer Contribution Growth Rate	Same as Total Payroll	2.25%	2 year Increase
Post-Retirement Mortality	TRS data through 2021	TRS data through 2025	< 0.5 year Decrease
Patterns of Retirement		Slight increase < age 60	< 0.5 year Increase
Patterns of Turnover		Segment into 2 Groups	1 year Decrease

Illustrated Impact and Alternatives

	2025 Valuation		Illustrated 2025 Valuation Results, Proposed Assumptions		
			(A)	(B)	(C)
			Public Education Employer Contributions Assumed to Grow with All Payroll	Public Education Employer Contributions Assumed to Grow 2.25% Annually	Public Education Employer Contributions Assumed to Have No Growth
Normal Cost %	12.72%		12.89%	12.89%	12.89%
UAAL in $B	$64.9		$64.3	$64.3	$64.3
Funded Ratio	77.5%		77.7%	77.7%	77.7%
Funding Period (years)	35		34	36	39
Increase in Contribution Rate for Positive Amortization in FY 2028 per Board Funding Policy	1.50%		1.45%	1.50%	1.65%
Funding Period as of 8/31/2027 if receive stated increase in Contribution	22		22	22	22

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Summary

- The primary purpose of the valuation process is to:
  - Communicate to stakeholders about TRS' pension health
  - Set the baseline information on which decisions can be based during the Legislative Session

- This experience study produces the assumptions that are used in the annual actuarial valuation process and other reports

- In April 2026, the TRS Board will need to approve a final set of assumptions and methods for use in the 2026 valuation and the 2027 Legislative Session
  - The full set of recommendations (and recommended changes) is in the Appendix and is also outlined in the Executive Summary of the report

Actuary's Qualifications

- The recommended set of actuarial assumptions represent an accurate portrayal of TRS' financial condition
- The study was conducted in accordance with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board
- All signing actuaries meet the Qualification Standards of the American Academy of Actuaries

APPENDIX

Experience Study Recommendations

Appendix: Experience Study Recommendations

Economic Assumptions

We recommend:

- **Increasing the underlying inflation assumption to 2.50% from 2.30%.** While the inflation assumption is not directly used in the valuation process or determining benefits, it is a building block for other assumptions.

- **No change to the investment return assumption.** The current 7.00% investment return assumption is reasonable. Based on the current capital market assumptions from Meketa, TRS' investment consultant, and the System's target asset allocation, the median expected geometric return is 7.3%. To verify those estimates, we used twelve other independent sources and the average result from that survey was 7.2%. These forward-looking expectations for the same portfolio have varied from 6.0% to 7.2% over the last five years. This type of precision and volatility is appropriate for the use by Meketa and IMD in investment decisions because they constantly interact with current market prices and expectations over a specific investment cycle. However, for setting the contribution requirements and funding patterns over a number of investment cycles, consistency around a single number that is in the middle of the range is more appropriate.

- **No change to the administrative expense assumption.** We find continuing to use the average of the last three years actual administrative expenses as the forward-looking assumption in each valuation is reasonable. This expense is included in the normal cost.

Appendix (cont.): Experience Study Recommendations

- **No change for the general wage inflation (GWI) assumption.** This analysis finds the current GWI assumption of 2.90% to be reasonable. This assumption is comprised of price inflation (2.50%) and general productivity (0.40%). This assumption is used primarily to index each cohort of new entrants used in projections and as a starting point for the individual salary scales and the payroll growth assumption (amortization payment growth rate).

- **No change to the assumption for salary increases to individual members.** Based on comparisons to historical experience, the current assumption is slightly high when adjusted for the recent higher inflation. However, the assumption is lower than experience from the past five years. In addition, legislation passed during the 2025 Texas Legislative Session provided appropriations for salary increases for public educators beginning in fiscal year 2026 and beyond that are not reflected in the historical data.

- **Assuming the contribution from the public education employer contribution will grow at 2.25% annually** instead of with total payroll. This is similar to assuming it will grow with wage inflation but builds in a discount for the sporadic nature of the increases. This change will increase the funding period and increase the contribution rate needed to meet the TRS Board's funding policy.

- **No change to the assumption about benefit enhancements** and we continue to assume there will be either (i) no cost-of-living increases (COLAs) or supplemental payments provided to retirees, or (ii) they will be fully-funded when they are provided.

Appendix (cont.): Experience Study Recommendations

Mortality Assumptions

We recommend:

- **Updating the post-retirement mortality tables for non-disabled retirees** to reflect recent TRS member experience. These tables will be labeled the 2025 TRS of Texas Healthy Pensioner Mortality Tables and reflect slightly lower longevity. We also recommend continuing to assume mortality rates will improve in the future using a fully generational approach and updating that assumption based on the ultimate rates of the most recently published projection scale MP-2021, which we refer to as ("U–MP").

- **Updating post-retirement mortality tables for disabled retirees to reflect recent TRS member experience,** adds another year of set-forward to the current procedures. We also recommend continuing to assume mortality rates will improve in the future using a fully generational approach, with projection scale ("U–MP").

- **Updating pre-retirement mortality tables for active employees to the recently published PUB(2016) mortality tables for teachers**, using the below median table. We also recommend continuing to assume mortality rates will improve in the future using a fully generational approach, with projection scale ("U–MP").

Appendix (cont.): Experience Study Recommendations

Other Demographic Assumptions

We recommend:

- **Segmenting the member data into two groups for turnover:**
    - (1) Professional/Administrative, Teacher/Full-Time Librarian, and Full-Time Nurse/Counselor for public schools are considered Low Turnover
    - (2) All Other Employees are considered Higher Turnover
    - Only replacing terminating members from one group with recent new entrants from that specific group in the open group projections. This should produce a more adaptive model if the groups are growing at different paces. We have created new turnover patterns for each group separately. These changes will slightly lower the liabilities, contribution requirements, and the funding period by one year.
- **Making small increases to the retirement probabilities for members prior to age 59** consistent with experience and future expectations
- **No change to the assumed disability pattern or the assumption that 20% of the members who become disabled will choose a 100% joint and survivor annuity option**
- **No change to the current marriage assumption and spousal age difference**

Appendix (cont.): Experience Study Recommendations

Actuarial Methods and Policies

We recommend:

- **No change to the current process of estimating the valuation payroll** for the upcoming fiscal year, which is to use the actual known covered payroll for the previous fiscal year and increase it by one year's payroll growth assumption
- **No change to the current asset smoothing method or the smoothing period**
- **No change to the use of the Individual Entry Age (IEAN) actuarial cost method**
- **No change to continue using individual data records in the valuation process.** However, the use of individual data extends the computer run time dramatically. For legislative analyses, we will continue to use celled data and adjust for any difference between the two data sets.

Appendix (cont.): Minimum Salary Schedule (MSS)

The chart shows the last two times the MSS was updated. The update changed the lower years of experience by $300. Higher years of experience changed almost $500.

Years of Experience Credited	2019-2020 Annual Salary	2025-2026 Annual Salary
0	$33,660	$33,960
1	$34,390	$34,690
2	$35,100	$35,410
3	$35,830	$36,150
4	$37,350	$37,690
5	$38,880	$39,230
6-9	Not included in presentation	
10	$45,630	$46,040
11-14	Not included in presentation	
15	$50,710	$51,160
16-19	Not included in presentation	
20 & Over	$54,540	$55,030

- **An example of a position subject to the MSS** is a teacher. In 2019, a teacher with two years of service is paid $5,000 over the MSS (that is not counted) for a total of $40,100 in 2019 and $40,410 in 2025.
  - The 2.0% public education educator (PE) contribution for this teacher with 2 years of experience would be $702 in 2019-2020 and $708.20 in 2025-2026.
- **An example of a position that is not subject to the MSS** is a support person, who makes the same as the teacher, but all of the salary counts for the 2.0% contribution.
  - The 2.0% PE contribution for the support person would be $802 in 2019-2020 and $808.20 in 2025-2026.

GRS

TAB 6

CIO Update

CIO Update
IMD at a Glance

Priorities

- **Performance.** The Trust ended 2025 with a 1-year return of 15.9% and +176 bp of excess return. The 3-year return is 11.1% with +208 bp of excess return

- **Town Hall.** Hosted annual Town Hall event at the AISD Performing Arts Center to emphasize IMD strategy and 2026 priorities

  - CIO Fireside Chat with Jase Auby

  - Keynote Speaker: Jim Coulter, TPG

  - Presented the Excellence in Investing Award and the Spotlight Award

- **Emerging Manager Conference.** Virtually hosted the Emerging Manager Conference on February 10, 2026

Source: State Street Bank, TRS IMD

Our People

Snapshot as of December 2025	
IMD FTEs	259
Contractors	5

Attrition Trend 2018 - 2025 (As of December 2025)

2018	2019	2020	2021	2022	2023	2024	2025
6.8%	5.3%	5.9%	14.5%	10.2%	3.5%	2.0%	9.6%
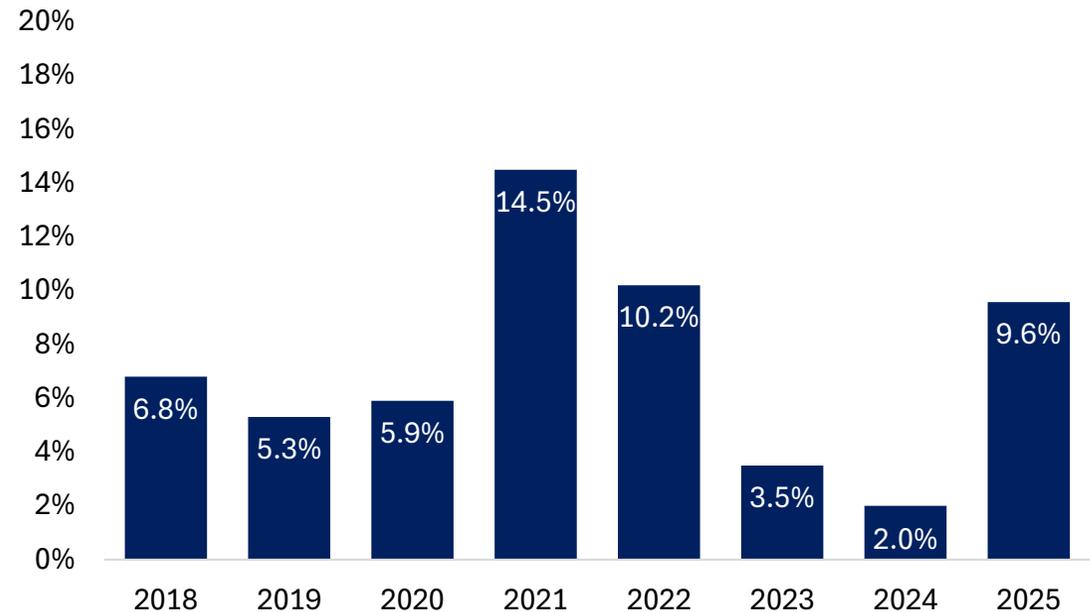
Market Update

2025 Witnessed an Everything Rally

Asset Class Performance: Local, Rolling 12 Months
12/31/2024 - 12/31/2025
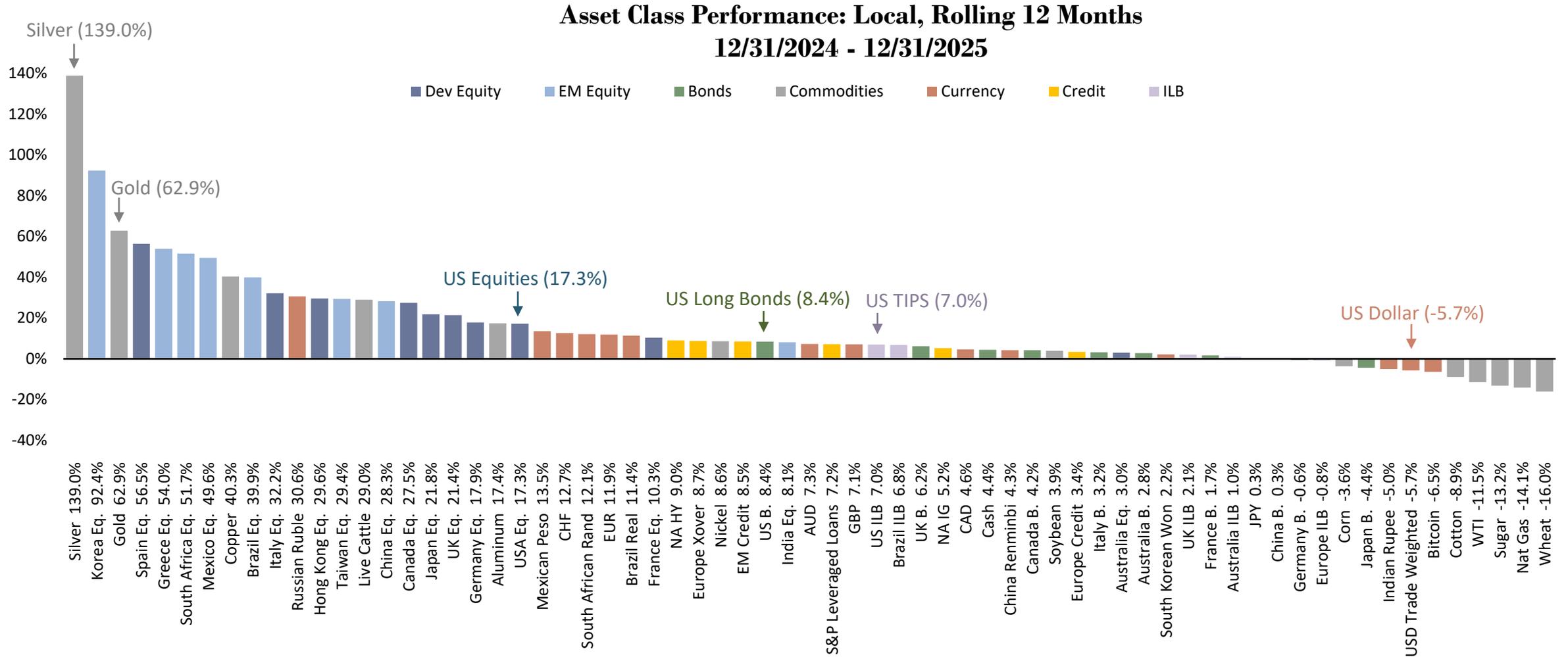
Source: Bloomberg

International markets substantially outperformed the US in 2025

Equity Market Leadership (Total Return %, USD, 2025)
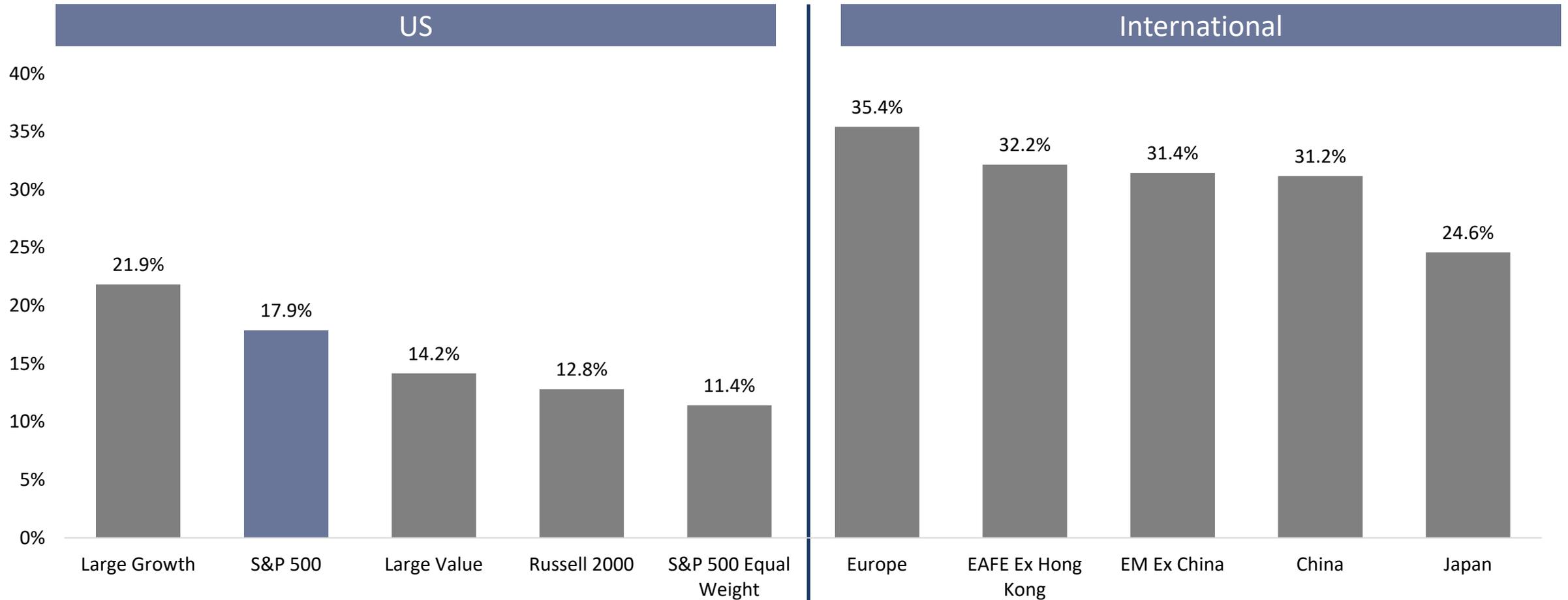
Which has not happened in awhile

US - World Excess Return, Rolling 12 Months

Source: Bloomberg
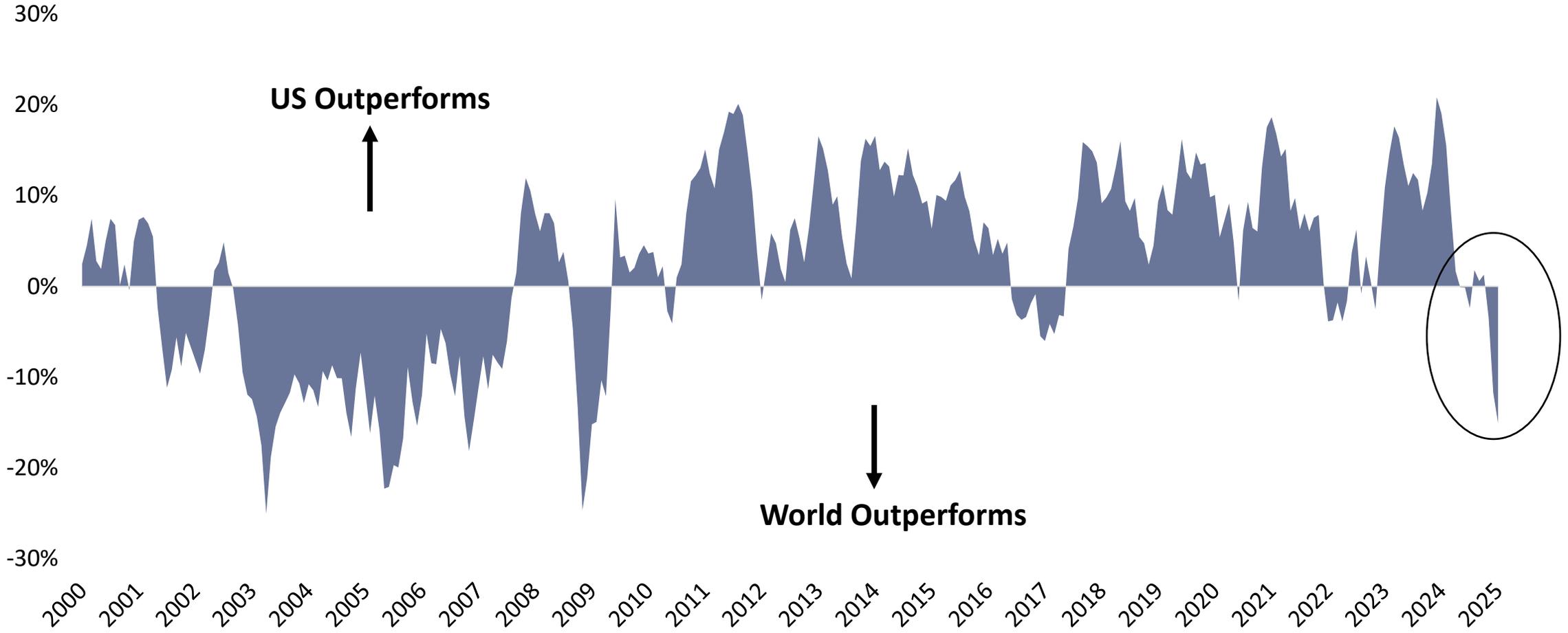
But the US still leads the 2020's equity market race

90% of countries have positive equity returns in the 2020's decade so far

- **Top 5:** Argentina 36%, Taiwan 20%, Czech Republic 20%, Austria 16%, Italy 16%
- **Bottom 5:** Philippines -3%, Indonesia -2%, Thailand -2%, New Zealand -2%, Egypt -1%

Country Performance - 2020's
December 31, 2019 – December 31, 2025 • USD • Annualized Percent (%)

Legend: ■ USA ■ Developed Market ■ Emerging Market

Chart annotations: US: 14.6%, Japan: 7.9%, China: 1.6%

Country values (x-axis labels):
ARGENTINA 36.0%, TAIWAN 20.4%, CZECH REPUBLIC 20.2%, AUSTRIA 16.3%, ITALY 15.5%, SPAIN 15.4%, GREECE 15.3%, PERU 14.9%, USA 14.6%, UNITED ARAB EMIRATES 13.4%, HUNGARY 13.2%, IRELAND 12.7%, CANADA 12.6%, NETHERLANDS 12.2%, ISRAEL 12.0%, MEXICO 11.2%, INDIA 10.8%, SOUTH AFRICA 10.7%, KOREA 9.9%, SWEDEN 9.9%, POLAND 9.2%, COLOMBIA 9.1%, GERMANY 9.1%, UNITED KINGDOM 8.7%, SWITZERLAND 8.7%, KUWAIT 8.5%, DENMARK 8.3%, SINGAPORE 8.2%, FRANCE 8.0%, JAPAN 7.9%, CHILE 7.4%, FINLAND 7.3%, NORWAY 7.1%, AUSTRALIA 7.0%, SAUDI ARABIA 5.6%, TURKEY 5.1%, BELGIUM 4.3%, PORTUGAL 4.0%, MALAYSIA 3.5%, QATAR 3.2%, HONG KONG 1.8%, CHINA 1.6%, BRAZIL 1.1%, EGYPT- 0.5%, NEW ZEALAND- 1.9%, THAILAND- 2.0%, INDONESIA- 2.0%, PHILIPPINES- 3.3%

Source: Bloomberg

The US continues to defy historical norms

Equity Market Winners by Decade (1950 – Today)

Decade	Hot Equity Market
1950s	Europe
1960s	US
1970s	Emerging Markets
1980s	Japan
1990s	US
2000s	Emerging Markets
2010s	US
2020s	US (so far....)

Return in Hot Decade and in Next Decade (versus ACWI)

Returns in Percent

Hot Decade: 275
Next Decade: -74

Source: Morgan Stanley

9
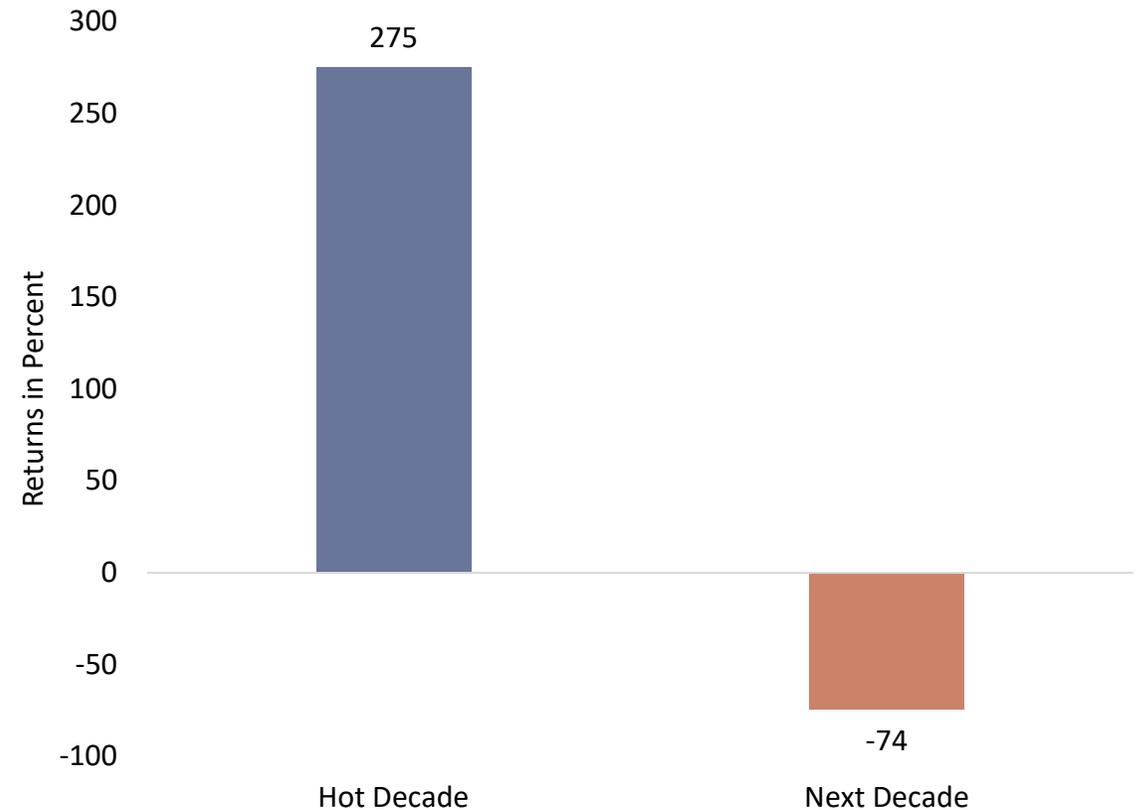
US long duration bonds outperformed on falling yields

2025 Global Long Bond Returns, Local, %

US: 8.4%
UK: 6.2%
Canada: 4.2%
Italy: 3.2%
Australia: 2.8%
France: 1.7%
China: 0.3%
Germany: -0.6%
Japan: -4.4%
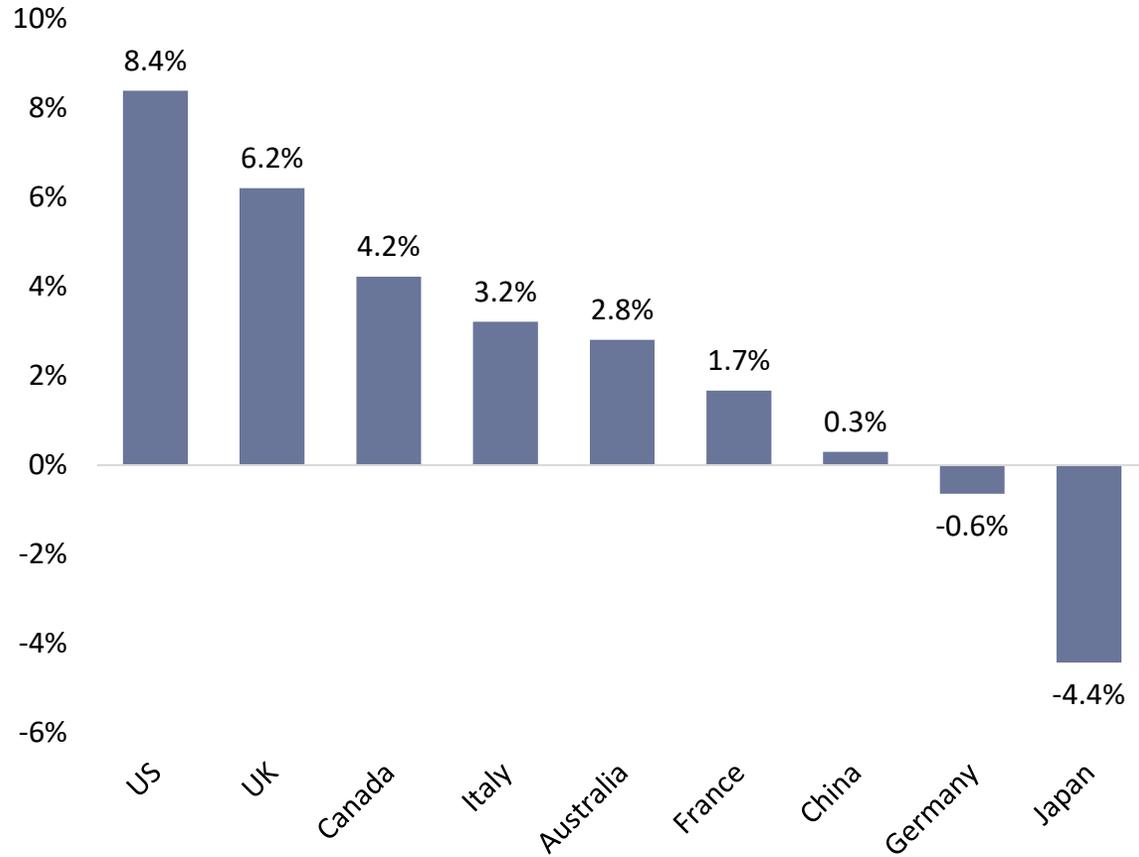
US Treasury Yield Curve (Yield % by Tenor)

— 12/31/2025   — 1 Year Ago
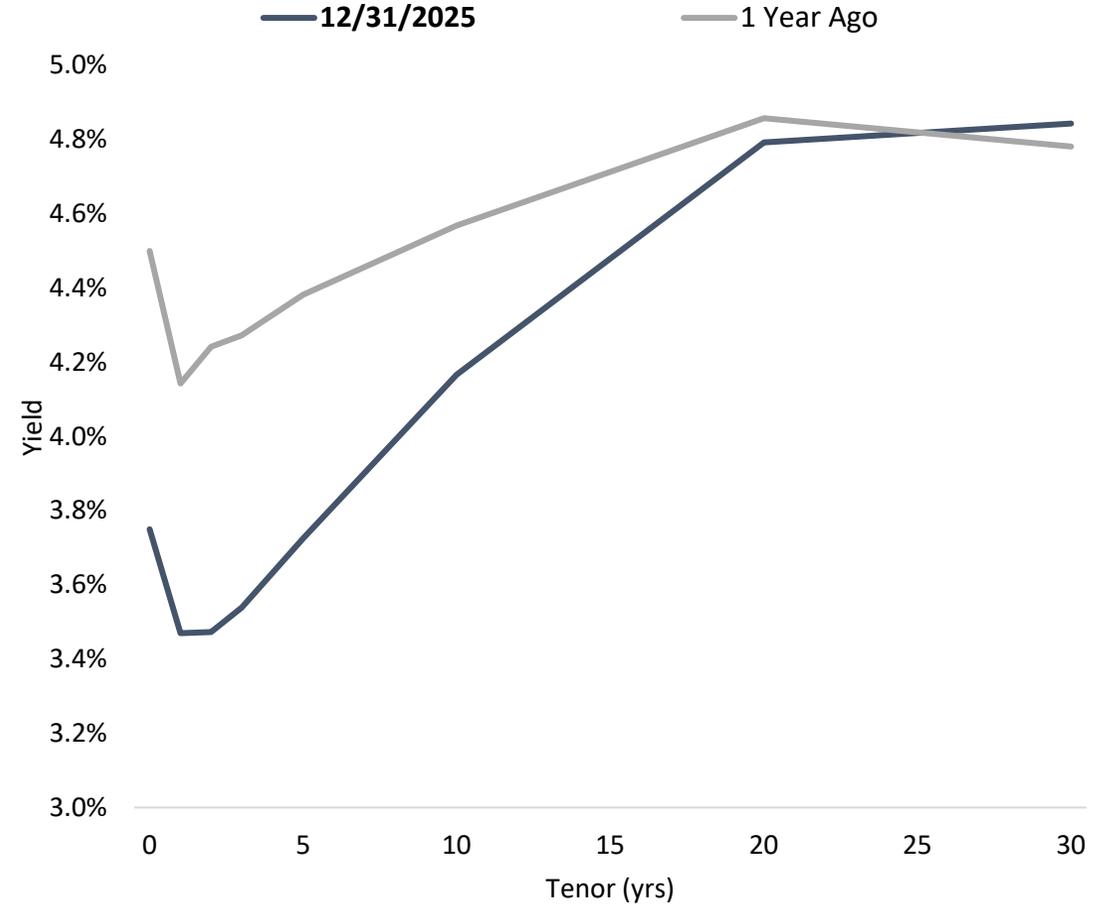
Despite early recessionary calls, growth remained robust

1Y Forecast of US Recession Probability within 12M
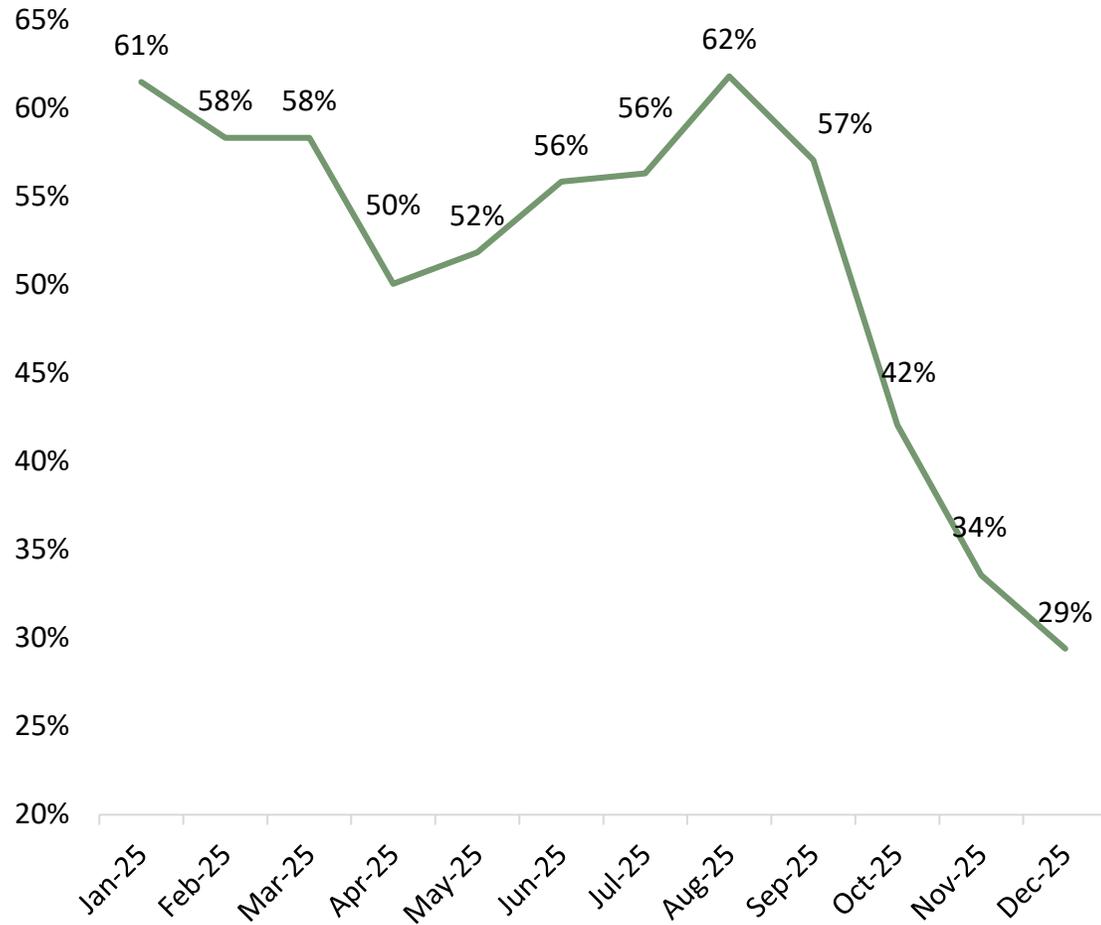
US Real GDP (Quarter over Quarter % Change)

Source: Bloomberg, BEA
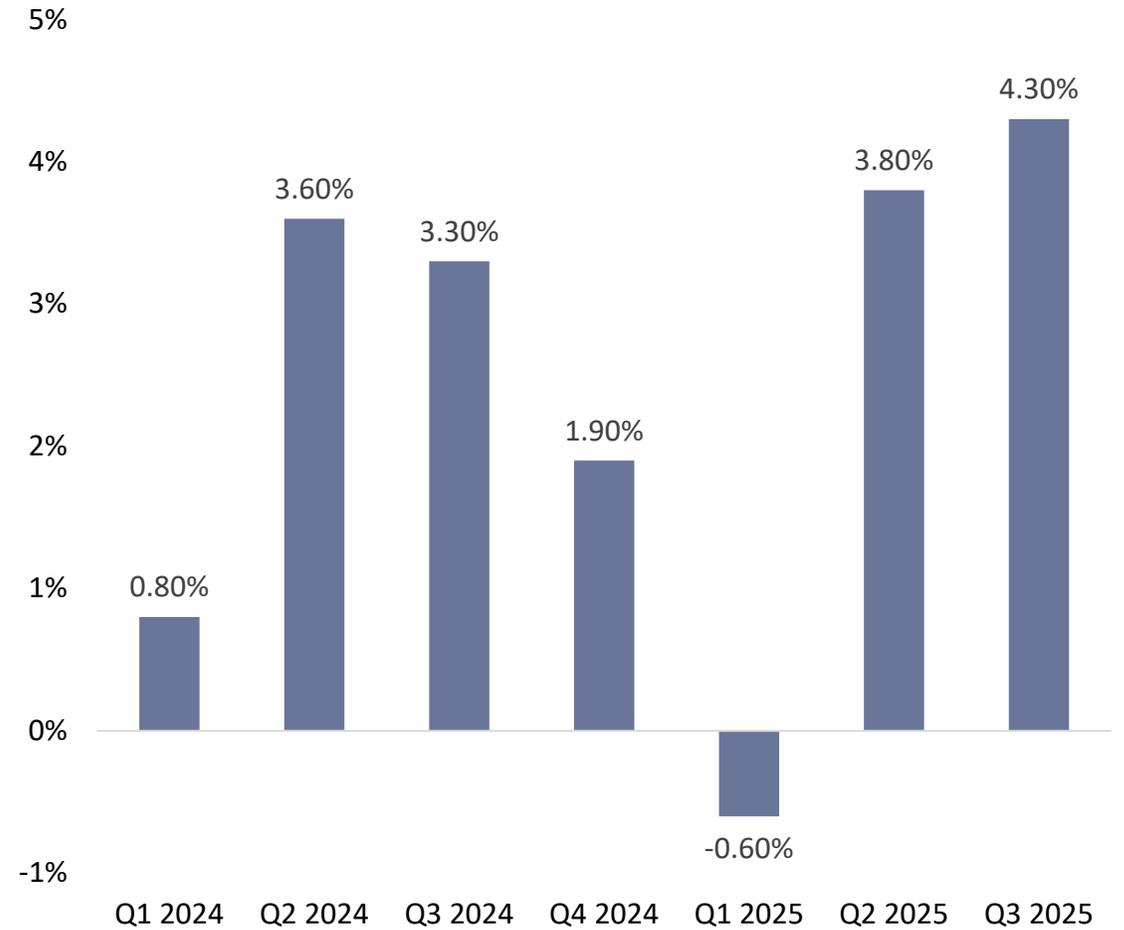
Inflation cooled further despite US tariffs reaching highest level in decades

CPI Rolling 12 Months

— CPI CORE 2.6%   — CPI HEADLINE 2.7%
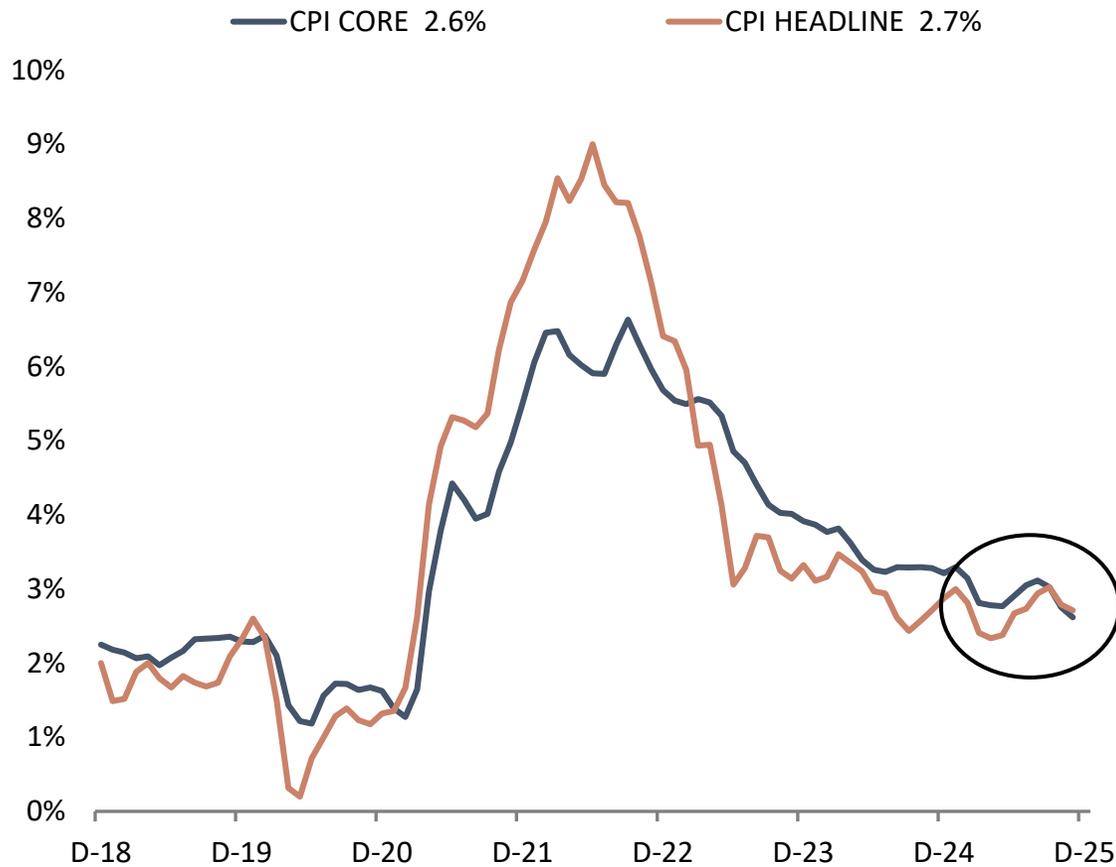
US Effective Tariff Rates on Key Trading Partners

China   Mexico   Canada
Switzerland   Vietnam   .... Overall Average

Source: Bloomberg, United States International Trade Commission

12
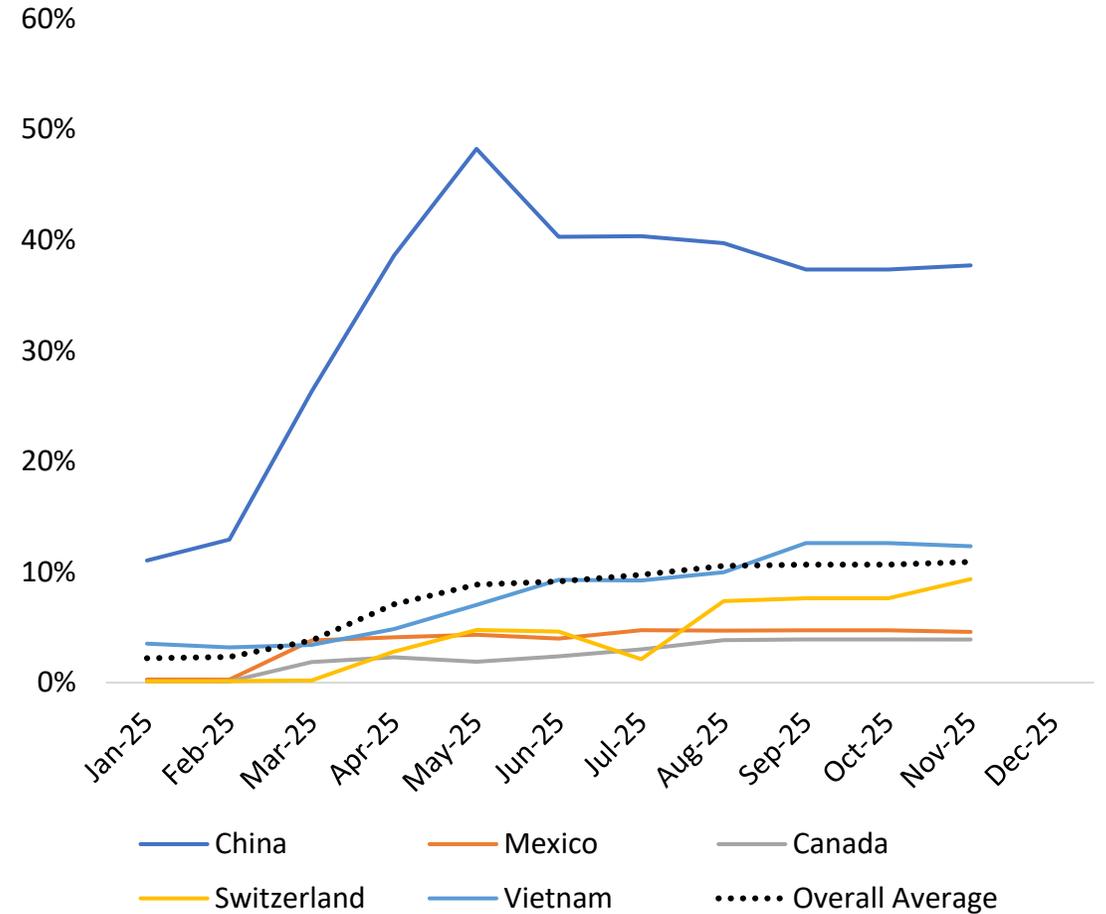
But a slowdown in the job market prompted the Fed to cut rates

Net Changes of Nonfarm Payroll

Legend: MoM Net Change | NFP Forecast | 6 Month Average

Fed Funds Rate

Legend: Fed Funds Effective Rate | Market Implied | Fed Projection

Source: Bloomberg
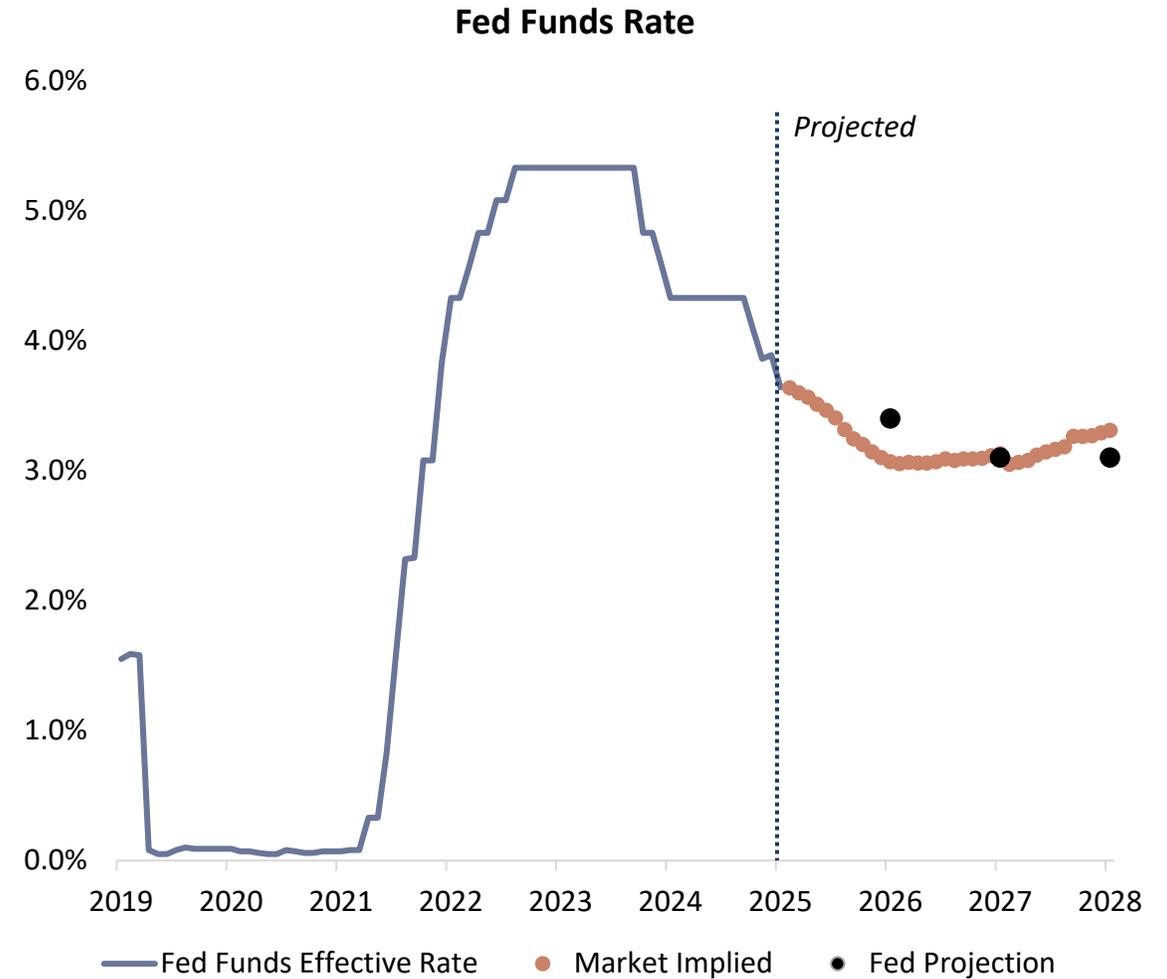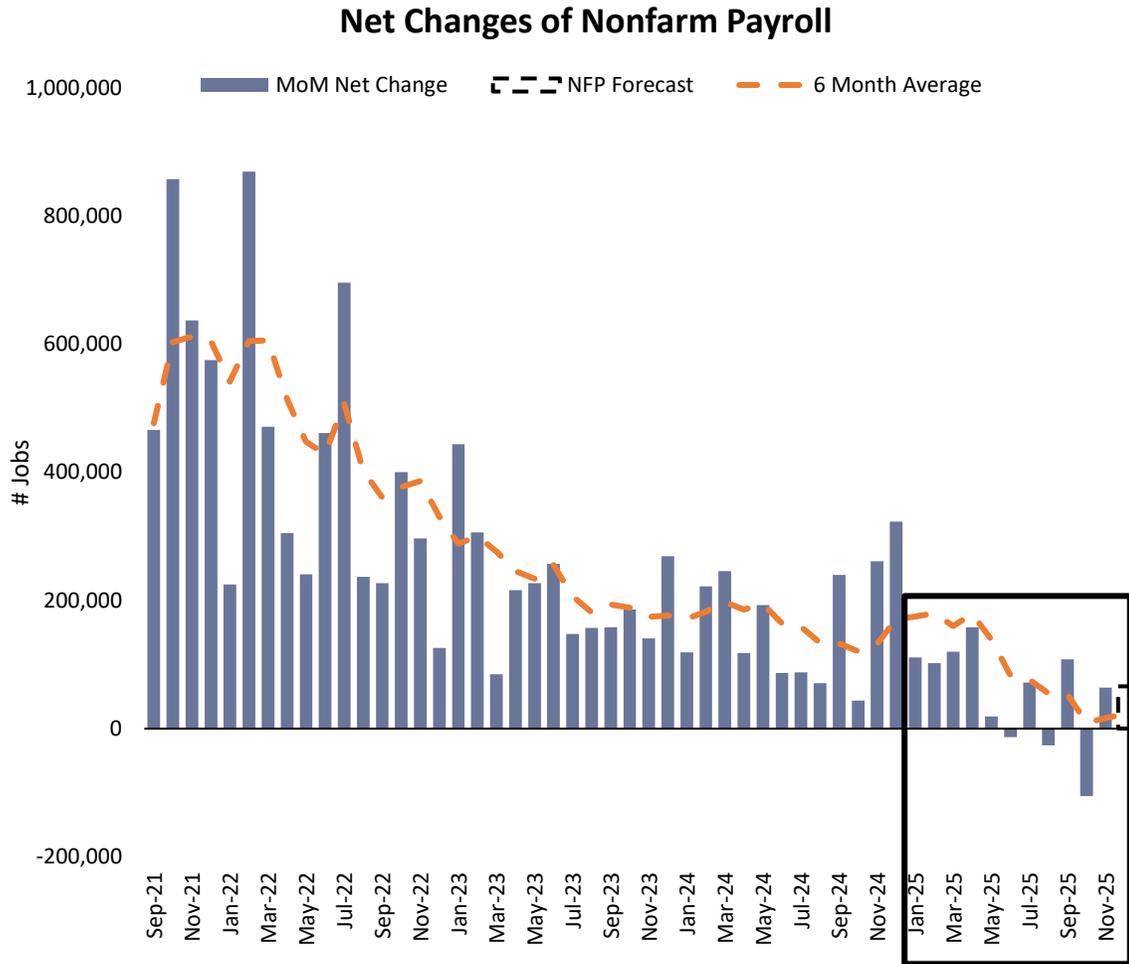
All while a precious metals rally defined 2025 as a hedge from uncertainty

Gold and Silver Prices Since 1967

Gold Price — Silver Price

As of 12/31/2025 (Annualized)				
	1-Year	5-Year	10-Year	20-Year
Gold	64.6%	17.9%	15.1%	11.2%
Silver	148.0%	22.1%	17.9%	11.0%

Source: Bloomberg
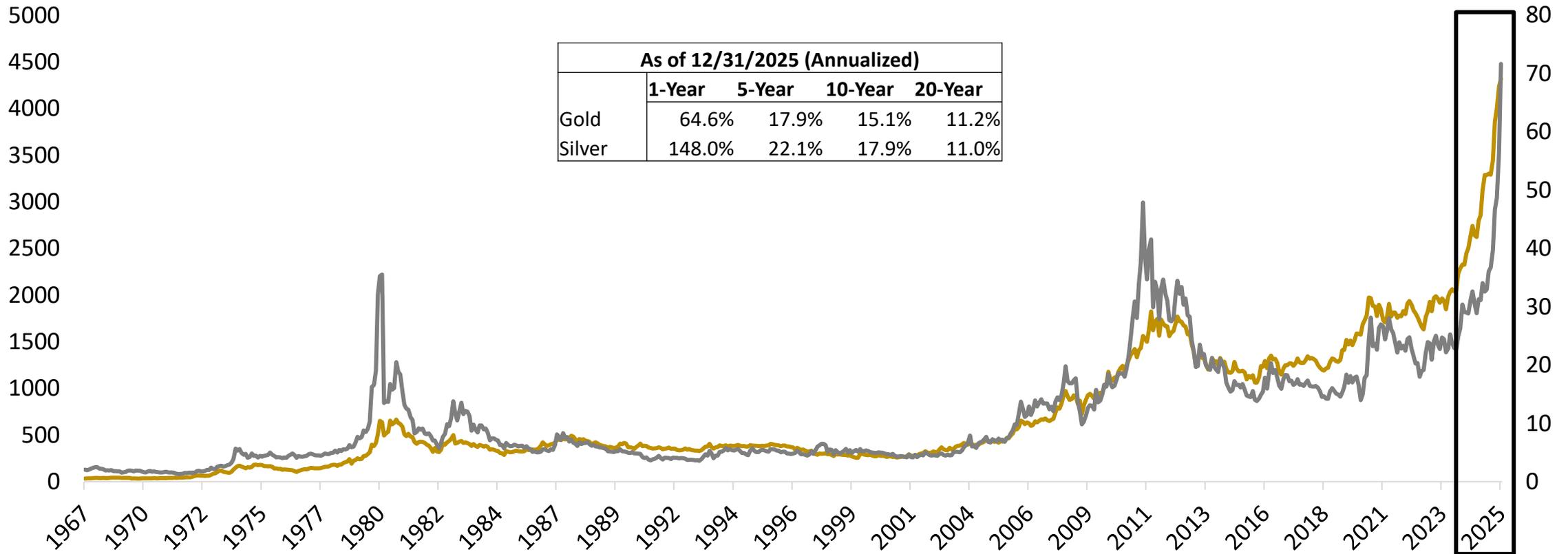
Special Topic: Total Portfolio Approach

Special Topic Overview

Special Topics

Topic	Date	Topic	Date
1 Recession	September 2017	10 China	February 2022
2 Growth	February 2018	11 Sentiment	September 2022
3 Inflation	September 2018	12 Foreign Currency	February 2023
4 Strategic Asset Allocation	February 2019	13 Artificial Intelligence	September 2023
5 Value	September 2019	14 Strategic Asset Allocation	February 2024
6 Diversification	February 2020	15 Corporate Earnings	September 2024
7 Interest Rates	September 2020	16 US Federal Debt	February 2025
8 Long-Term Investing	February 2021	17 Artificial Intelligence (Pt. 2)	September 2025
9 Commodities	September 2021	18 Total Portfolio Approach	February 2026

Corporate Earnings (Topic 15)

As of 12/11/25

S&P 500 YoY Earnings Growth

Reported   *Projected*

	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26
	5.8%	11.2%	7.8%	18.3%	13.3%	12.0%	13.3%	7.7%	12.3%

Recession (Topic 1)

As of 12/11/25

US Recession Probability (%, Next 12 Months)

30%
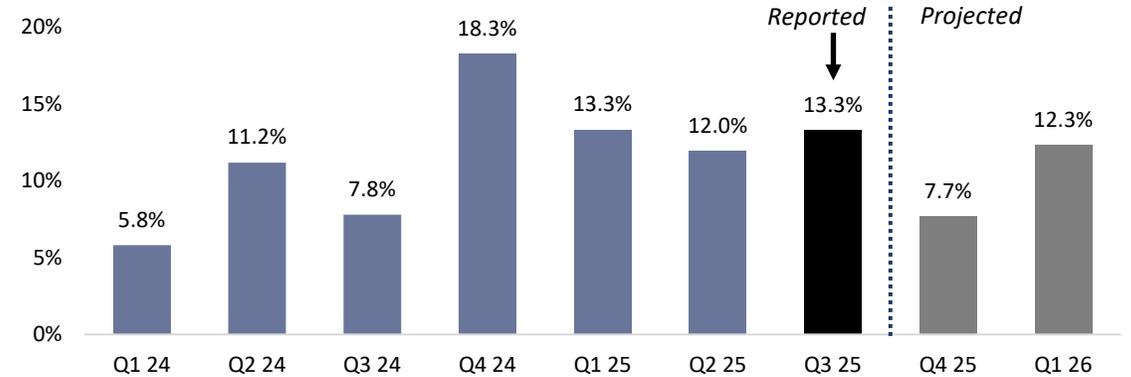
Sentiment (Topic 11)

As of 12/11/25

University of Michigan Consumer Sentiment

53
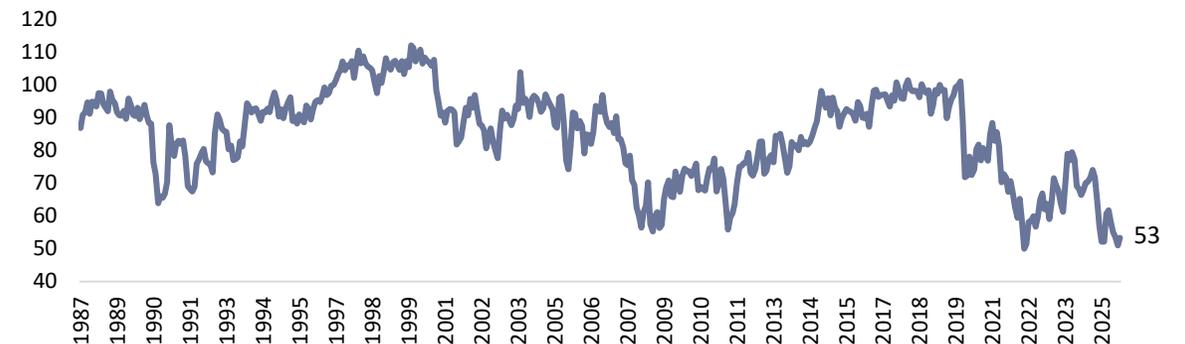
Total Portfolio Approach

What is the Total Portfolio Approach (TPA)?

TPA is a **holistic** way to allocate a pension fund that views the entire portfolio as a single unit, focusing on overall goals and risk factors rather than isolated asset classes or benchmarks

- Allows for **dynamic, integrated decisions** and **de-emphasizes traditional silos** within the traditional SAA approach in favor of a unified view

Why do we care?

- Many of TRS' **respected peers** (e.g., Australian Future, CalPERS, Canadian pensions, GIC, New Zealand Super) have transitioned from traditional SAA to TPA

- TRS has prioritized **bottoms-up** decision-making which is somewhat at odds with the more **top-down** approach of TPA

- **TRS already combines** many elements of TPA with a traditional SAA approach

SAA and TPA from a Board Perspective

Traditional SAA

Asset Allocation

Asset Class	Neutral	Range
All Country	39%	29% - 44%
USA	0%	-5% - 5%
Non-US	5%	0% - 10%
Emerging Markets	1%	-4% - 6%
Private Equity	12%	7% - 19%
Govt Bonds – Nominal	10%	0% - 15%
Govt Bonds – Real	6%	0% - 11%
Absolute Return	0%	0% - 10%
SVHF	5%	0% - 10%
Real Estate	15%	10% - 20%
ENRI	6%	1% - 11%
Commodities	0%	0% - 5%
Risk Parity	5%	0% - 10%
Cash	2%	0% - 7%
Asset Allocation Leverage	-6%	N/A

Source: TRS IMD

SAA and TPA from a Board Perspective

TRS: Traditional SAA plus Risk Metrics

Asset Allocation

Asset Class	Neutral	Range
All Country	39%	29% - 44%
USA	0%	-5% - 5%
Non-US	5%	0% - 10%
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ENRI	6%	1% - 11%
Commodities	0%	0% - 5%
Risk Parity	5%	0% - 10%
Cash	2%	0% - 7%
Asset Allocation Leverage	-6%	N/A

Risk Metrics

Tracking Error	Value at Risk (VaR)
<300 bp	Within Min/Max

Source: TRS IMD

SAA and TPA from a Board Perspective

TRS: Traditional SAA plus Risk Metrics

Asset Allocation

Asset Class	Neutral	Range
All Country	39%	29% - 44%
USA	0%	-5% - 5%
Non-US	5%	0% - 10%
Emerging Markets	1%	-4% - 6%
Private Equity	12%	7% - 19%
Govt Bonds – Nominal	10%	0% - 15%
Govt Bonds – Real	6%	0% - 11%
Absolute Return	0%	0% - 10%
SVHF	5%	0% - 10%
Real Estate	15%	10% - 20%
ENRI	6%	1% - 11%
Commodities	0%	0% - 5%
Risk Parity	5%	0% - 10%
Cash	2%	0% - 7%
Asset Allocation Leverage	-6%	N/A

Risk Metrics

Tracking Error	Value at Risk (VaR)
<300 bp	Within Min/Max

Total Portfolio Approach

Reference Portfolio

Asset Class	Neutral	Range
Equities - All Country	75%	Unconstrained
Bonds - Aggregate	25%	Unconstrained

- The portfolio remains invested in all of the asset classes
- Example: A real estate office investment might have a risk level equivalent to 82% equity and 18% bonds

Risk Metrics

Tracking Error

<400 bp

Source: TRS IMD

The TRS approach is a hybrid of SAA and TPA

TRS = ●   TPA = ●

Reference Portfolio

Asset Class Benchmarks

Total Fund Return

Security Selection Alpha

Dynamic / Tactical Asset Allocation Alpha

Top Down Decision-making

Multiple performance pay metrics

1 -------------- 2 -------------- 3 -------------- 4 -------------- 5 -------------- 6 -------------- 7 -------------- 8 -------------- 9 -------------- 10
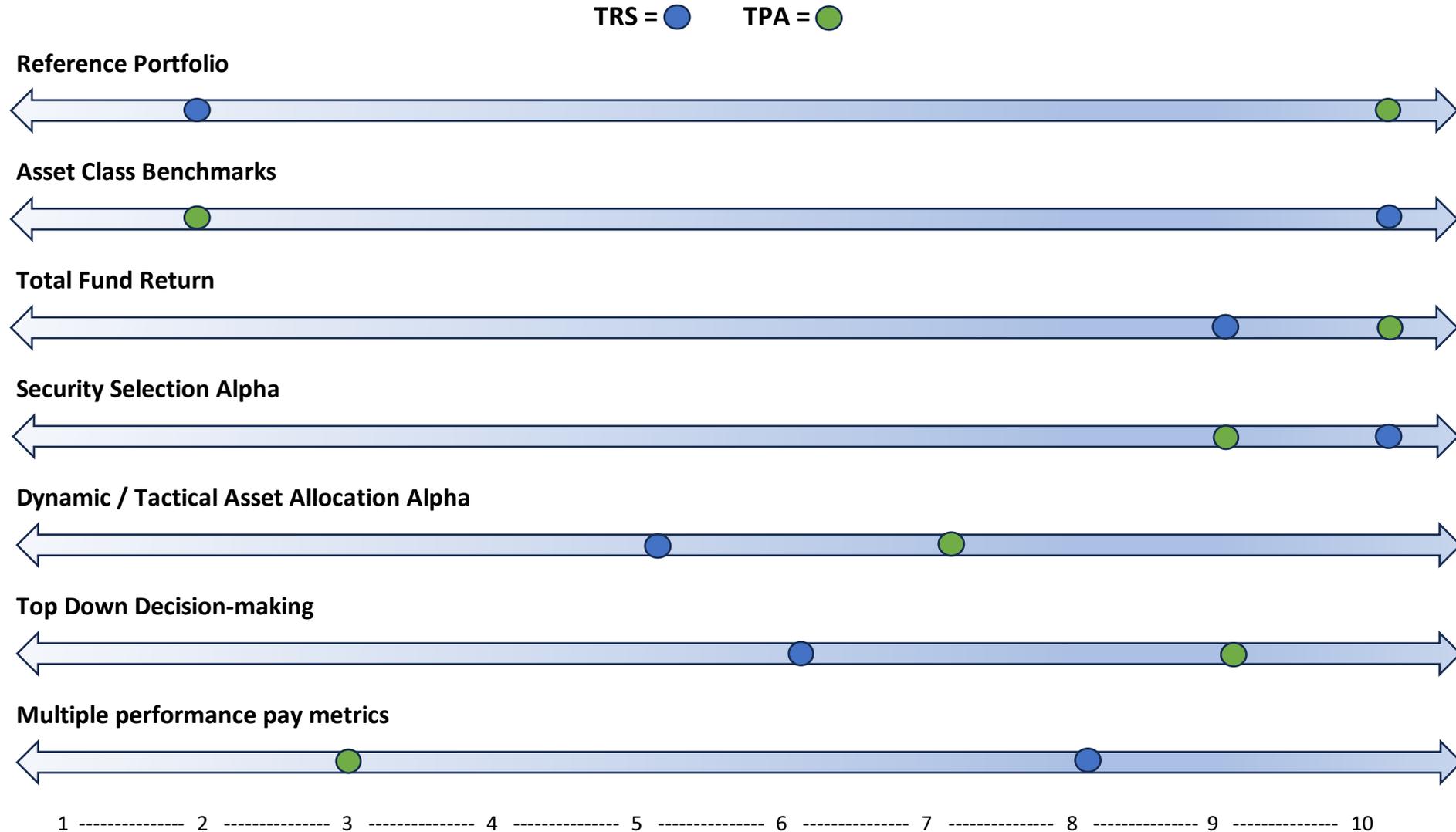
TPA Implications

Expected Benefits	Risks & Challenges
Improved risk-return efficiency • Thinking Ahead Institute and CAIA studies suggest 50–150 bp incremental return over time versus traditional SAA due to better cross-asset decisions and reduced redundancy	**Governance & Trust risks** • Requires strong trust and clarity in roles: Board sets risk boundaries, staff executes • Top-down decision making can be less robust
Greater agility and flexibility • Dynamic allocation: Staff can pivot more quickly into attractive opportunities without waiting for policy	**Execution risk** • TPA demands sophisticated risk systems, factor models, and data integration across all asset classes
Better alignment with Trust objectives • Governance focus shifts from "what % in equities" → "how much total risk can we take to meet return targets"	**Potential for Over-Concentration** • If staff chases the "highest marginal benefit," portfolios could lean too heavily into one theme

Source: Adapted from Thinking Ahead Institute

Peers Using TPA

Peers Using TPA	Peer Insights
• Canada Pension Plan Investment Board (CPPIB)	"At the core of the TPA is bringing risk and return to the center of the discussion and moving away from benchmarks."
• Ontario Teachers' Pension Plan (OTPP)	*Manroop Jhooty, CPPIB*
• Healthcare of Ontario Pension Plan (HOOPP)	
• Ontario Municipal Employees' Retirement System	"Boards exercising TPA more deeply empower the CIO office and larger investment staff by stewarding a 'risk budget' or 'reference portfolio' instead of a comprehensive asset allocation target."
• New Zealand Super	*CAIA Study*
• Government of Singapore Investment Corporation	
• Australia Future Fund	"At its most basic, a total portfolio approach asks the team to construct a portfolio to achieve the objective. It is direct. So, everything is focused on the whole of the portfolio."
• CalPERS	*Stephen Gilmore, CalPERS*

Conclusion

- Traditional SAA and TPA are different mixes of the same ingredients which results in different prioritization. As compared to SAA, TPA:

  o Increases emphasis on total return

  o Increases emphasis on dynamic asset allocation

  o Prioritizes central rather than siloed management

  o Board communication emphasizes risk metrics rather than dollars allocated

- IMD does not currently plan to recommend TPA for TRS

  o However, many of our most respected peers are using TPA

  o We plan to study and learn in the years ahead

TAB 7

Emerging Manager Program Highlights

21

Years Program History

$6.4 bn

Program Size

462

Investments

272

Managers Backed

21

Trust Level Investments
with Emerging Managers

*$6.5 bn committed to EM
Managers at the Trust
Level*

Executive Summary

Key Objectives

Performance

- Over 1 year period, EMP underperformed benchmark by 99 bp

- Real Estate is the primary driver of portfolio underperformance

- EM Program generated 5-yr positive alpha of +12 bp

Diversification

- In 2025, 36% of private markets capital allocated to Innovation

Trust Level Commitments

- Three Trust level investments into EM Program Managers in 2025

- Trust-level commitments to EM Program managers is $6.5 billion

Key Accomplishments

Program Activity

- Conducted 324 manager meetings

- EM Program Team participated in 38 engagement activities including investor conferences, podcasts and publications across media outlets

- The Emerging Manager Conference was held on February 10th

- The Program Director continued to serve as a subject manager expert for Emerging Manager Programs including international EM programs

TRS Emerging Manager Program Team

Kirk Sims, CFA
Managing Director

EM Program Team

Tommy Heitz, CAIA
Senior Associate

Shylee Turner
Junior Analyst

Strategic Partnership

Tom Thomas
Dedicated Private
Markets Secondee
(Onsite at TRS in Austin)

GCM GROSVENOR

EM Program Advisors

Jase Auby, CFA
Chief Investment Officer

Carolyn Hansard
Managing Director
Energy, Infrastructure, & Natural Resources

Caitlyn Macdonald
Investment Manager
Private Equity

Catherine Beaudoin
Principal
Real Estate

Joel Hinkhouse, CFA
Director
Public Strategic Partnership Network

Performance and Commitments

As of September 30, 2025

Emerging Manager Program			
Total Time Weighted Returns			
	1-Yr	**3-Yr**	**5-Yr**
Returns	5.8%	3.6%	9.5%
Benchmark	6.8%	3.1%	9.4%
Alpha (bp)	**-99**	**+42**	**+12**
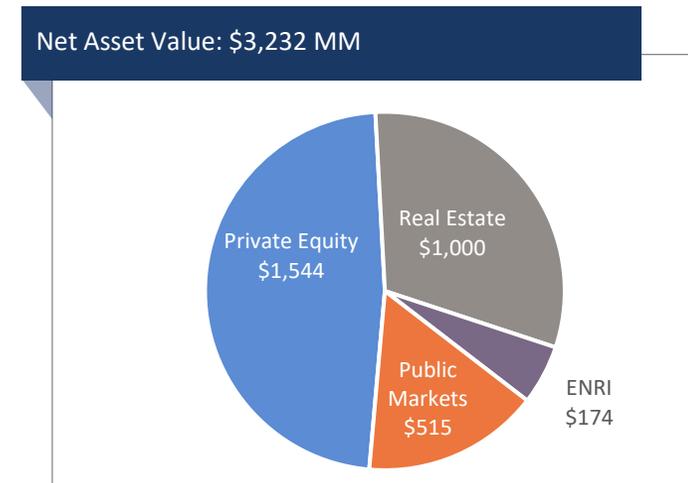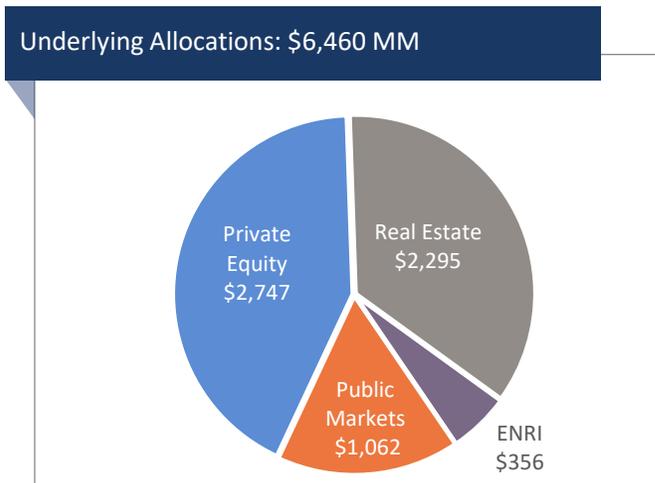
Underlying Allocations: $6,460 MM

Private Equity $2,747 · Real Estate $2,295 · Public Markets $1,062 · ENRI $356

Net Asset Value: $3,232 MM

Private Equity $1,544 · Real Estate $1,000 · Public Markets $515 · ENRI $174

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History of Emerging Manager Program Allocations
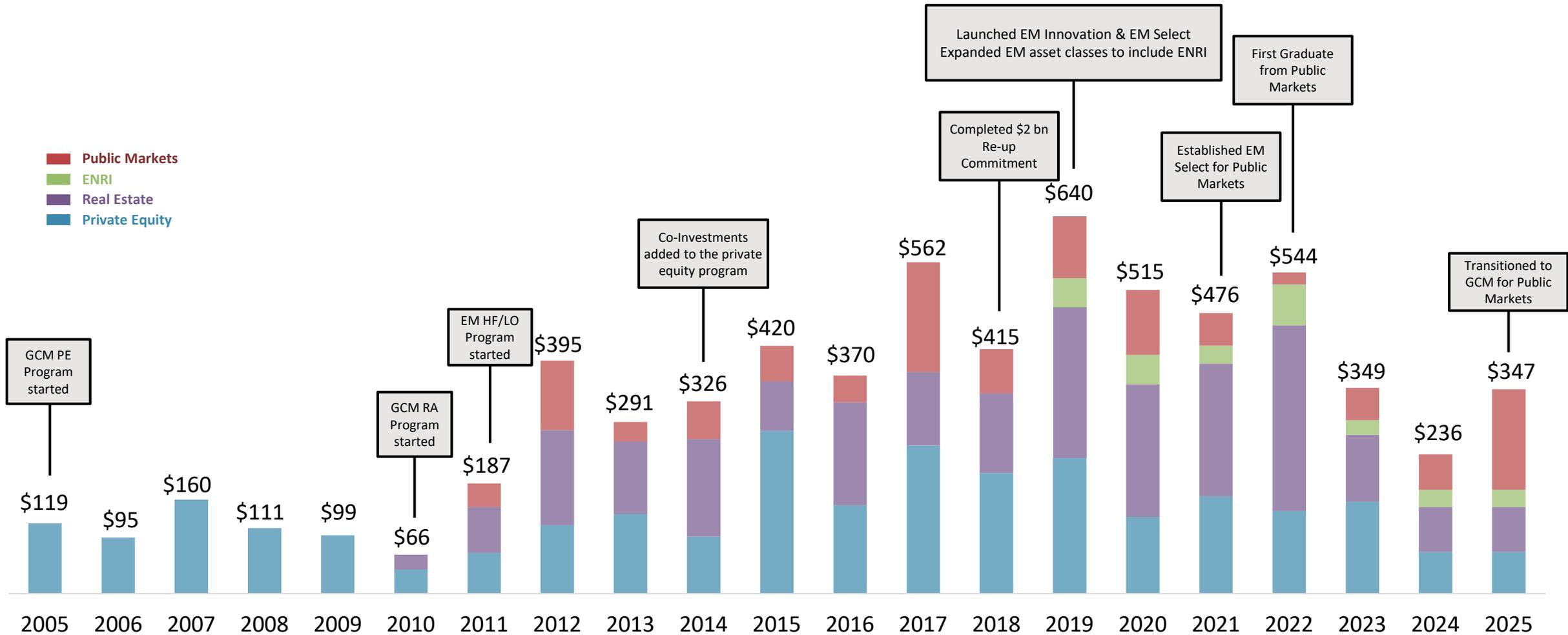
Source: TRS IMD
Note: Represents timing of commitments to GCM Series. US Dollars in millions.
2022 - 2025 Private Equity allocation includes Digital Assets. Prior to 2019, ENRI commitments were tracked within the private equity series.

APPENDIX

Portfolio Diversification – Investment Type

Private market investments in calendar year 2025

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TAB 8

Annual Report

Presented to: TRS Trustees & Executive Leadership

Ombuds Message

The TRS Ombuds Office is honored to present its 2025 Annual Report, offering an independent and data-driven view of member concerns and service trends. This report reflects the office's commitment to the International Ombuds Association (IOA) Standards and Practice and Code of Ethics and reflects TRS' core values.

- Member Engagement: 649-member communications received in 2025, reflecting consistent engagement and trust in the Ombuds Office as an avenue beyond traditional service channels.

- Collaboration & Resolution: Ongoing collaboration with business units to elevate concerns, support timely review and identify service improvement opportunities.

- Governance Insight: Initial member experience survey results indicate higher satisfaction when the Ombuds role is clearly understood and communication is timely; findings are informing improvements in follow-up, clarity and cross-department coordination.

About the Ombuds

Establishment and Purpose

The Ombuds Office was created in 2021, in response to HB 1585, to promote transparent, fair and clear communication between TRS and its members.

Independent Support Resource

The Ombuds acts as an independent, impartial and informal resource for both active and retired TRS members.

Collaboration and Advocacy

The office collaborates with business units to improve member experience, perform outreach to members and assist and advocate for their needs.

Mission Statement

The Ombuds Office focuses on earning members' trust by gaining their confidence, focusing on accountability and delivering excellence daily.

Guiding Principles

IOA STANDARDS OF PRACTICE

The Ombuds operates consistent with the International Ombuds Association's Code of Ethics and Standard of Practice

INDEPENDENCE

The Ombuds is independent and reports directly to the trustees

IMPARTIALITY

The Ombuds is a neutral resource that avoids conflicts of interest and does not advocate for any party

INFORMALITY

The Ombuds is an unbiased and informal resource that does not participate in legal proceedings

CONFIDENTIALITY

All communication is confidential as allowed by law. Information may be disclosed if permission is granted

Volume of Visitor-Initiated Communications

A Year in Review

The value of the TRS Ombuds Office lies in its ability to turn member and retiree concerns into meaningful opportunities for improvement—grounded in the belief that we advance as an organization when issues are raised openly and resolved collaboratively in constructive dialogue.

Communication Touchpoints
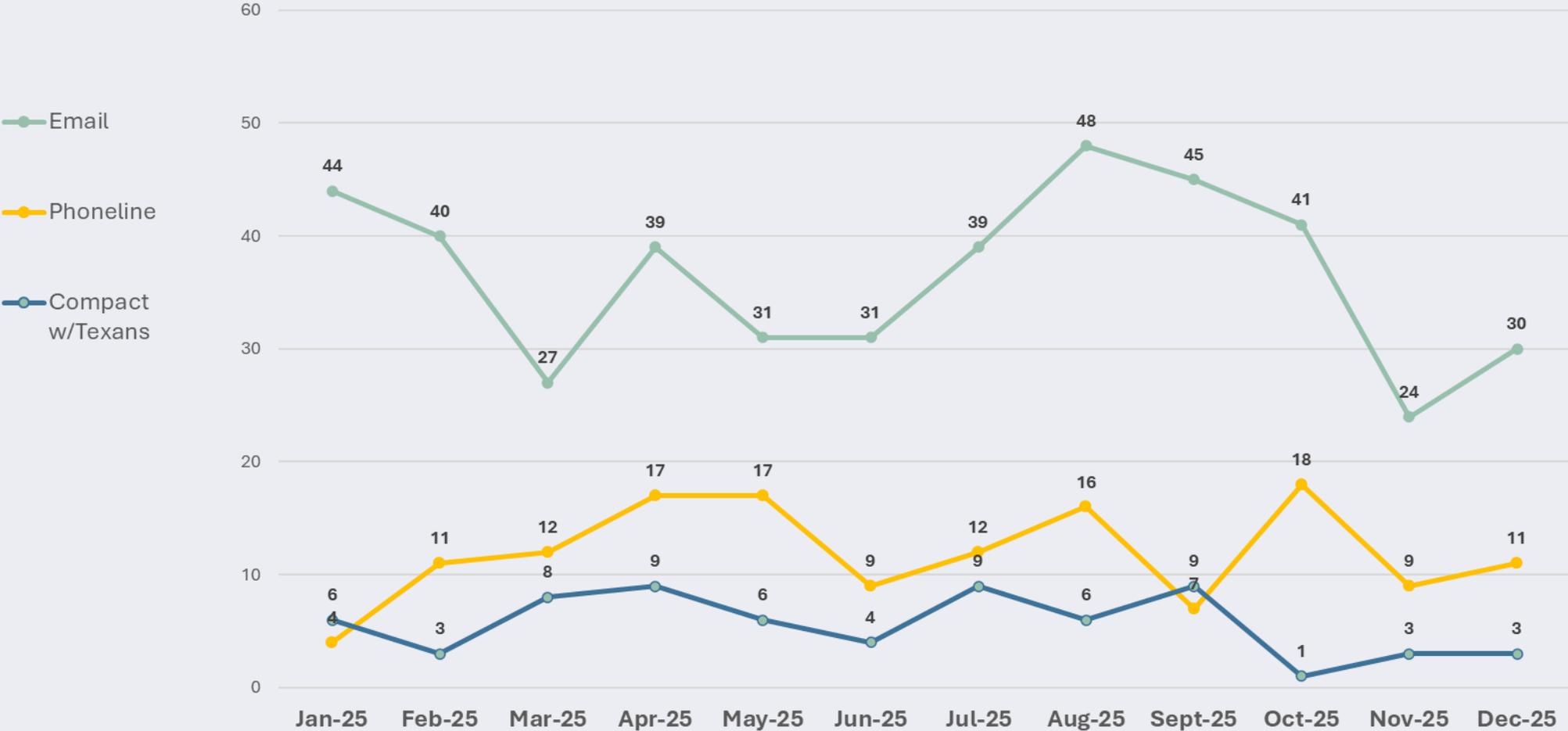
Total Ombuds Communications Received: 649

Multi-Year Ombuds Communications Trends (2022-2025)
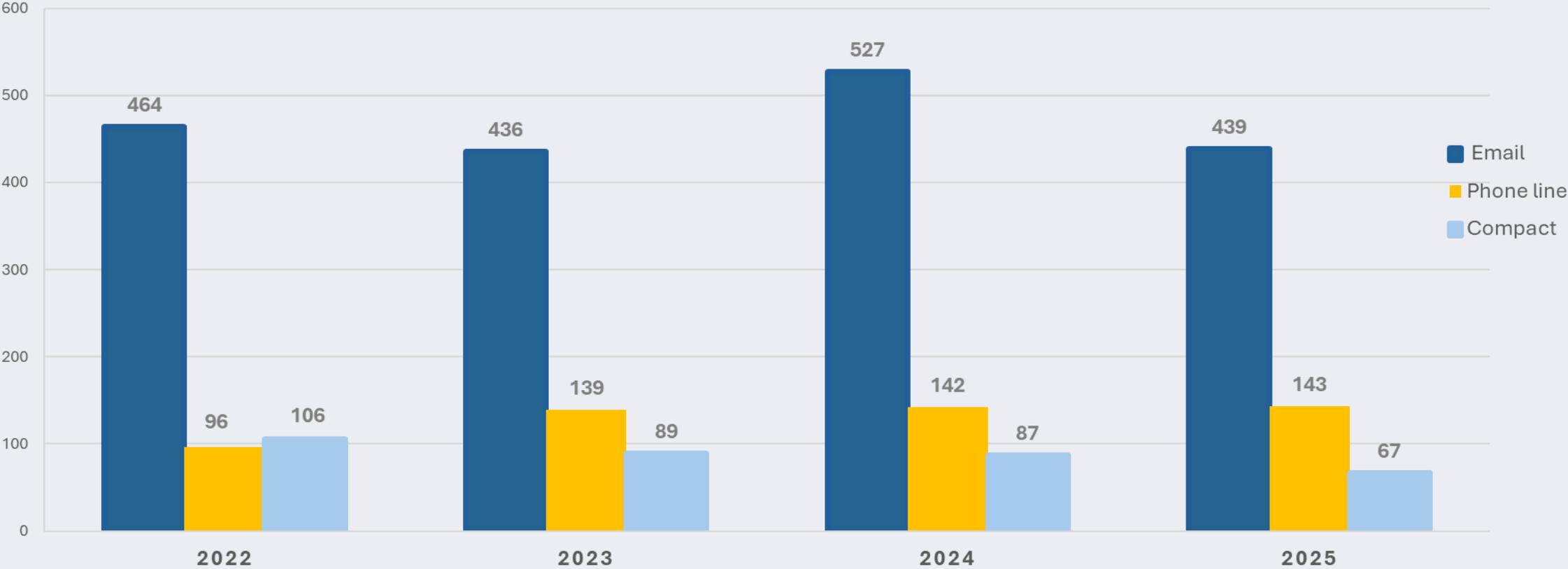
Annual Total Communications Received: 2022- **(666)**; 2023- **(664)**; 2024- **(756)**; 2025- **(649)**

Demographics of Visitors Served by Ombuds

- Service Retiree 42%
- Active 28%
- Other/Unknown/Non Member 13%
- Withdrawn 7%
- Beneficiary 6%
- Disability Retirement 2%
- ORP/ORP Inactive 2%
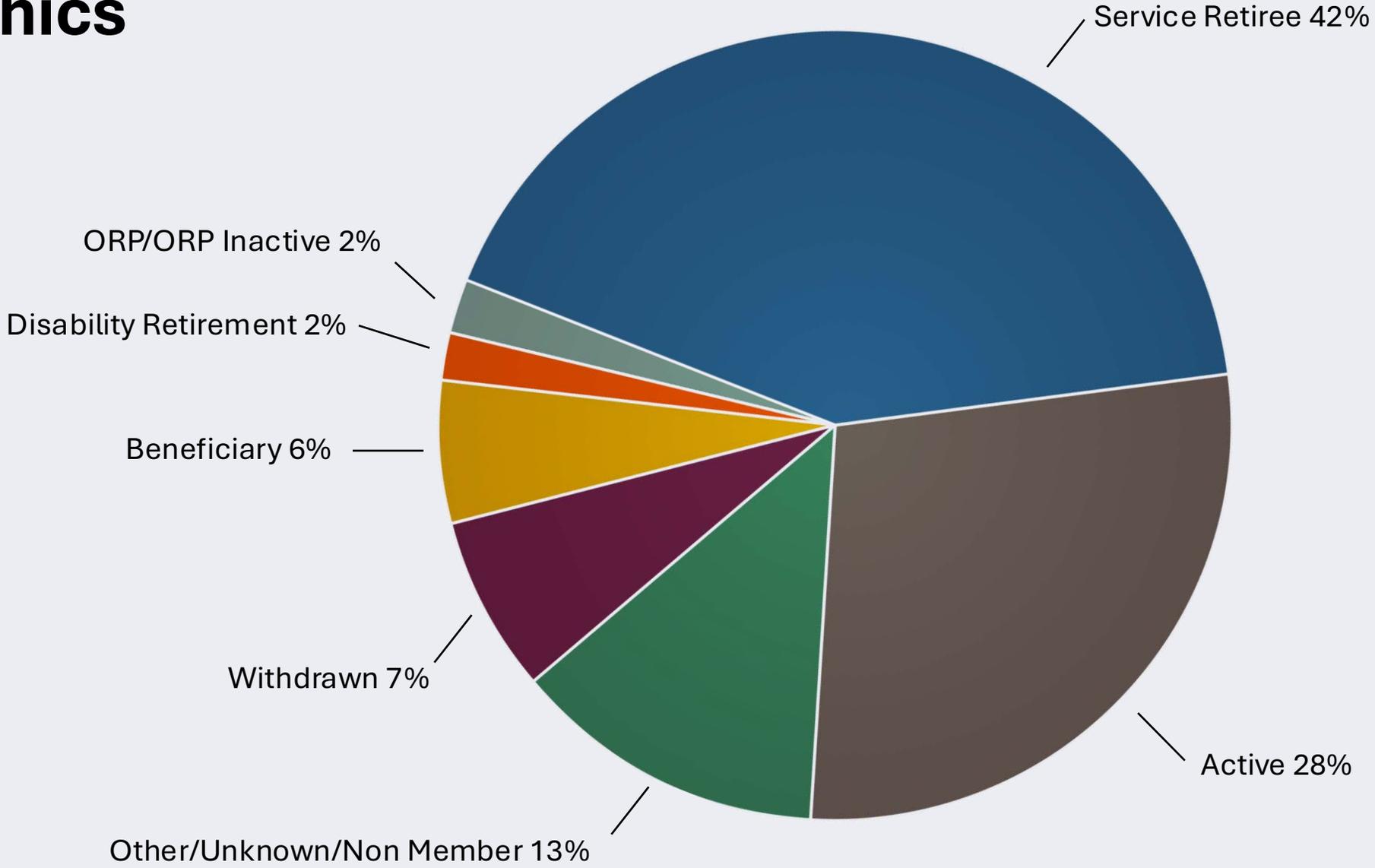
Social Media Comments on Large-Scale Agency Issues ("Hot Topics")

Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sept-25	Oct-25	Nov-25	Dec-25
Social Security (80)	Health Care (29)	Social Security (164)	Social Security (43)	Health Care (8)	Health Care (10)	Health Care (32)	Health Care (32)	Health Care (19)	Health Care (29)	Health Care (9)	Health Care (10)
Miscellaneous (39)	Beneficiary (22)	Health Care (22)	COLA (14)	Beneficiary (7)	Investments (10)	Employment after Retirement (EAR) (4)	Retirement (7)	Beneficiary (27)	MyTRS (11)	Retirement (7)	COLA (7)
Health Care (30)	Political (11)	Political (19)	Health Care (13)	COLA (5)	Social Security (3)	Careers (6)	Investments (22)	Investments (14)	COLA (15)	Annuity Payment (5)	Annual Statements (5)

Collaboration

Service Delivery & Operational Excellence Focus

The Ombuds Office, in partnership with the Pension Services and Health business units, creates value by transforming everyday challenges into insights that strengthen service delivery. When members and retirees share their concerns with the office, it provides an opportunity to refine processes, enhance communication and improve outcomes through collaborative, solution-driven dialogue.
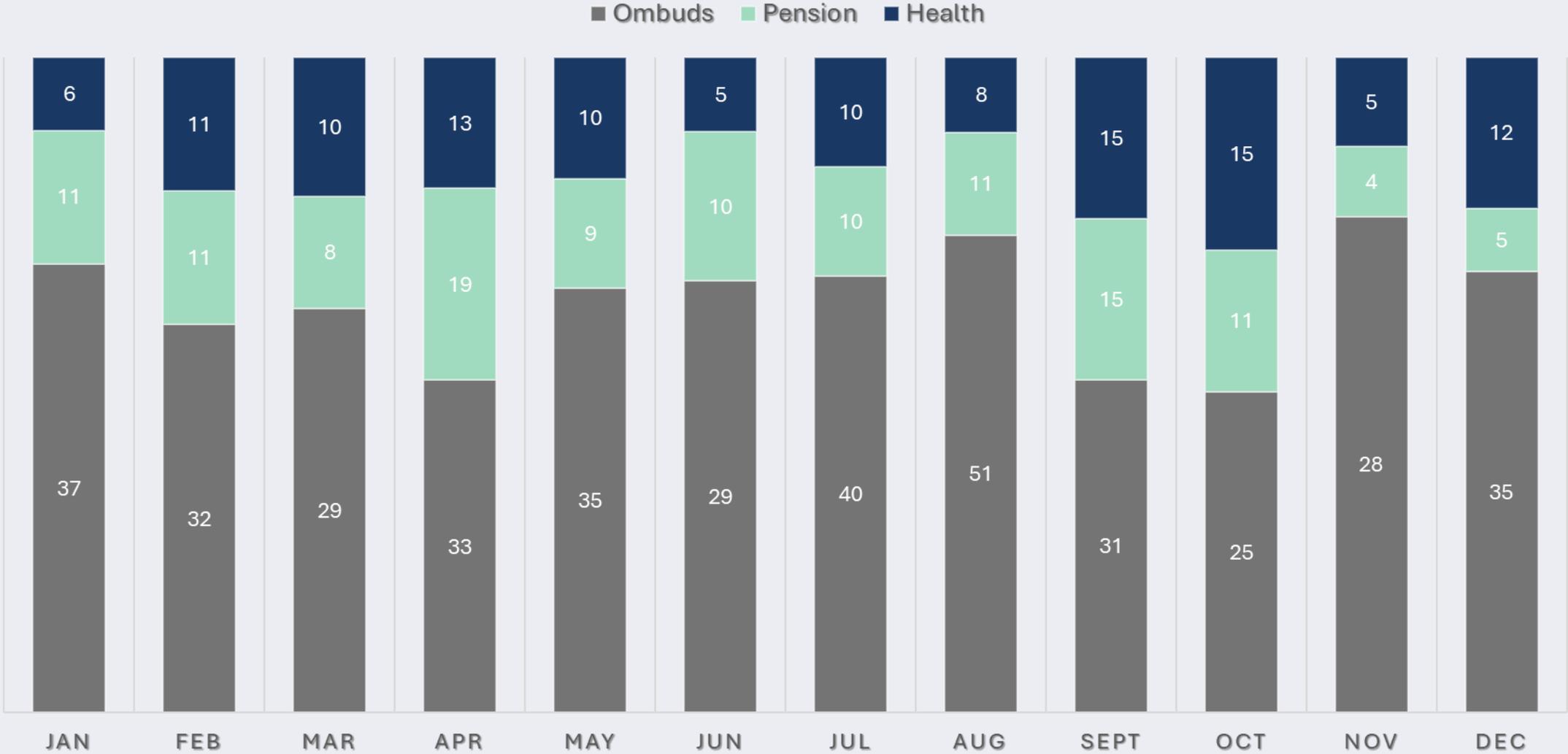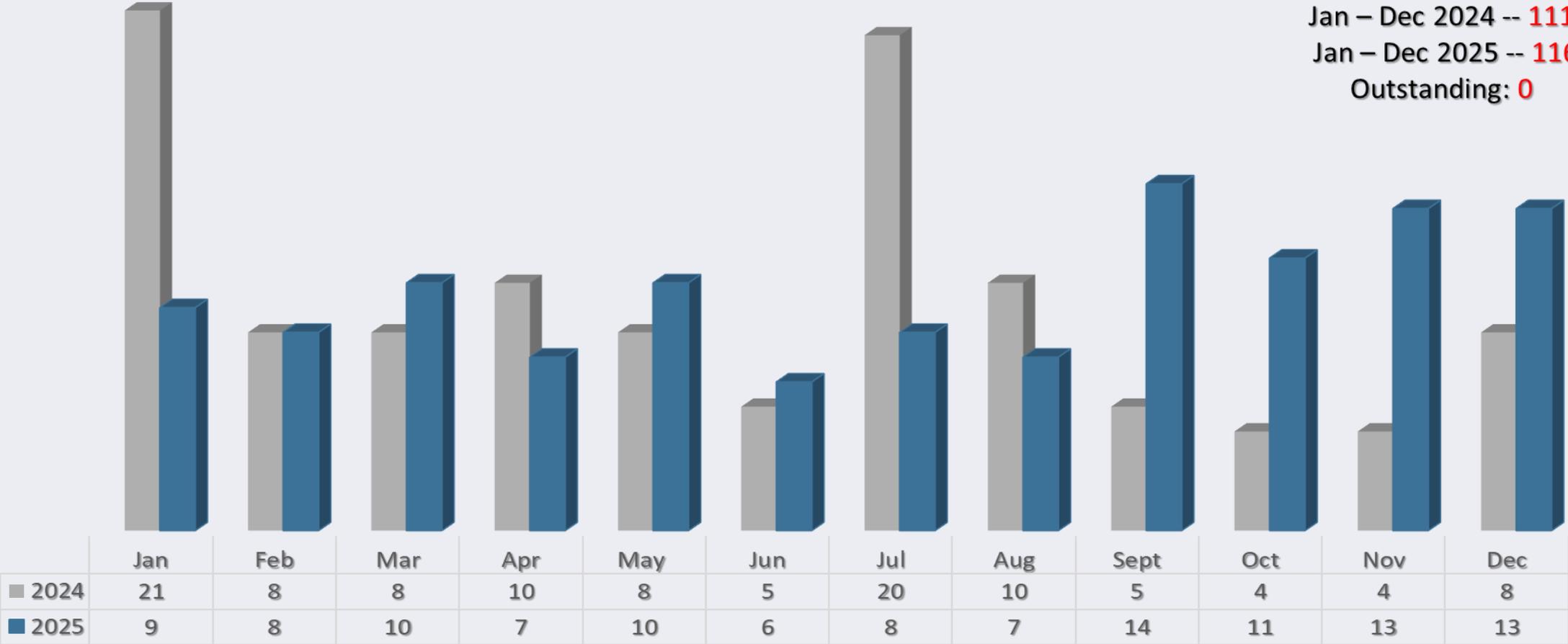
Point-in-Time (PIT) Complaints (2024-2025) & Complaint Categories

PIT Complaints Overview & Year-to-Year Trends

PIT Complaints are written concerns from members or retirees about TRS actions, staff or contractors that require action and meet TRS' benchmarks for a valid complaint.

Point-in-Time (PIT) Complaints- (2024 vs. 2025)

PIT Complaints Received:
Jan – Dec 2024 -- 111
Jan – Dec 2025 -- 116
Outstanding: 0

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2024	21	8	8	10	8	5	20	10	5	4	4	8
2025	9	8	10	7	10	6	8	7	14	11	13	13

TEACHER RETIREMENT SYSTEM OF TEXAS   Ombuds

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PIT Complaint Category Comparison (2024 vs. 2025)

Legend: 2025, 2024

Category	2025	2024
Failed to meet member needs	50	25
Human error	9	25
Incomplete information	20	20
Incorrect information provided/entered	18	8
Inconsistent responses	0	10
Coding error	12	0
Turn around time is not within service level	0	8
Technology concerns/grievances	10	0
Extended wait time	9	4
Inappropriate responses by TRS Employees	4	7
Timeliness of response	5	0
Delivery errors	5	2
Failure to respond	1	1

Zero indicates no complaints recorded for that category for that year.

PIT Complaint Category Analysis (2025)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
Failed to meet member needs	1	5	3	3	5	3	4		5	4	9	9	**51**
Incorrect information provided/entered	5	1	3				1	1	2	1	2	3	**19**
Incomplete information			4	1	1		2	4	2	2		1	**17**
Human error	5				3					1	1	1	**11**
Extended wait time	1		1	1					5	1			**9**
Technology concerns/grievances					1			2	4	1	1		**9**
Inappropriate responses/behavior by TRS employees							1	1			3	3	**8**
Coding error				1	1		2			2		2	**8**
Timeliness of response		2		2			1						**5**
Delivery error			2							1	2		**5**
Inconsistent responses											1		**1**
Failure to respond	1												**1**

Zero indicates no complaints recorded for that category for that year

Outreach & Engagement

Member outreach is crucial for establishing a positive rapport with our members and fostering mutual respect. With the constant support of the business units, the Ombuds can extend its reach beyond the agency's walls, adding a personal touch that shows members we genuinely care.

Outreach Activities
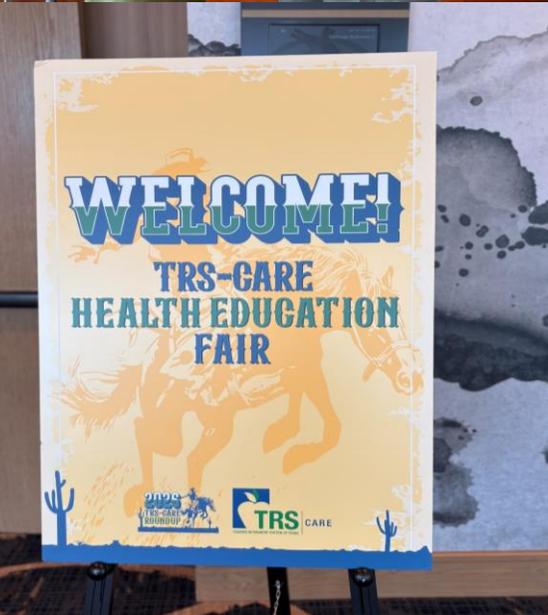
Outreach and Engagement Outcomes (2022-2025)

2,735	60+	24+	4000+	4
Total Communications Received	Pension Services & Health Retirement Sessions, Health Fairs and Trainings	Retiree Conferences and Meetings	Member Outreach	Years of Building Trust & Delivering Accountability
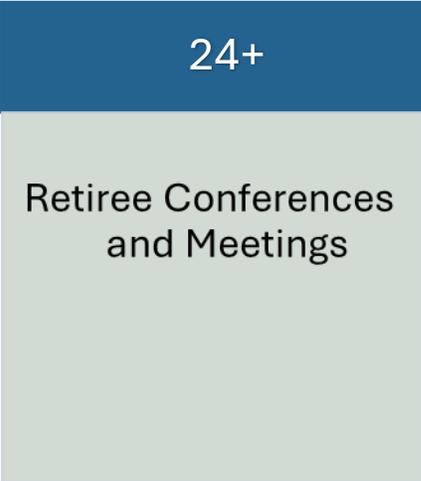
Member Experience Survey Results

Overall Level of Satisfaction with the TRS Ombuds Office

Very Satisfied
Satisfied
Neutral
Unsatisfied
Very Unsatisfied

14%
7%
50%
18%
11%
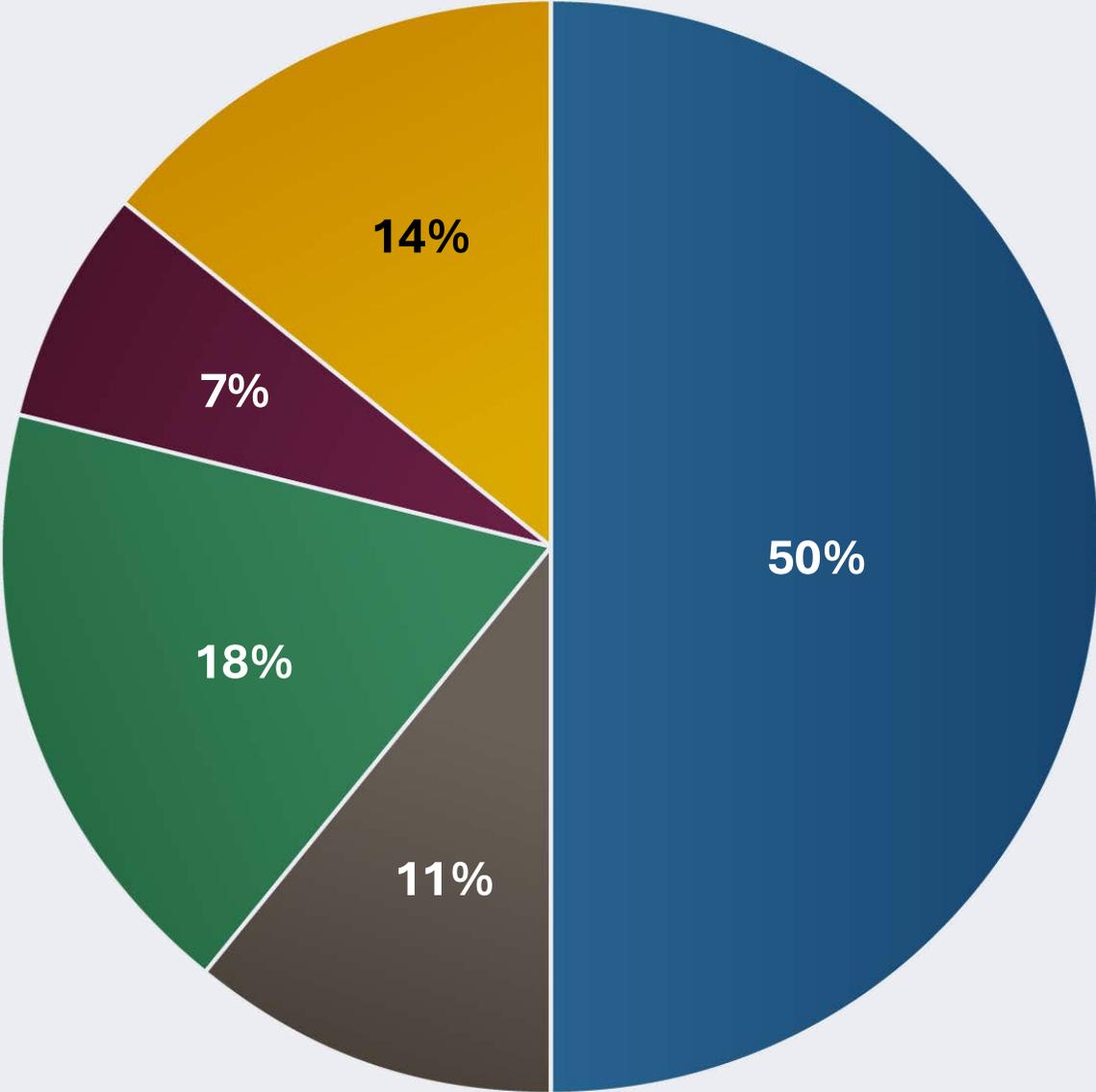
20ᵗʰ Annual International Ombuds Association Conference 2025

Professional Development: An Opportunity to Expand, Network and Learn
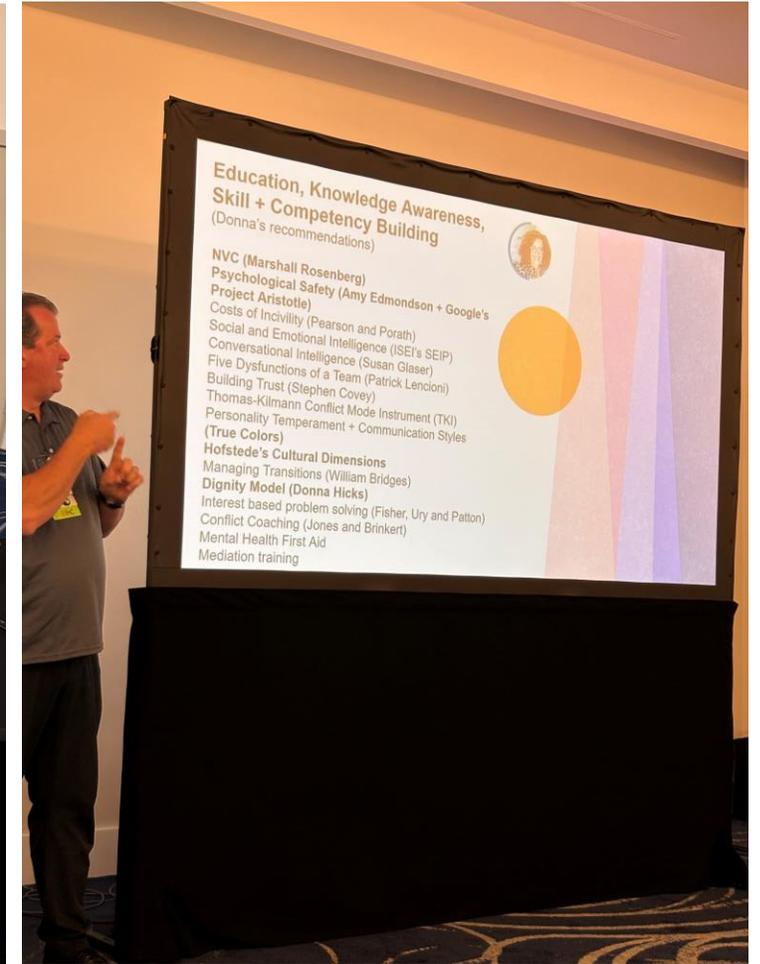
Observations for 2025
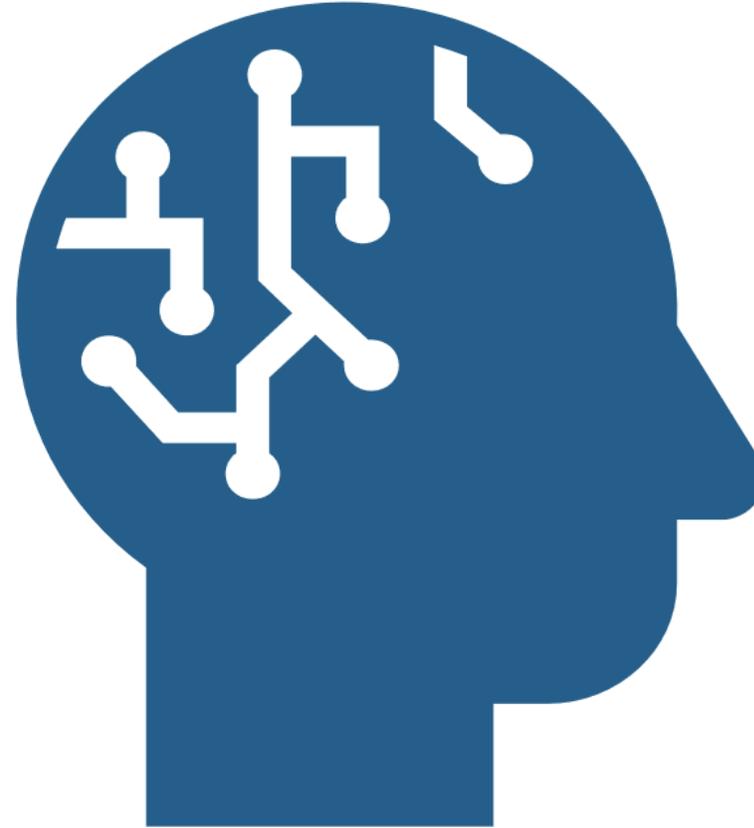
Key Findings from Member Feedback

Member Concerns:

In 2025, TRS observed a modest rise in complaints, with recurring themes highlighting members' concerns regarding service quality, inaccurate information and instances of human error.

Operational Alignment:

The Ombuds Office fostered a strong collaboration with Pension Services, Health and other departments. This cooperation proved invaluable in addressing member concerns promptly and effectively, while also supporting various outreach initiatives.

Member Feedback as Governance Input:

Insights obtained from member concerns offer an unfiltered lens on member sentiment, assisting in the identification of opportunities for continued enhancement in training, communication and service delivery.

Ombuds Observations: Performance Themes

Business units resolved all complaints received in 2025, demonstrating a commitment to member service.

Overall trends in complaints indicate a decline, despite a recent spike in point-in-time complaint numbers, suggesting continued progress.

Business units continue to prioritize staff training and technology upgrades to drive further improvements.

Observations Continued....

Clearly articulate the role, authority and limitations of the office to appropriately manage the expectations of its members.

Develop feedback loops by offering timely updates when member submissions require collaboration with business units.

Updated the Ombuds web page to reflect the change in the response time from five business days to one business day, aligning with current practices.

Noteworthy! The turnaround time from member submission to the Ombuds, from the Ombuds to the business units, and from the business units to the Ombuds is approximately four and one-half days, well within the seven-day estimated processing time frame.

Contact:

Direct Phone line: (833) 873-2331

Email: Ombuds@trs.texas.gov

IMPORTANT! To ensure a prompt response to your inquiry and complaints, please contact the relevant business unit directly to address your concerns before contacting the Ombuds.

TAB 9

TRS Health

Presentation Date
02/12/2026

Presented By
Katrina Daniel, Chief Health Care Officer

Kyle McKay, Director of Health Analytics

TRS
TEACHER RETIREMENT SYSTEM OF TEXAS

Health Agenda

- Highlights from the 2025 TRS Health Benefits Annual Report

- Spotlight on Health Analytics

- Medical Vendor Procurement
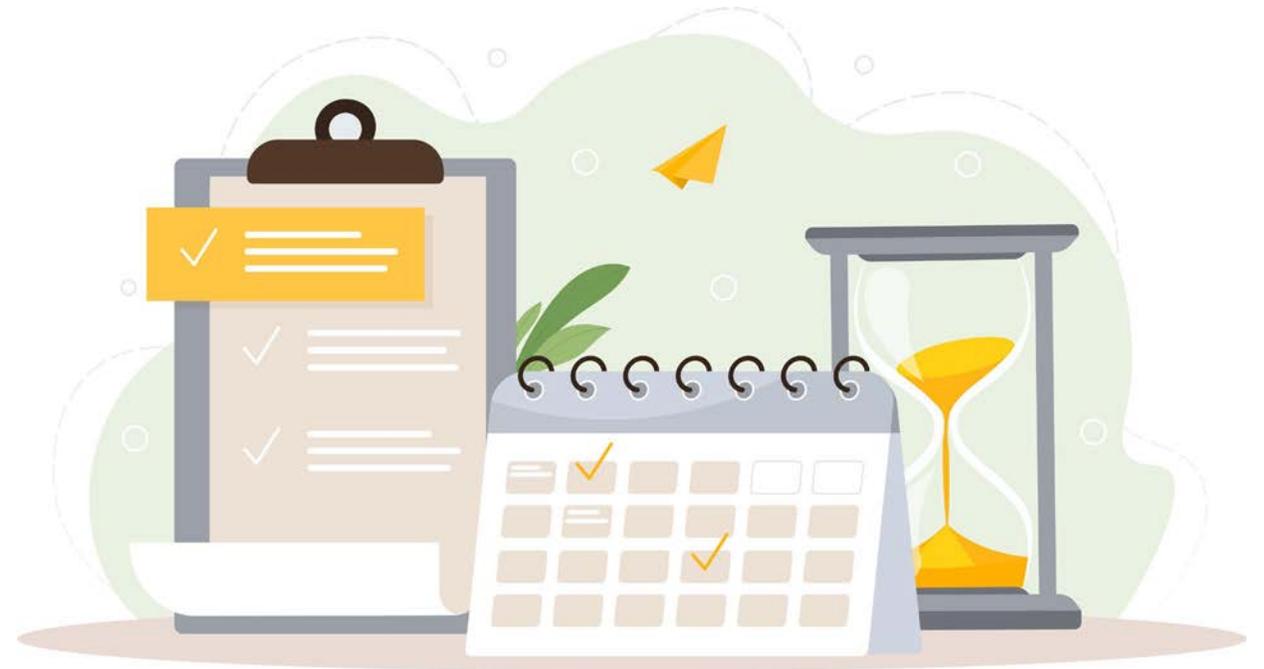
TRS Health Annual Report Highlights

Katrina Daniel, Chief Health Care Officer

Value in Action: 2025 Annual Report Highlights

636,000
Total Members
1 in 46 Texans covered
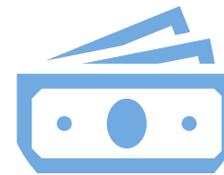
$23.5B
Savings Negotiated
Keeping premiums lower

>97%
of Every Dollar Dedicated to
$18M daily in claims

Where Member Premium Dollars Go

Medical Claims: 55¢

For every $1 contributed, **97¢ goes directly to member health care**

<3¢ covers administration

TRS' low administrative costs mean more funds go to health care

Prescription Drug Claims: 42¢

The $23.5 Billion Savings Journey

$30.5B Total Submitted & Potential Charges

- **$23.5B Reductions**
  - -$13.3B Provider Discounts
  - -$9.1B Ineligible Charges
  - -$498M Clinical Programs
  - -$329M Anti-Fraud
  - -$304M Coordination of Benefits

- **$990M Member Cost Sharing**
- **$1.1B Refunds & Rebates**
= **$4.9B Net Payments**
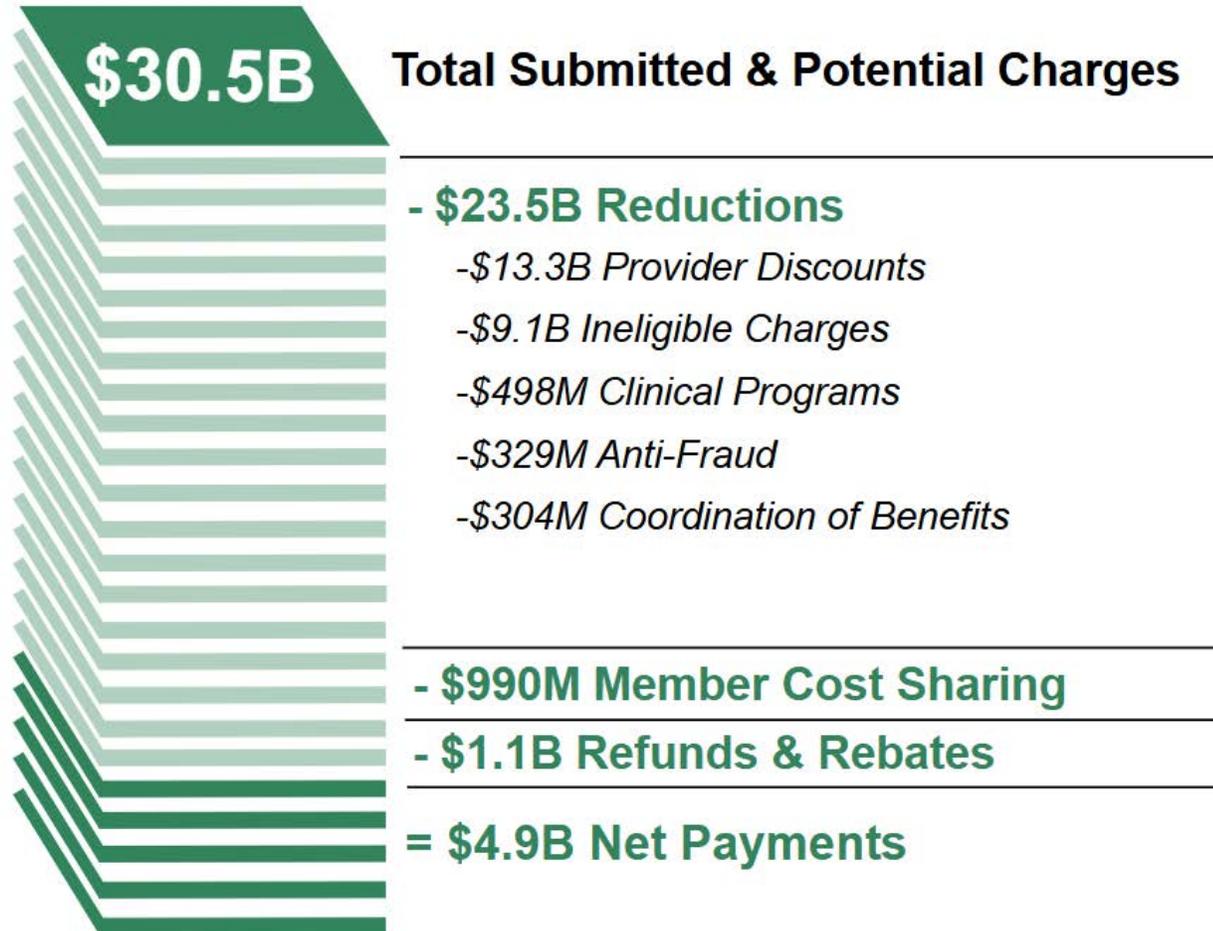
$23.5 billion saved through active cost management

Without cost control measures, health care costs would total $30.5 billion, but TRS's careful plan management reduced final payments to $4.9 billion, helping keep premiums lower.

2025: A Year of Growth and Greater Access
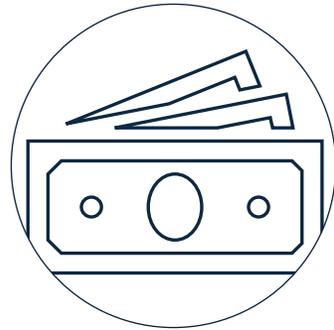
Kept premiums the same for retirees and maintained premium increases under 10% on average for active employees.

Launched a new web enrollment option for dental and vision that **saved 1,000 staff hours.**
Net dental and vision enrollments **increased by 12K+.**

Expanded musculoskeletal (MSK) benefits for active employees by removing referral requirements, offering a virtual, no-cost physical therapy option and piloting two programs in select regions to lower MSK surgery costs.

Goal was to enhance access and lower costs for TRS participants

TRS-ActiveCare Remains Plan of Choice

Record number of employers joining for PY27

7% (~38,000) increase in net eligible employees covered*
*(excludes dependents)

25 employers joining

2 employers leaving
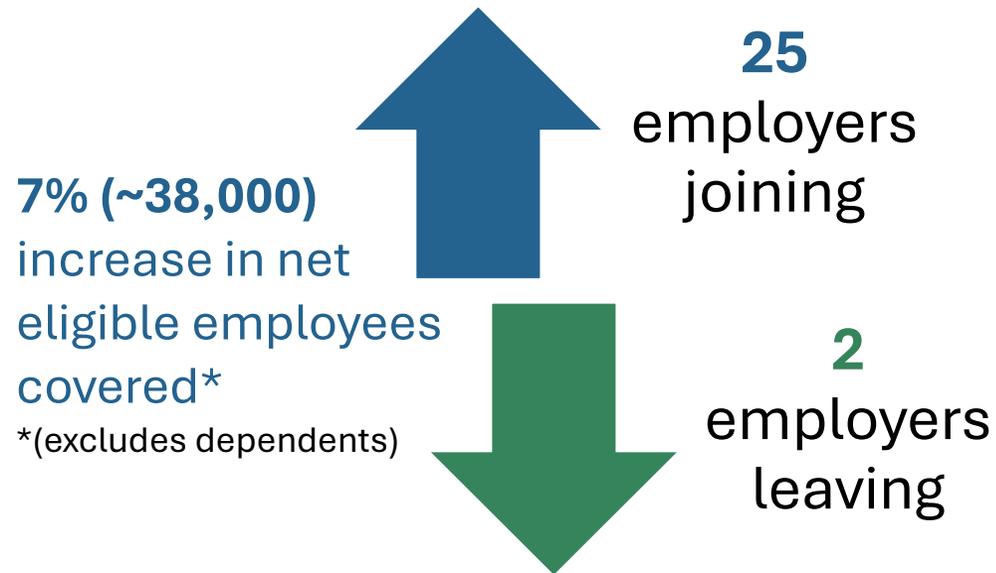
Breakdown of the 25 districts joining for PY27

25 employers joining

10 standard onboarding

15 special circumstances

14 returning early through HB 3126

1 joining transitionally

Effective Cost Management

70%

Texas Self-Insured Plans: 62%

60%

50%

40%

TRS-ActiveCare: 32%

30%

20%

10%

0%

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22 FY23 FY24
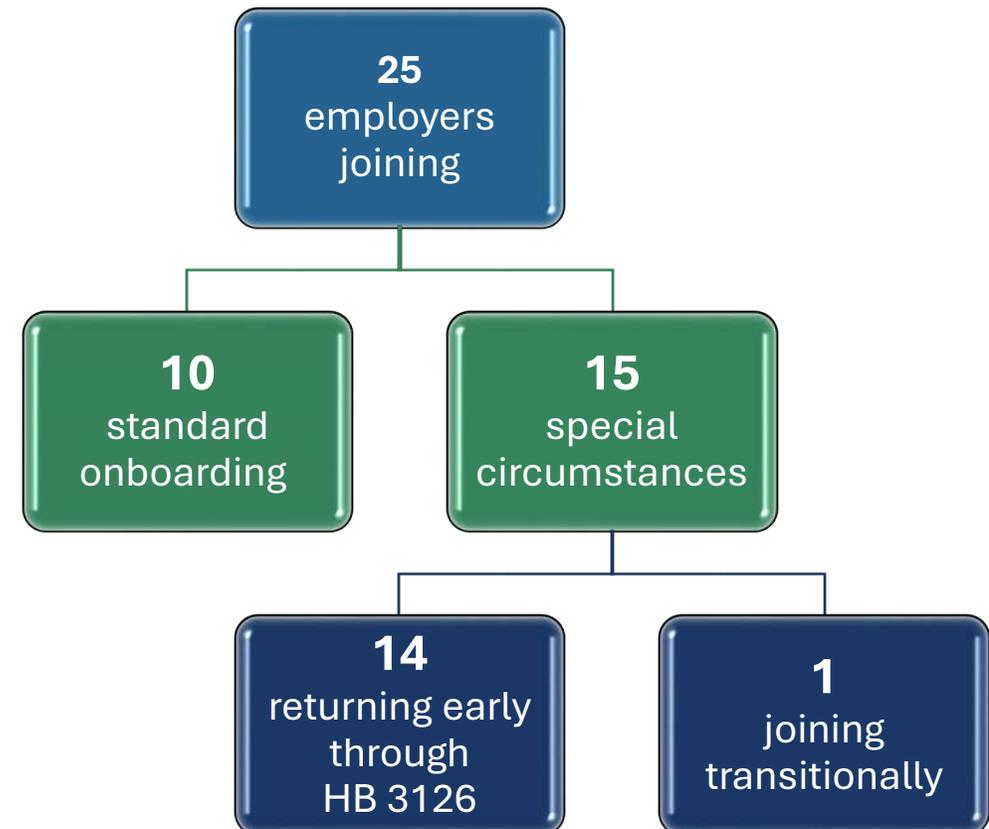
Cumulative cost growth **48% less than pee**r employer health plans since 2013

Costs reflect allowed charges to both the plan and the participants. These are net of rebates. TRS plans include all self-insured ASO plans. Milliman data for Texas ASO does not include pharmacy rebates. The comparison does not adjust for changes in plan design or demographics over time

Spotlight

Health Analytics

Kyle McKay, Director of Health Analytics

Health Analytics Expertise

+80 years of combined data and health care experience

Seven master's degrees:
- Four math/statistics
- Two public health/policy
- One engineering
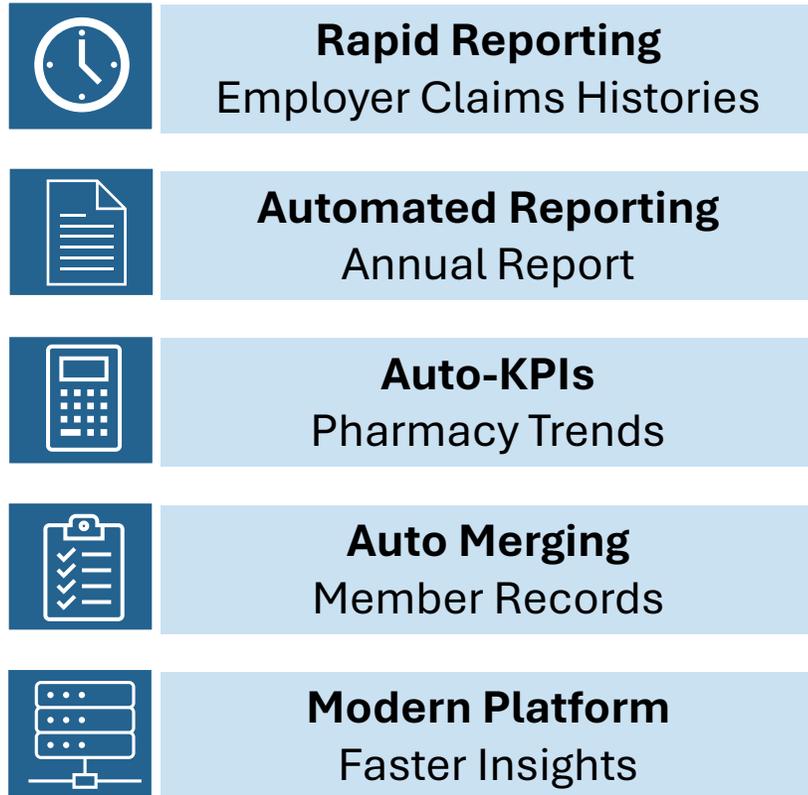
Three former intern applicants

Two employees with classroom experience

PowerBI

Data Science

Data Visualization

Health Insurance

SQL

Databricks

Python
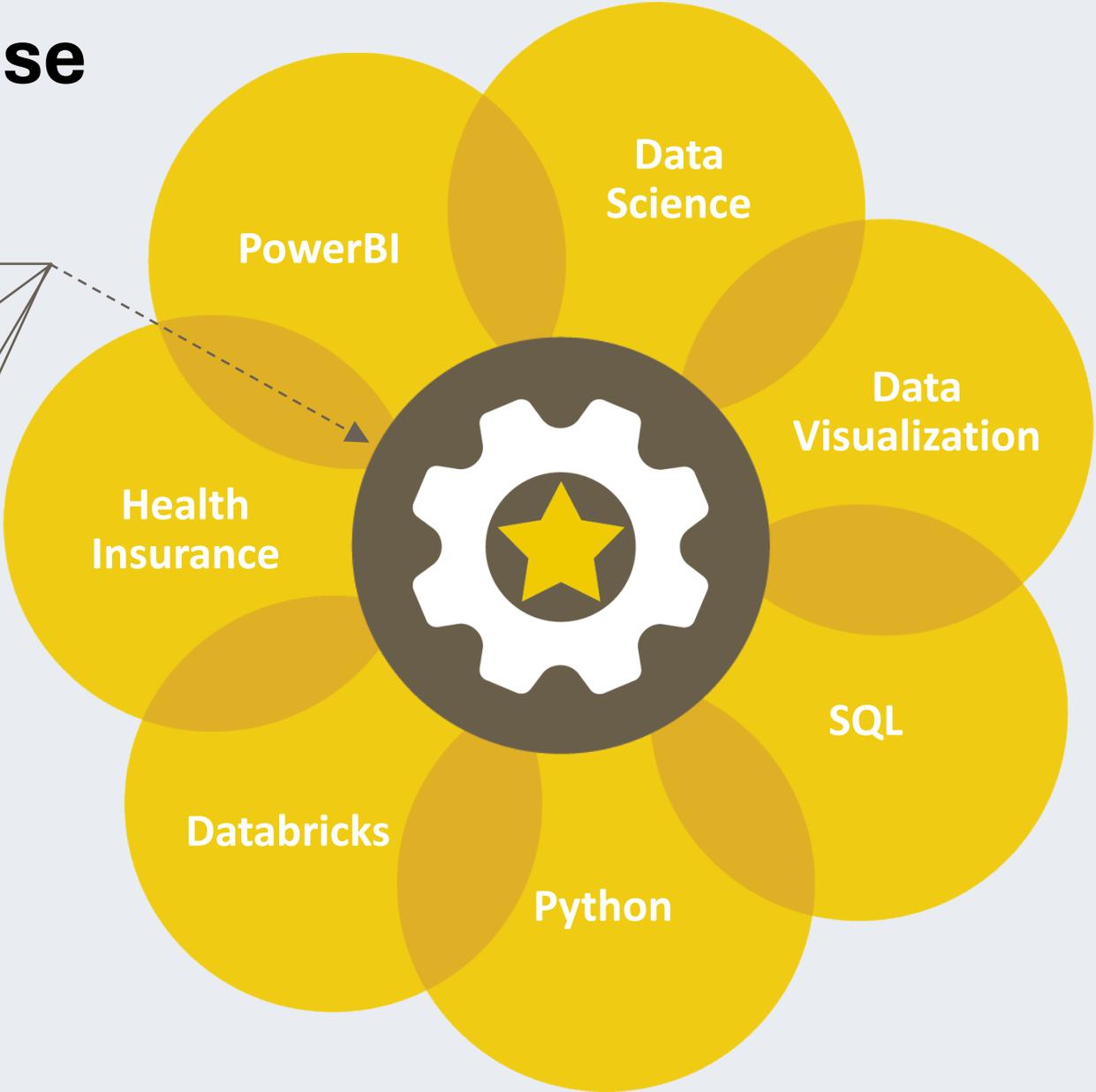
Improving the Efficiency of Data Reporting and Analytics

Core Data Insourced

Data Enhancements

Automated Reporting

Efficient Data Ecosystem

Medical Claims & Enrollment

Risk Scores

Covid Claims for Audit

BCBS Capitation

HCG Tabular Model

Express Scripts ActiveCare

Summary Health Reporting

ActiveCare Enrollment Data Streamline

| 2020 | Jan 21 | Nov 21 | Jun 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 | Jun 23 | Aug 23 | Oct 23 | Jan 24 | Jun 24 | Oct 24 | Feb 25 | Nov 25 |

CVS

Medispan & HCG Medical

TRUST Payroll Data

NPI Database and CCSR

Policyholder ID leveraging TRUST

Express Scripts Care

Insource HCG processing

Databricks Modernization

Investments in Automation and Efficiency in 2025

Rapid Reporting
Employer Claims Histories

Automated Reporting
Annual Report

Auto-KPIs
Pharmacy Trends

Auto Merging
Member Records

Modern Platform
Faster Insights

Reduced Time-to-Insight

2025 Impact Highlights

- **900+** staff hours saved
- Faster employer claim history access
- 900+ new tables & 26B data rows added
- **$3.3M** third-party costs avoided
- Supported data complex procurement to generate savings for members

Investments in Automation and Efficiency in 2025

Current State: Siloed & Limited Data Science

Team	Responsibility	Tools
Engineering	Load & Transform	talend
Database	Manage Databases	Microsoft SQL Server
Business	Analyze	R Studio, Microsoft SQL Server Management, ANACONDA
Steward	Dictionary + Access	Excel

Future State: Consolidated & Data Science Enabled

Databricks Platform

- Notebooks to load & analyze
- Scalable storage & compute
- Data science tools

Governed by
Unity Catalog

Schools Recruit on Salaries

District **Salaries** Influenced by Neighbors
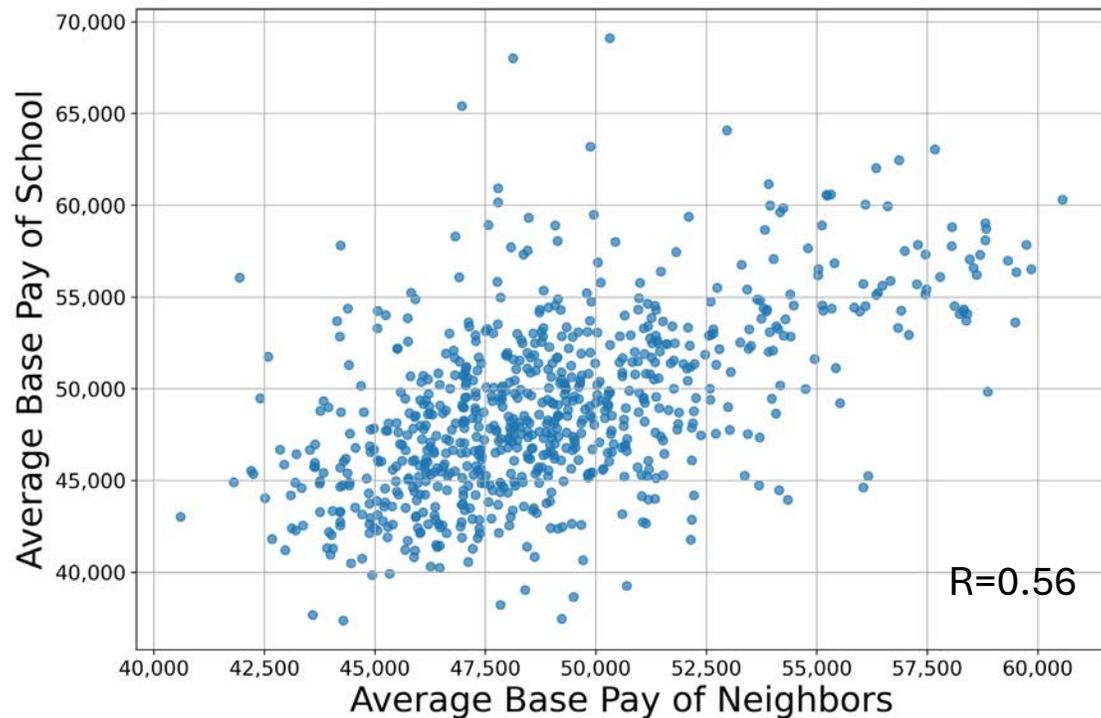
Contributions of Neighbors Show a Weak Correlation
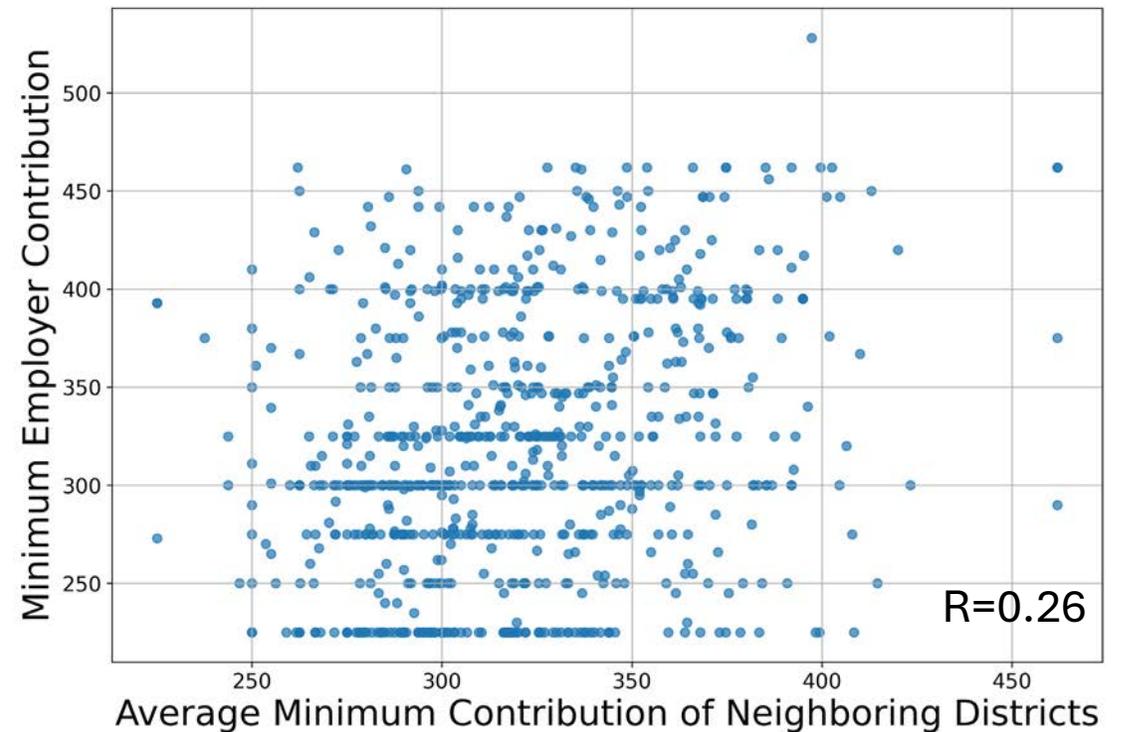
Source: TRS analysis of TEA PEIMS reports and TRS Internal Data

Health Contributions Distinct From Salaries

No Relationship Between Salaries and Employer Contributions

Many variables are not correlated to or useful for predicting health insurance contributions, including salaries, region, total premiums, or urban/rural type

Source: TRS analysis of TEA PEIMS reports and TRS Internal Data

Local Influences on Health Contributions

TRS informs employers about how their contribution levels may be influenced by neighboring districts and how those decisions relate to their enrollment.

- 89% of employers contribute >$225
- However, only 37% of employers increased their contribution in 2025-26

Some Clusters of Contributions Visible in 2024 Minimum Contributions Geography

Source: Internal TRS Data Warehouse

17
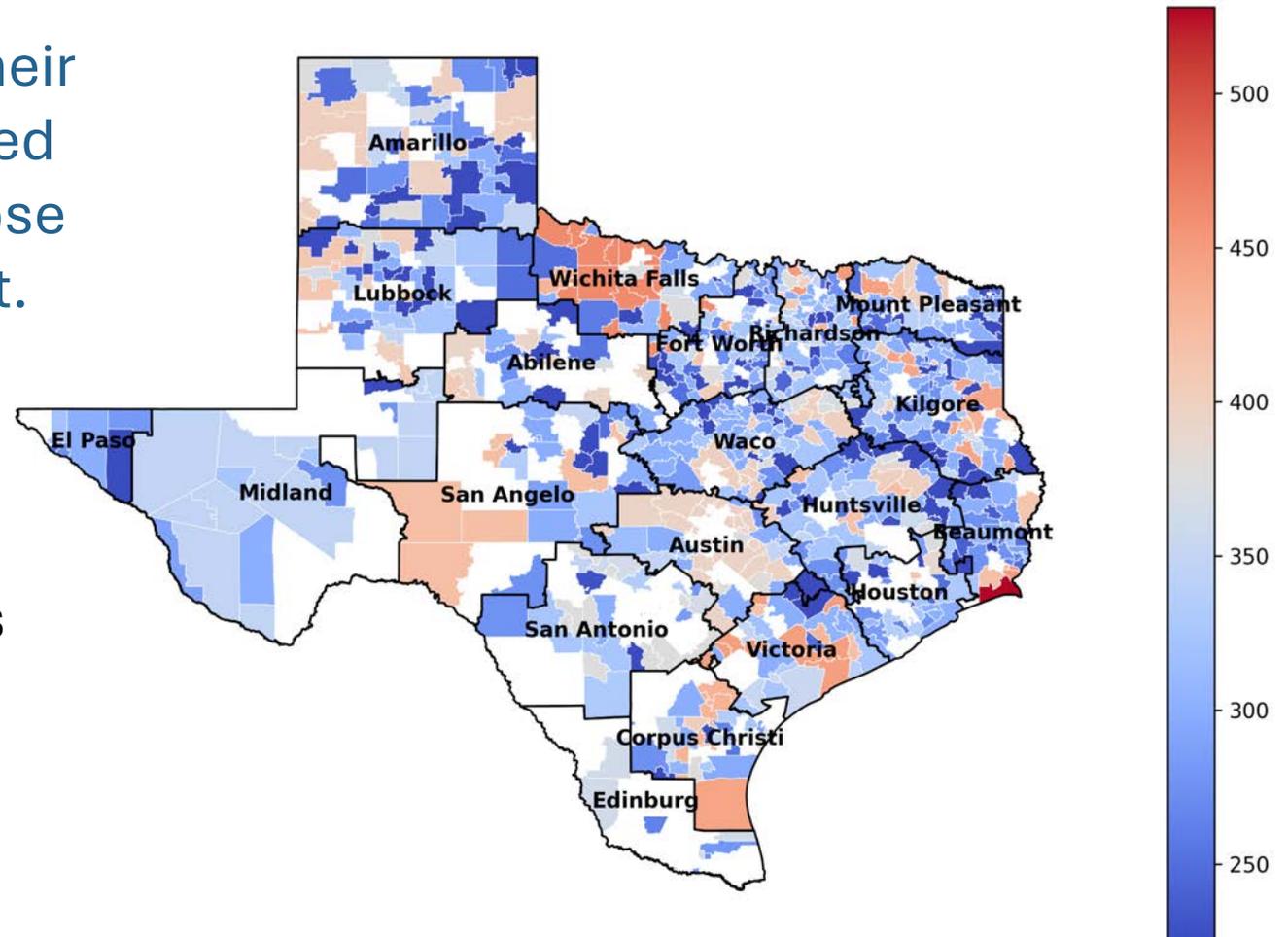
Shifts in Employee Cost Share Overtime

Average **Employee** and **Employer** Contribution to Employee-Only Health Insurance

1999-2000

- Texas Public Education (Prior to TRS-ActiveCare): Employee $47, Employer $269
- Large Firms U.S. Single Coverage: Employee $27, Employer $313

2025-2026

- TRS-ActiveCare: Employee $180, Employer $372
- Large Firms U.S. Single Coverage: Employee $122, Employer $658
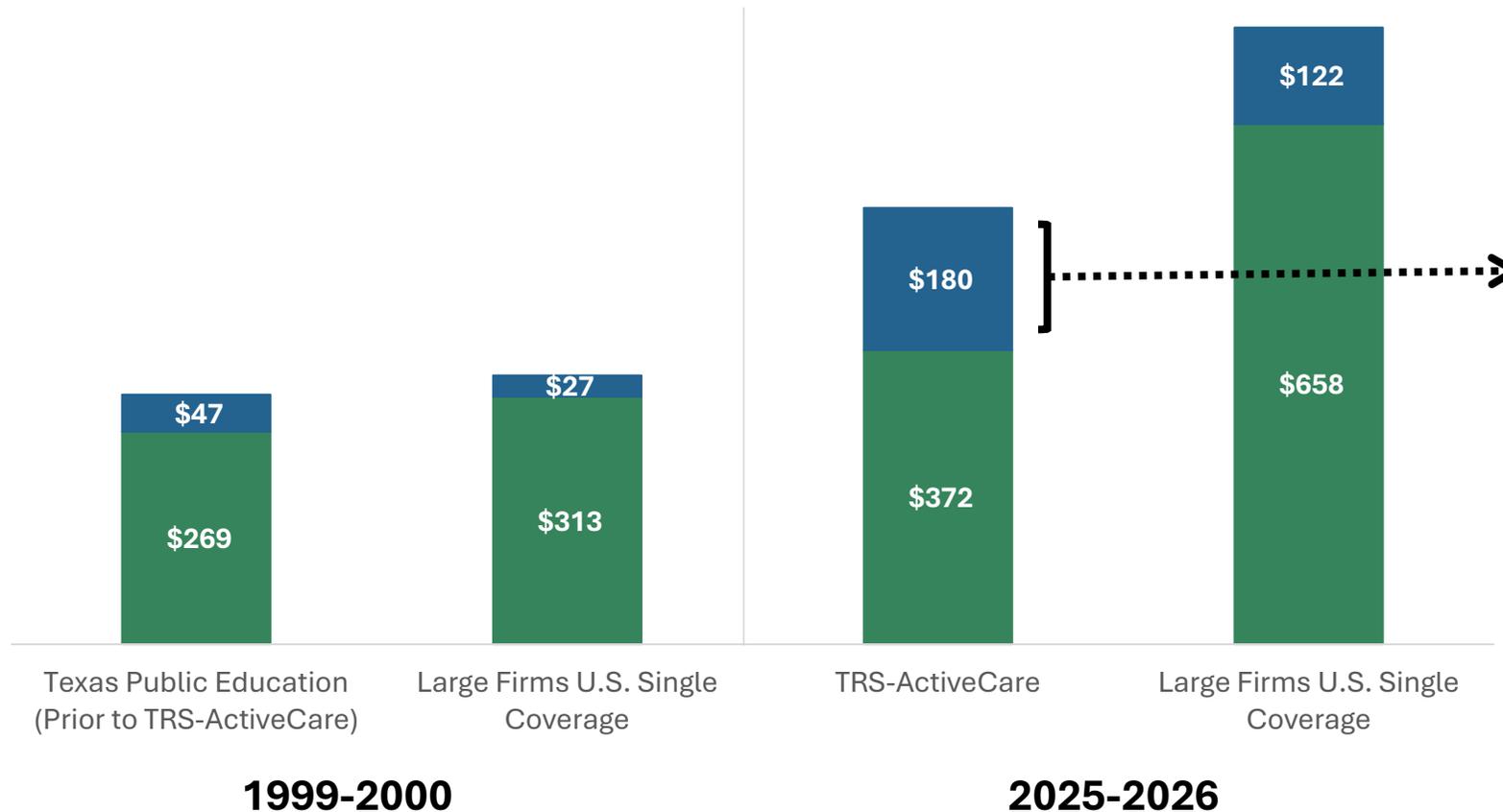
Even with lower total premiums, TRS-ActiveCare **employees' share of the premium is nearly 50% more** than what employees in other plans pay

Source: The Kaiser Family Foundation (KFF) data was adjusted to account for inflation using data Federal Reserve Economic Data.

18

Employee Contributions & Cost Sharing

	2003	2026
Employees in Lowest Premium Plan	10%	50%
Deductible	$1,000	$2,500
Maximum Out-Of-Pocket	$2,000	$8,050
Teacher Avg Monthly Salary	$3,331	$5,312

Employer funding has stayed relatively flat, while employees have paid the difference for increasing health care costs, moving to lower-premium plans with higher out-of-pocket costs

Supplemental Funding FY23

$1,329

Family

$979

$368

Employee + Spouse

$478

$314

Employee + Child

$128

$152

Employee Only

Employee Only: $12

Employer Avg Contribution

$225

$373

Fiscal Year

2003   2008   2013   2018   2023   2026

Assumes a starting contribution of $225 in 2003, increasing at a constant rate until actual values begin in 2020. FY26 teacher salary based on 2024-25 data from TEA. Data reflects the lowest cost option offered, which in recent years is the average premium across regions for TRS-ActiveCare Primary.

19

GLP-1 Forecasting Helps With Early Signal

Costs for GLP-1 Drugs **Actual** vs **October 2024 Forecast**
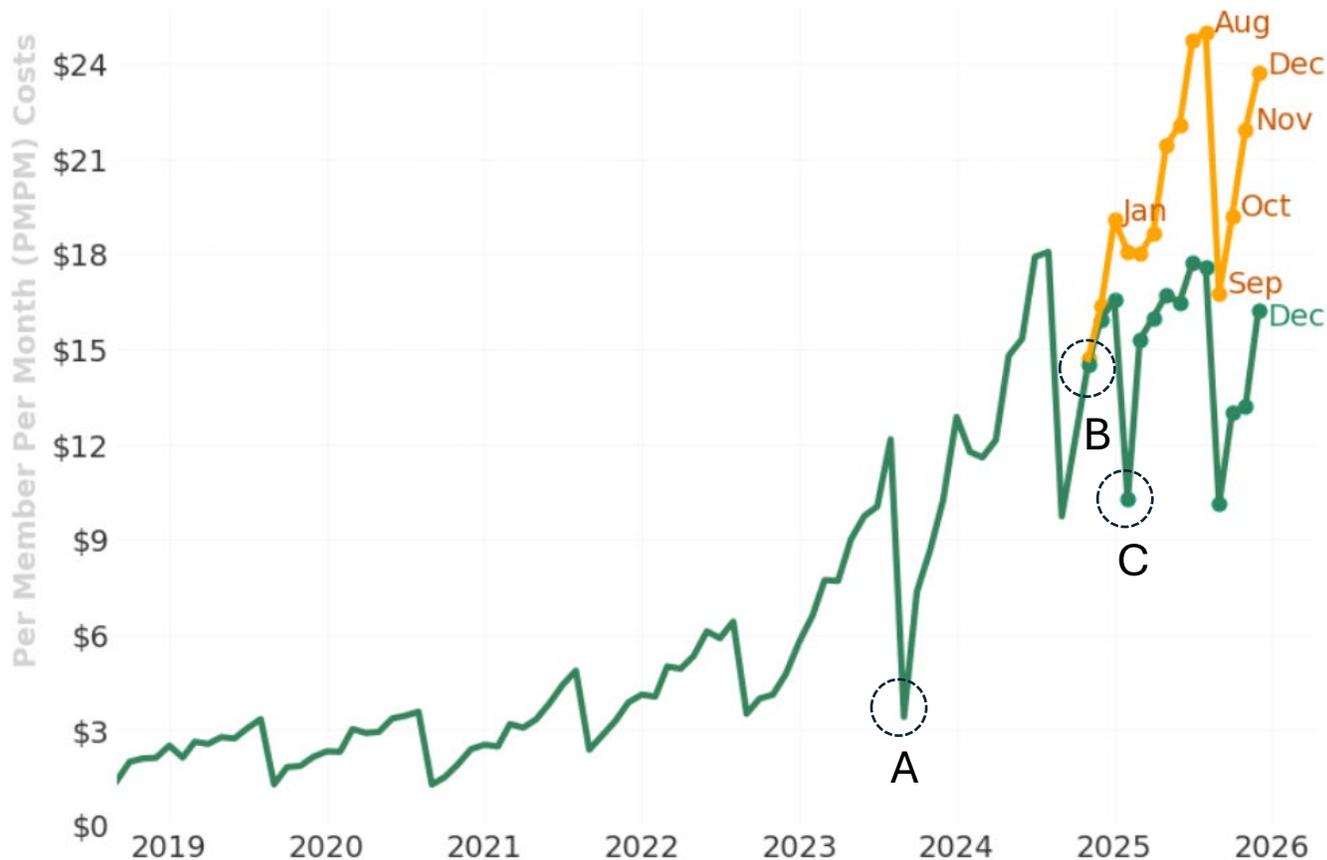
Forecasting helped identify when emerging GLP-1 trends warranted further management faster than waiting for historical patterns

(A) Sept 23
- CVS to ESI Switch
- New Req of Prior Diabetes Diagnosis
- New Plan Year

(B) Nov 24
- Req of A1C by Lab to Support Need for New Users

(C) Feb 25
- A1C Req for Appropriateness & Efficacy for All Users

Source: Internal TRS Data Warehouse

Appendix

Fund Balances

Fiscal Year	Contributions							Expenditures					Ending Balance (Incurred Basis)
	State/District Contributions	Supplemental Appropriations	Employee Contributions	HMO Contributions	LTC	Other Income	Total Revenue	Medical Incurred	Drug Incurred (includes Rebates)	HMO Premium Payments	Administrative Costs	Total Expenses	
FY 2019	$1,049,243,657		$881,998,119	$246,513,026	$146,090	$11,162,989	$2,189,063,880	$1,459,520,631	$254,168,852	$243,198,667	$123,514,885	$2,080,403,035	$164,953,230
FY 2020	$1,035,176,542		$870,173,250	$260,364,669	$145,265	$8,121,853	$2,173,981,579	$1,522,489,616	$271,480,529	$256,850,839	$119,814,483	$2,170,635,466	$168,299,343
FY 2021	$1,011,525,120		$850,291,777	$176,981,437	$142,718	$1,853,676	$2,040,794,727	$1,615,822,471	$285,092,897	$173,297,782	$78,637,967	$2,152,851,116	$56,242,954
FY 2022	$1,033,743,632	$638,337,761	$868,968,740	$149,833,982	$0	$1,656,095	$2,692,540,210	$1,690,700,579	$293,845,034	$146,752,232	$69,945,345	$2,201,243,189	$547,539,975
FY 2023	$952,097,761		$800,336,918	$85,603,456	$0	$27,739,322	$1,865,777,457	$1,683,988,310	$288,020,255	$83,782,801	$73,689,100	$2,129,480,467	$283,836,966
FY 2024	$1,088,669,143	$588,518,000	$757,221,705	$67,899,516	$0	$48,200,848	$2,550,509,213	$1,741,530,426	$251,690,274	$72,524,931	$80,123,736	$2,145,869,368	$688,476,811
FY 2025	$1,205,306,611	$369,224,574	$838,348,669	$7,653,508	$0	$39,982,705	$2,460,516,067	$1,961,981,400	$275,892,828	$7,555,813	$84,806,577	$2,330,236,617	$818,756,260
FY 2026	$1,305,581,787		$908,094,872	$2,327,497	$0	$33,310,188	$2,249,314,344	$2,045,023,907	$339,791,396	$2,306,842	$85,012,244	$2,472,134,390	$595,936,215
FY 2027	$1,432,746,925		$996,544,337	$2,403,649	$0	$19,772,546	$2,451,467,457	$2,157,331,377	$386,866,840	$2,382,949	$88,511,004	$2,635,092,170	$412,311,502

Notes:

- Invoice data through August 31, 2025
- Medical trend: 6% in FY25 (Higher trend used in FY25 to account for new districts). 5.5% trend in FY26 and FY27.
- Pharmacy trend: 9% through FY 27.
- Prior to FY2018: State contributions are equal to $75 per employee per month. District contributions are equal to $150 per employee per month. FY2018 and Forward: State/District Contributions are based on September actual contributions.

- Interest rate assumed in FY25 is 5.08%. Rate decreases by a factor of 25% each year with a minimum of 0.5%.
- Average premium rate increase of 9.7% is assumed for FY27.
- The ActiveCare Fund balance is managed to prevent a deficit through premium and benefit adjustments.

# Appendix: TRS-Care Fund Balance Projection Through 2027

Fiscal Year	Contributions							Expenditures			Ending Balance (Incurred Basis)
	Retiree Contributions	State Contributions	Supplemental Appropriations	Active Employee Contributions	District Contributions	Investment Income	CMS, Part D and EGWP Subsidies	Medical Expenses	Drug Expenses	Administrative Costs	
FY 2017*	$373,229,610	$328,063,352	$15,559,552	$213,241,179	$191,057,800	$5,225,993	$195,396,219	$807,831,048	$734,805,874	$51,885,051	$368,737,886
FY 2018	$488,069,004	$425,625,726	$394,600,000	$221,325,377	$266,061,322	$10,930,281	$183,159,406	$840,420,584	$669,082,906	$50,430,879	$798,574,633
FY 2019	$517,965,033	$437,189,334	$73,641,562	$227,338,454	$273,110,251	$25,046,771	$321,106,153	$688,148,611	$648,749,351	$45,051,884	$1,292,022,346
FY 2020	$499,057,861	$468,330,999	$230,756,971	$243,532,120	$292,411,364	$25,396,789	$317,440,892	$659,668,989	$668,307,637	$44,654,785	$1,996,317,930
FY 2021	$533,592,849	$481,564,562	$5,520,343	$250,413,572	$299,803,511	$9,226,940	$311,771,512	$604,926,549	$705,239,916	$38,802,284	$2,539,242,470
FY 2022	$399,788,260	$506,388,630	$83,000,000	$263,328,449	$315,688,282	$13,499,534	$288,606,867	$551,595,432	$694,534,457	$45,475,384	$3,117,937,219
FY 2023	$477,018,666	$533,605,088	$0	$277,468,284	$334,703,238	$151,354,211	$354,575,016	$590,029,372	$714,251,845	$52,615,305	$3,889,765,200
FY 2024	$469,319,251	$558,086,044	$0	$290,204,743	$351,169,597	$202,197,475	$395,494,793	$607,212,304	$690,449,243	$41,929,243	$4,816,646,313
FY 2025	$376,630,174	$567,207,577	$0	$294,947,940	$357,176,773	$220,852,534	$507,069,348	$649,683,033	$872,609,166	$48,447,996	$5,569,790,466
FY 2026	$332,984,284	$599,047,394	$0	$311,504,645	$359,428,436	$185,470,762	$590,359,389	$710,172,278	$985,215,932	$55,639,665	$6,197,557,500
FY 2027	$342,151,957	$614,848,593	$0	$319,721,268	$368,909,156	$153,928,208	$694,373,033	$744,644,153	$1,142,843,874	$58,823,019	$6,745,178,669

Notes:

- Invoice data through August 31, 2025
- The purpose of this report is to project revenue and expenses on an incurred basis and should not be used as a projection of cash flow. Cash flow projections are usually less than incurred primarily due to a delay in receipt of federal subsidies.
- State Contribution rate of 1.25%; District Contribution rate of 0.75%; and Active Contribution rate of 0.65% beginning Sept. 1, 2017.
- Medical trends: 7% through FY2025; reduced by 0.25% each year thereafter.
- Pharmacy trends, Non-Part D: 7% through FY2025; 12% in FY2026 and reduced by 0.25% each year thereafter.
- Pharmacy trends, Part D: 7% through 2025; -1.4% in 2026 and 6% in 2027.
- Interest rate is set to match current returns and reduced by 25% a year with a floor of 0.5%.
- Expected increase in payroll from Texas House Bill 2 (HB 2) from 89th Legislative Session is accounted for in FY 2026 and FY 2027 projections.

*Note that there was a prior period adjustment to retiree contributions FY2017. This number will not tie to the Annual Comprehensive Financial Report as the adjustment is reflected here.
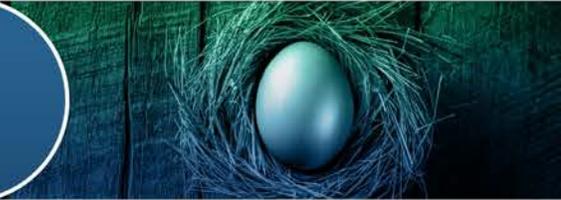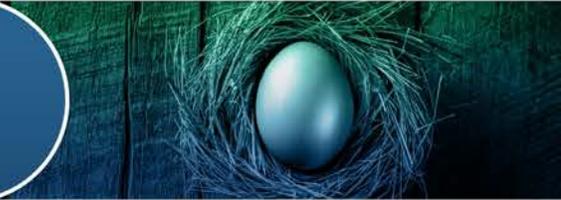
TAB 11
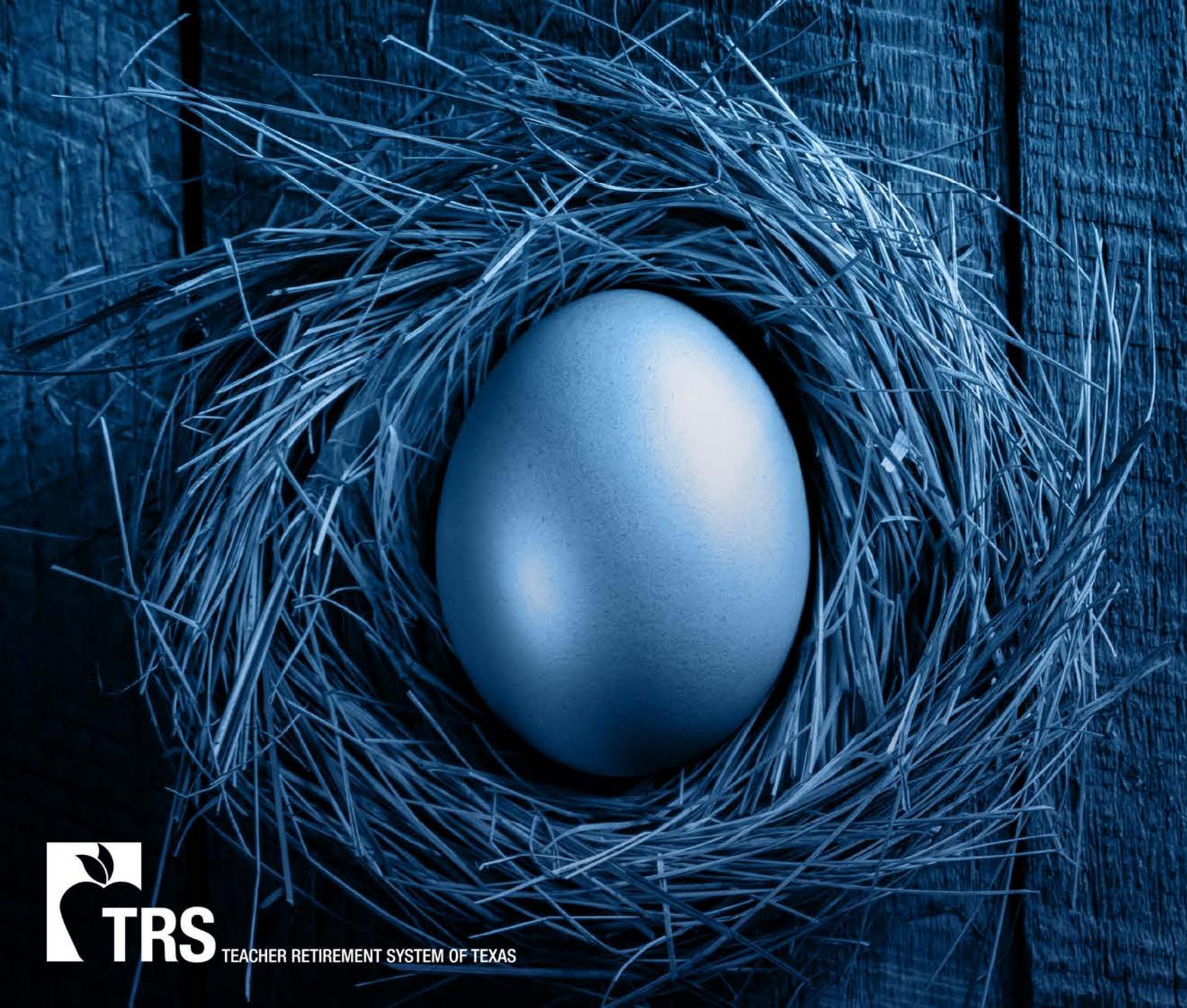
El Paso Regional Office Update

Current Status

- Lease for El Paso Regional Office expires in January 2027.
- Looking at opportunities outside of the Region 19 Education Service Center.
- Confirmed with Texas Facilities Commission that no state-owned space is available.
- Staff and CBRE toured five properties in September 2025.

Feb 2022
Lease commenced at Region 19 ESC

Sept 2025
Site Tours

Jan 2027
Current lease expires

Nov 2022
El Paso Office Opens

Feb 2026
Staff requests the board to approve a site and budget

Rio Grande Valley Regional Office Update

Current Status

- Staff began lease negotiations with landlord after the board approved the location, budget and resources of the new Rio Grande Valley Regional Office in September 2025.
- Lease negotiations discontinued in early January 2026.
- Staff toured available properties on Jan. 19, 2026.

May 2024
Brokerage RFP Posted

Sept 2024
CBRE Selected as Broker

Jan 2025
Site Tours and Member Survey

Sept 2025
Board Approval of Site and Budget

Dec 2025
Lease Negotiations

Jan 2026
Negotiations Discontinued

Jan 2026
Additional Site Tours

Feb 2026
Staff updates board and seeks approval for the selection of a new site.

TAB 12

Agenda

Statutory Data Governance Compliance Update

Infrastructure Modernization

Required Audits

Texas Cybersecurity Framework Assessment

Information Security Quarterly Report

Fraud "SAFETY" Tool Update

Data Governance and Security

Shared responsibility
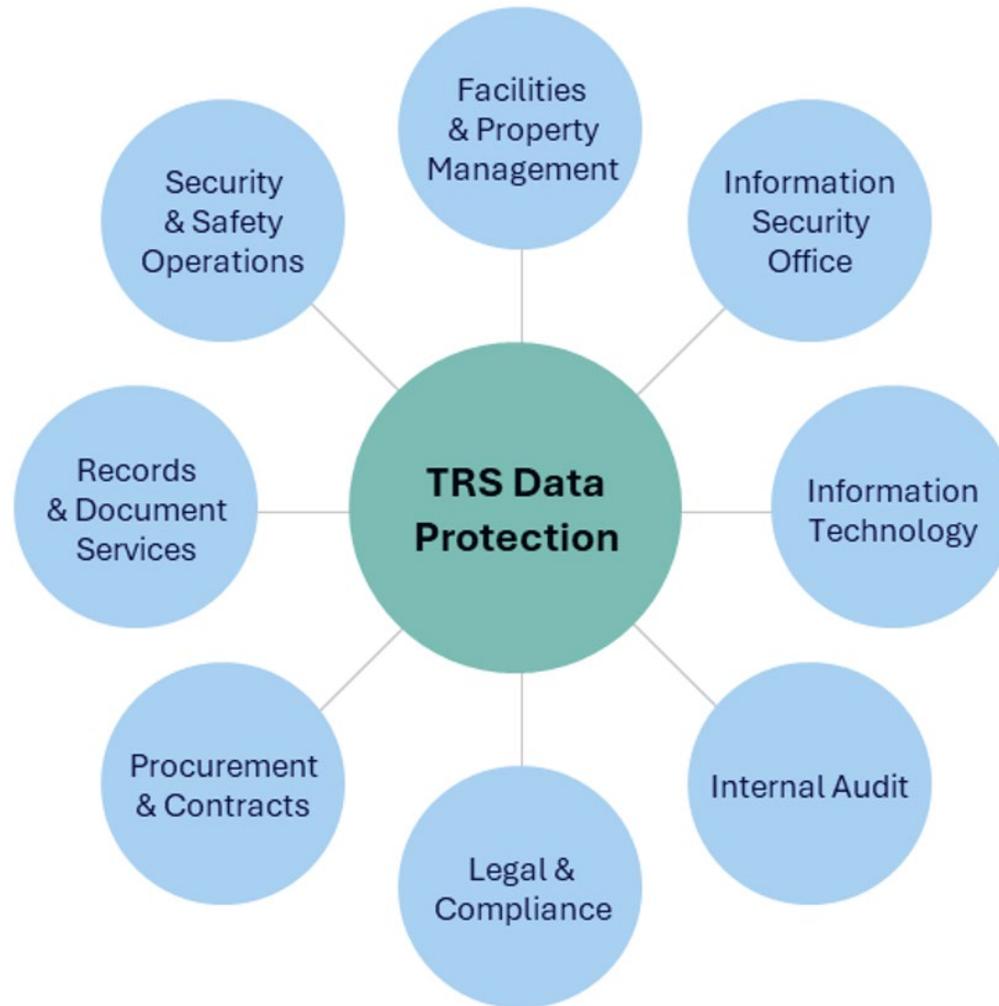
TAB 14

IT/TEAM

Presentation Date
February 12, 2026

Presented By

Chris Cutler
Jennifer Whitman
Billy Lowe
Adam Fambrough

TRS
TEACHER RETIREMENT SYSTEM OF TEXAS

TEAM – Where we are now

PBT RELEASE STATUS:

KEY STATUS UPDATES

Achievements
- 12/03/2025 – 12/05/2025 - PBT Dry Run 4
- 12/11/2025 – User Acceptance Testing END
- 01/06/2026 – 01/07/2026 - PBT Dry Run 5
- 02/05/2026 - PBT UAT Exit Quality Gate

Key Goals Upcoming
- **03/02/2026 – PBT GO-LIVE**

PBT Defect Score Trend

Application	# of Defect	Score
LOB	21	154
DMI	3	30
CRM	0	0
HILOB	0	0
Total	24	184

Quality Gate 2/5   Go Live 3/2
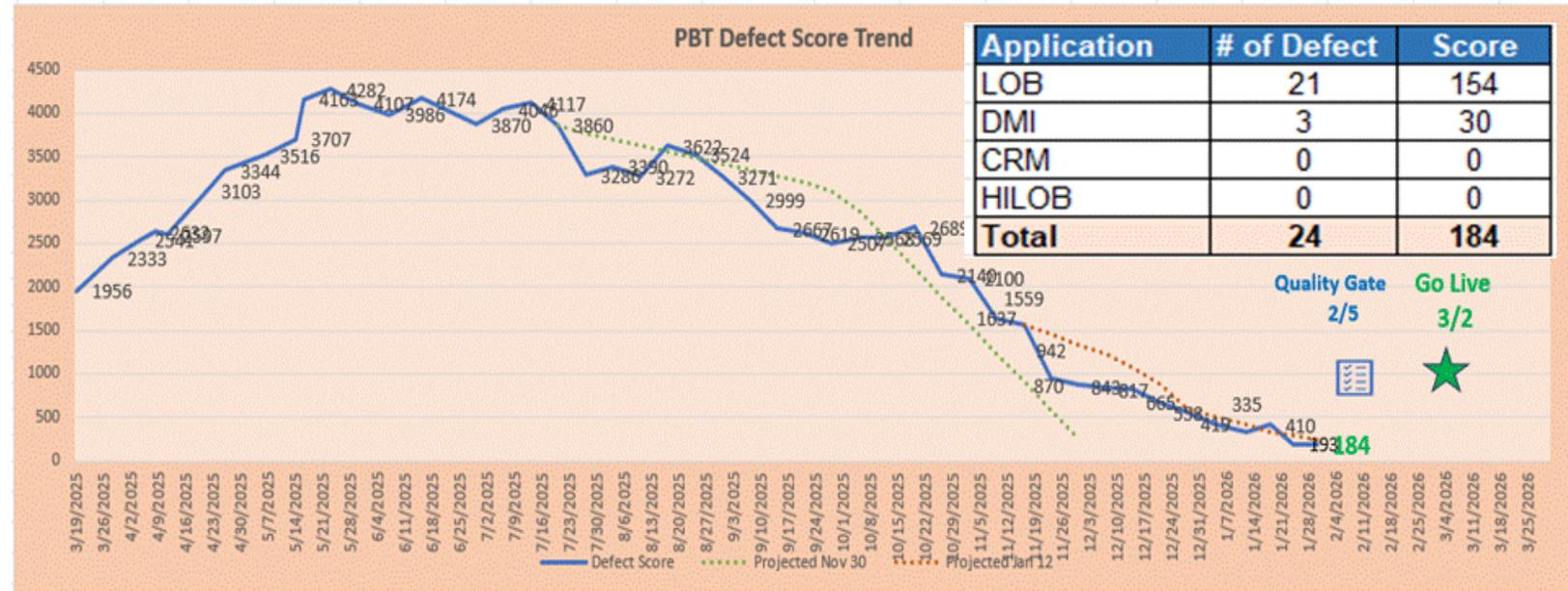
TESTING TYPE	% COMPLETE	TESTING SCOPE
General Ledger Testing	99.8%	27,065 General Ledger lines
Parallel Payroll Testing	99.9972%	504,106 payroll records run
Regression Testing by IT	100%	246 End to End Business Processes
Performance & ADA Compliance Testing	100%	No critical issues identified

Service Level Risks

A temporary decline in service levels is possible following any significant system rollout.

This can be attributed to several factors:

- Known workarounds
- Newly identified issues after launch
- Data migration issues
- System improvements and fine-tuning
- User adoption of the new system
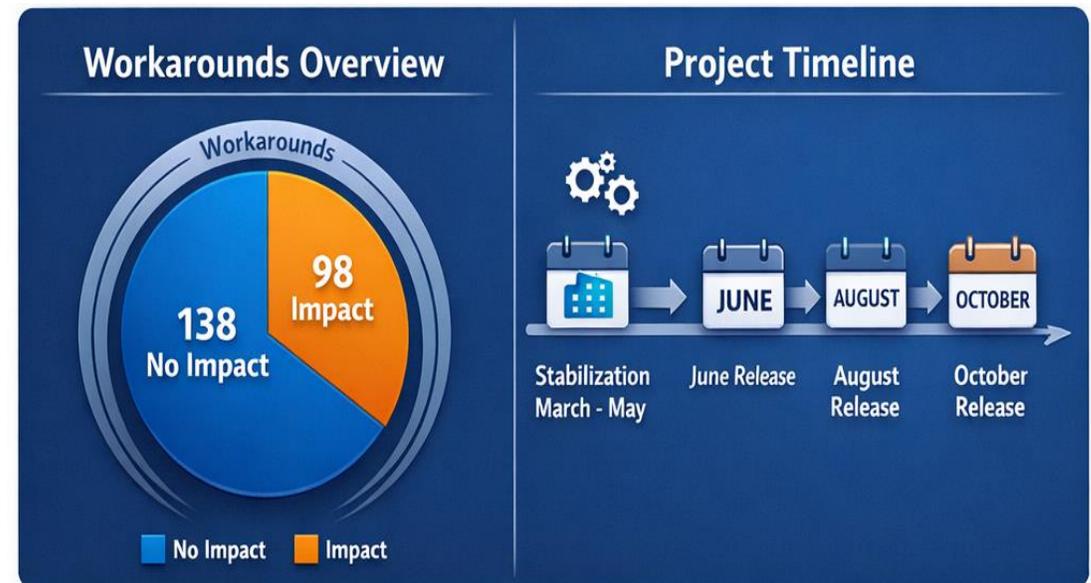
Employee Readiness

Training

- Scheduled from January 7th to February 27th
- Available both in-person and online
- More than 453 participants expected
- Comprises 16 courses across 85 sessions

Sandbox

- A TRUST environment allowing end-users to familiarize themselves with new features

Readiness Survey

- Conducted from February 4th to 11th to assess end-user readiness

EMPLOYEE READINESS

CLASSROOM TRAINING

VIRTUAL TRAINING

SANDBOX

READINESS SURVEY

Go-Live Cutover Highlights

February Payroll Processing

Will be run from Legacy system before cutover activities begin

Cutover Activities

Pre-cutover activities start about 2 weeks prior to cutover

Cutover will start on Wednesday evening

Target completion by Sunday afternoon

Pension Services and Health will be closed during cutover

MyTRS and RE Portal will be unavailable throughout cutover

Business validation

Reconciliation and validation are performed with business teams to confirm data accuracy and completeness.

Communication Strategy

Leadership, stakeholders, and key operational teams will receive updates throughout the process

Go-live readiness

Final validation approval targeted for Sunday for regular business on Monday

Post Go-Live Support

Command Center Meetings - Daily triage of new defects
Will continue until the volume of new critical defects decreases

Fix releases – Focused on fixing critical defects found in production that cannot wait for scheduled release

Scheduled releases – Focused on defects found in production along with new functionality or enhancements to existing functionality. Also includes fixes to items found during pre go-live testing but deferred until after go-live for fix.

Roadmap releases – Focused on major new functionality and member experience.

Go-Live

March 2, 2026

PBT Go-Live

Texas Independence Day

TAB 15

Overview of TRS Performance Pay Plans

Presentation Date
Feb. 12, 2026

Presented By
Christine Bailey, OE

Katy Hoffman, IMD

Josh Wilson, Mercer

Susan Lemke, Mercer

TRS
TEACHER RETIREMENT SYSTEM OF TEXAS

Agenda

TRS Compensation Overview

Performance Pay Plans

Key Stakeholders

What's Happening in the Market

TRS Compensation Plan Highlights

13 Divisions

1,258 Employees

937 Unique Positions

58 Job Families

- The TRS Compensation Plan (TCP) is the framework used to define base pay, as well as administer a variety of programs. It is grounded in compensation philosophies for both headquarter (HQ) employees and those working in the Investment Management Division (IMD)

- TCP was implemented in 2022 to provide TRS with an agile structure that could be tailored to agency-specific business needs

- The structure includes standardized job descriptions, outlining key accountabilities, qualifications, and workforce expectations

- Funding for merits, promotions and other salary actions are dependent on the agency's annual budget and may vary from year to year
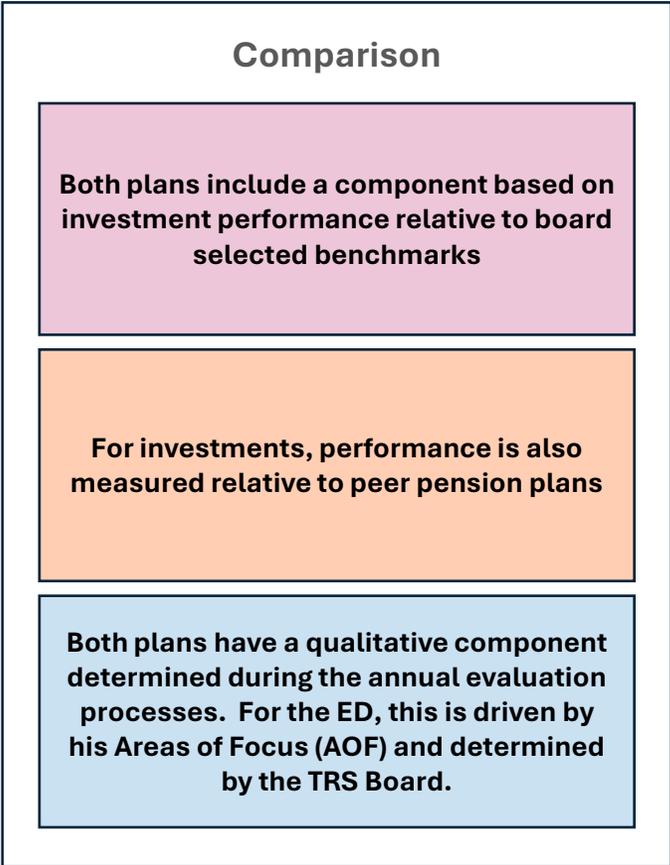
Compensation Overview

Compensation Philosophy	Job Architecture	Pay Range Development	Salary Administration	Variable Pay	Performance Management
• Describes the agency's strategic direction as it relates to pay • Explains the "why" behind employee pay and creates a consistent framework for decisions	• Determines how the agency structures positions and jobs • Serves as the infrastructure, hierarchy and framework of jobs within the organization	• Determines how a company will set salary rates • Designed to make consistent and transparent decisions about the value of a job in the labor market	• Includes practices and procedures for adjusting employee pay and managing the structure • Components include annual merits and promotions in addition to system maintenance	• Includes pay that is added to an employee's base salary • Examples include performance pay framework, merit pay, or longevity awards	• Ongoing process of clarifying and communicating priorities, job responsibilities and performance expectations • Includes annual reviews and 360 evaluations

Overview of Performance Pay Framework

	IMD and Teacher Retirement Investment Company of Texas (TRICOT)	Executive Director
Established	• 2007 (IMD) • 2021 (TRICOT)	• 2015 (8-month pilot program) • 2016 (Fully adopted)
Employees Covered	• IMD (227) • Legal & Compliance (17) • TRICOT (3)	• Executive Director (1)
Purpose	• Based on the IMD's compensation philosophy which is designed to attract and retain a talented investment organization • Awards emphasize longer-term result and alignment with TRS members	• Rewards the Executive Director for exceeding TRS benchmarks in leadership and investment oversight, emphasizing total compensation • Focused on enterprise-wide strategies across five areas of focus

Key Features	• <u>Three components:</u>
	  • Performance relative to benchmarks
	  • Performance relative to peers
	  • Individual performance as assessed by manager
	• Total trust performance drives meaningful portion of the award (30% minimum) while promoting importance of asset class performance
	• Longer term results prioritized with 67% of the award based on three-year results and 33% on one-year results
	• Awards paid only when trust return is positive
		• <u>Two components:</u>
		  • Leadership Performance
		    • Based on areas of focus (AOF), 360 assessments, and key accountabilities
		      • Member Focused
		      • Continuous Improvement
		      • Operational Effectiveness
		      • Leadership Effectiveness
		      • Talent Effectiveness
		  • Investment Management Oversight
		    • Calculated using percent of target alpha achieved (PTAA)

Maximum Award Opportunity (MAO)	• Ranges from 5% to 175% of base salary	• 100% of base salary

Comparison of Plan Components

Investments and TRICOT

Performance relative to benchmarks
50%*

Performance relative to peers
30%

Individual Performance (Qualitative Score)
20%*
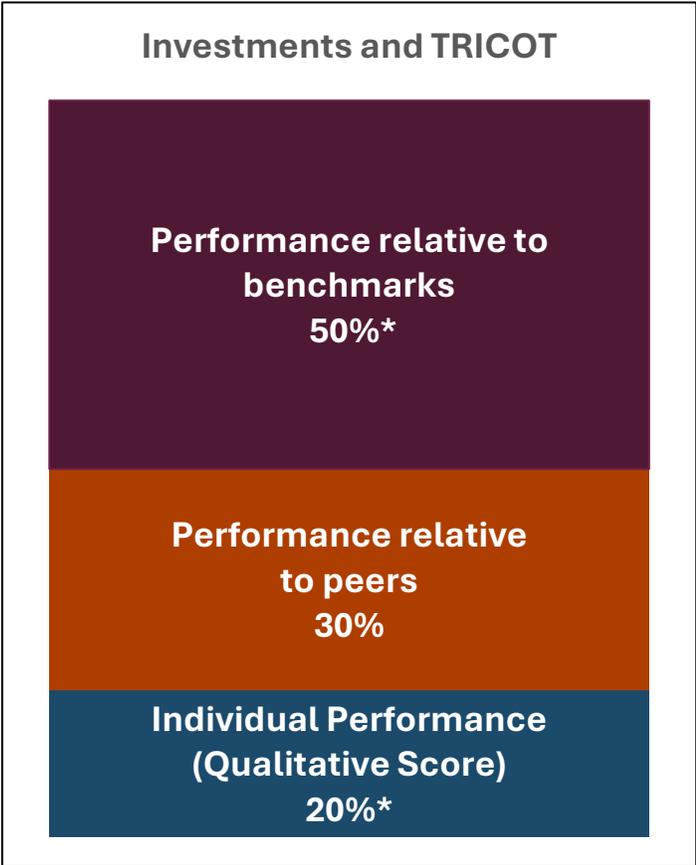
*For junior positions mix is 30/30/40

Comparison

Both plans include a component based on investment performance relative to board selected benchmarks

For investments, performance is also measured relative to peer pension plans

Both plans have a qualitative component determined during the annual evaluation processes. For the ED, this is driven by his Areas of Focus (AOF) and determined by the TRS Board.

Executive Director (ED)

Investment Management Oversight
50%

Leadership Component (Qualitative Score)
50%**

**Board determines score for this component during annual evaluation process

Plan Updates – 2021 to Present*

Plan Year	IMD and TRICOT	Executive Director
2021	• Created TRICOT plan for direct hires (mirrors IMD Plan) • Removed Deputy CIO and Sr. Investment Manager titles • Directly linked team portfolio performance for Public Markets • Increased share of peer performance across groups	• Eliminated duplicative survey for TRS Board members • Combined leadership categories and adjusted corresponding weights • Updates to scoring matrices
2022	• **Changed payout frequency from two-year to annual payments** • Increased qualitative awards for junior titles	• **Changed payout frequency from two-year to annual payments** • **Consolidated 360 assessment, evaluation and performance pay determination into one process** • **Aligned leadership performance category with Areas of Focus (AOF) and Key Accountabilities** • **Adjusted MAO from 30% (Leadership and Investment Management Oversight) to 50% for each category**
2023	• **Adjusted excess return targets** • Removed Senior Director title • Changed Private Equity and Real Estate peer universe	• **Updated investment management oversight component to align with adjusted excess return targets in IMD plan**
2024	• Technical changes	• Technical changes
2025	• Consolidate Public Market groups • Add a peer set for Public Markets • Adjust Trading team peer calculation • Correct conflicting language related to death/disability of participant	• Technical changes

*Note: the IMD plan was first established in 2007, TRICOT was added in 2021. The ED plan was piloted in 2015 and the first full year approved in 2016.

Performance Pay Plan Annual Processes

Plan Year Begins (Oct. 1)	Q1: Oct-Dec	Q2: Jan-Mar	Q3: Apr-Jun	Q4: Jul-Sep	Plan Year Ends (Sept. 30)
Plan Review and Approval					
		-Feedback on plan changes solicited -Initial discussions about potential plan changes begin (March) -TRS touchpoint with Board Compensation Consultant	-Potential plan changes reviewed by Board Compensation Consultant and Fiduciary Counsel -Plan changes formalized and sent for legal review	-Board briefed on plan updates during July meeting	**-Board Compensation Consultant and Fiduciary Counsel prepare memos on the plan process** **-Board approves plans during the September meeting**
Plan Administration					
-Salary actions effective Oct. 1 determine participant salary rates for new plan year -Plan calculations for prior year begin	-Final plan calculations completed (December) - Performance Pay notification letter sent to Governor's Office and Legislative Budget Board (must be sent by Dec. 15)	-Performance pay awards processed effective Jan. 1	**-Evaluation process begins for TRS Board direct reports**	-IMD and Legal & Compliance conduct annual merit process for eligible employees	**-Evaluations for TRS Board direct reports presented** **-Board reviews compensation for ED and CIO** **-Board determines performance pay for ED if applicable**

Note: Items in bold represent key activities for Board members

8

Key Players - Performance Pay Plans

Board of Trustees
- Approves plans annually
- Provides strategic direction and input
- Determines award for ED Performance Pay

Legal & Compliance
- Reviews plan changes
- Coordinates with outside tax counsel
- Serves as interpreter of plan language

Independent Auditors
- **TRS Internal Audit**: Conducts regular audits of investment data
- **SAO:** Conducts regular audits of performance pay plans in the state
- **CPA:** Conducts regular audits of payments made at state agencies

Organizational Excellence
- Point of contact/independent review
- Retains official employee records
- Verifies eligibility
- Coordinates payments with Payroll department
- Reviews calculations

IMD
- Provides input on design and plan changes
- Manages fund performance
- Reviews calculations

Investment Accounting
- Calculates awards based on State Street financial records for performance calculations
- Retains official records for auditing purposes
- Prepares reports of performance pay in ACFR
- Prepare official/final calculations and legislative notification

Mercer

What's Happening in the Market

Salaries in Public Pensions

Increasing annually at 3-6% depending on position and individual factors

- Overall salary increase for Public Pension funds is just below 5% in 2025
  - Outside of pension funds, salaries are increasing at slower rates (3.5% merit budget on average for 2025)

Pension plans are comparing themselves against other pension plans, endowments & foundations, and private financial services companies

- Some organizations are also including non-US pension funds into compensation comparisons

Most pension plans follow state employee pay guidelines (for freezes, across the board increases, etc.) but deviate when needed

Performance usually factors into individual merit increase amounts

What's Happening in the Market

Incentive Plans

Most large Pension Plans have an annual incentive plan

- Florida, Virginia, CalPERS, CalSTRS, Colorado, Tennessee, Wisconsin, etc.
  - NY plans do not have an incentive plan (and just lost their CIO after 3 years)

Decision points are similar among the plans

- Who to include in the plan? (Investment Management, Executives, Investment – Adjacent, Support roles)
- Ratio of total fund to asset class to individual performance varies
- Required outperformance levels corresponding to payout levels
- Comparisons (Peers or indexes) and time frames (one-year vs. three-year vs. five-year)

Trends:

- More inclusion of non-direct investment roles (legal, accounting, etc.)
- Increased focus on non-financial/behavioral components
- Total fund approach (to reflect investment strategy) vs. Asset Class measurement

Long-Term Incentives (LTI) in the market

- A few instances of LTI plans in Public Pensions in the US
- Canada is far ahead of the US in this respect
- Debate as to whether it is really LTI or simply more annual incentive in a different format

Mercer's Support

Board of Trustees

- Provides top executive market pricing and increase parameters
- Leads discussion around ED leadership component (qualitative score)
- Ensures continued education around relevant market
- Evaluates and opines on proposed IMD & ED incentive plan changes

Legal & Compliance

- *Mercer does not support Legal & Compliance*

Independent Auditors

- *Mercer does not support the Independent Auditors*

Organizational Excellence

- Supports Ad Hoc compensation needs and incentive plan questions

IMD

- Partners in the annual review of the performance pay plan
- Evaluates proposed PPP changes
- Reviews compensation benchmarking approach used by McLagan

Investment Accounting

- *Mercer does not support Investment Accounting*

Mercer

Appendix

Overview of Compensation Process

Compensation Overview

Compensation Philosophy	Job Architecture	Pay Range Development	Salary Administration	Variable Pay	Performance Management
• Describes the agency's strategic direction as it relates to pay • Explains the "why" behind employee pay and creates a consistent framework for decisions	• Determines how the agency structures positions and jobs • Serves as the infrastructure, hierarchy and framework of jobs within the organization	• Determines how a company will set salary rates • Designed to make consistent and transparent decisions about the value of a job in the labor market	• Includes practices and procedures for adjusting employee pay and managing the structure • Components include annual merits and promotions in addition to system maintenance	• Includes pay that is added to an employee's base salary • Examples include performance pay, merit pay, or longevity awards	• Ongoing process of clarifying and communicating priorities, job responsibilities and performance expectations • Includes annual reviews and 360 evaluations

Compensation Philosophy

TRS Compensation Philosophy

- Established in 2019 as part of the initial plans for a TRS specific compensation structure
- Balances the ability to compete across relevant markets

IMD Compensation Philosophy

- Adopted in 2007 as a tool to recruit and retain investment management staff

Board Direct Reports

- Market data provided by Compensation Consultant for TRS Board review

TRS HQ Employees

- Target – 50th percentile (median) of relevant labor market

IMD Employees

- Base pay target – Top quartile, large public pension funds
- Performance pay target – Bottom quartile, private firms

Job Architecture

TRS Compensation Plan (est. 2022):

- Provided TRS with an agile structure to allow TRS to adapt more quickly to changes in the market

- Gave TRS the ability to create much-needed unique job classifications tailored to the pension industry and TRS-specific business needs

- Improved the ability to recruit and retain talent with clearly defined job titles, levels and career paths

- Designed to adapt to organizational changes at TRS

Compensation Structure includes:

- Standardized job descriptions outlining key accountabilities, qualifications and workforce expectations

- Salary ranges outlining minimum and maximum rates for all TRS positions

- Governance processes covering administrative processes, plan maintenance and salary administration guidelines

Board Direct Reports

- Positions tied to TRS By-Laws

TRS HQ Employees

- TRS Compensation Plan
- Grounded in TRS job descriptions
- Outlines levels and career paths for positions

IMD Employees

- Grounded in TRS job descriptions
- Focused on incentive titles

Pay Range Development

Market Pricing

- TRS utilizes a market-based pricing approach

- Process used to determine the cost of labor or compensation for a position which is used to establish pay ranges

- Driven by compensation philosophy and answers the question of "how" pay is determined

- Market analysis is a methodical and data-driven process grounded in established methodology and best practices

- Focus on "apples to apples" comparisons of positions/roles to benchmark jobs in the labor market

Board Direct Reports

- Market data provided by Compensation Consultant for TRS Board review

TRS HQ Employees

- Data provided by third-party salary survey providers
- Annual market data provided by third-party survey providers, matches are reviewed by TRS Compensation Team

IMD Employees

- Data provided by McLagan
- Market data provided every two years, base pay review conducted in-house
- Matches are reviewed by TRS Compensation Team and Mercer Consulting

Salary Administration

Employee Compensation

- Funding for merits and other salary actions is dependent on the agency's annual budget and may vary from year to year.

- Employee pay can change at TRS through promotions, reclassifications or equity adjustments

- Internal controls include a review of all salary action requests by the Compensation Team and further review and approval by senior leadership

Position/Structure Updates

- Positions may be added, updated or deleted during the year based on business need

- On an annual basis, the Compensation Team reviews the compensation plan to ensure positions and ranges are appropriately competitive

- The Compensation Team also conducts regular reviews of positions to ensure jobs are appropriately placed in market competitive ranges

Board Direct Reports

- Annual merit or other pay decisions considered by TRS Board in September

TRS HQ Employees

- Annual merit process or other pay decisions considered in January
- Promotions and other actions may occur as needed throughout the year
- Annual market data provided by third-party survey providers, matches are reviewed by TRS Compensation Team

IMD Employees

- Annual merit process or other pay decisions considered in September
- Promotions and other actions may occur as needed throughout the year
- Market data provided every two years by McLagan, base pay review conducted in-house
- Matches reviewed by TRS Compensation Team and Mercer Consulting

Variable Pay

- **Organizations use a variety of options to compensate employees beyond base pay**
  - One-time merits are awarded for exceptional performance
  - In limited circumstances, TRS utilizes recruitment or sign-on bonuses and retention bonuses

- **Performance pay is a key component of the total compensation package for executive and investment positions and is used to:**
  - Align pay with business strategy and value to stakeholders
  - Help manage cost structures while still providing competitive pay
  - Attract and retain highly qualified talent
  - Reinforce strategic priorities and drive accountability

- **Performance pay is used for the following positions**
  - Executive Director
  - Positions within the Investment Management Division (IMD), including the Chief Investment Officer (CIO)
  - Positions within TRICOT
  - Legal & Compliance positions that are directly supporting investment work

Board Direct Reports

- Options for variable pay are determined by the TRS Board
- Performance Pay Plan for Executive Director
- CIO covered under the investment Performance Pay Plan

TRS HQ Employees

- Eligible for merit pay and recognition awards
- Receive state mandated awards including Longevity Pay
- Reviewed by Organizational Excellence (OE) Compensation Team and Executive Leadership

IMD Employees

- Participate in Performance Pay Plan
- Receive state mandated awards including Longevity Pay

Performance Management

- **All TRS employees participate in a performance management process to evaluate progress toward organizational goals**
  - Regular feedback occurs throughout the year as part of ongoing processes
  - Annual, formal evaluation process may include 360 evaluations, peer reviews and manager feedback

- **Timing varies depending upon employee groups**
  - Board Direct reports – process coincides with established TRS Board meeting dates
  - TRS HQ employees – process begins after fiscal year close
  - IMD employees – process coincides with timing for Performance Pay Plan

Board Direct Reports

- Evaluation process begins in June and reviews are conducted in September
- Includes 360 reviews

TRS HQ Employees

- Evaluation process begins in September and reviews are conducted in November
- Includes 360 reviews, Individual Development Plans and feedback from managers

IMD Employees

- Evaluation process runs throughout the year and includes 360 reviews. Review process is completed in September
- The employee evaluation process is tied to Performance Pay Plan

TAB 17

Topics for Discussion

Honors & Recognitions

Pension Plan Design Study

Honors & Recognitions

Shunne Powell, Executive Network Assembly Group

Society for Human Resources Management (SHRM)

Barbie Pearson, President-Elect

SouthWest Benefits Association

Timeline

Pension Plan Design Studies

2012

GAA (2011) Sec. 18.03

"Pension Plan Changes Study. Out of funds appropriated elsewhere in this Act, the Employees Retirement System and the Teacher Retirement System shall each individually report on the actuarial and fiscal impacts from potential changes to the state, university and school district pension plans as of August 31, 2011, including but not limited to: retirement eligibility; final average salary; benefit multiplier; and the creation of a hybrid plan that includes defined benefit and defined contribution features such as a two-part plan or a cash balance plan..."

SB 1458 (2013)

Increased Contribution Rates

Modified Benefits

2018

TRS updates 2012 Study

SB 12 (2019)

Increased Contribution Rates

2024

HB 4141 (2023)

Peace Officer Study

HB 4029 (2025)*

Peace Officer bill

*Legislation did not pass

2026

GAA (2025) Rider 21

"Pension Plan Design Study. Out of funds appropriated elsewhere in this Act, the Teacher Retirement System (TRS) shall produce a report that compares TRS' current defined benefit plan with alternative benefit plan designs. The report shall consider workforce and demographic trends among TRS members and retirees and the actuarial and fiscal impacts of the alternative plan designs..."

HB 4945 (2025)

Wildland Firefighter Study

Pension Plan Design Study Key Components
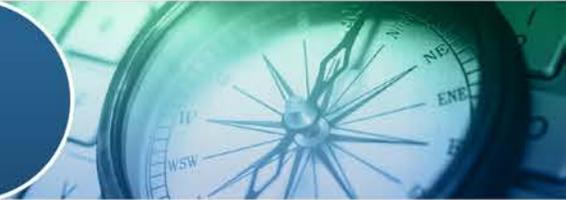
Completed

Alternative Plan Structures	Workforce & Demographic Trends	Social Security
• Retirement Plan Type Continuum • Examples • Trade-offs • Teacher Plan Distribution		

Current

Member & Retiree Profiles	Assessing Pension Plan Health

Upcoming

Benchmarking Research	Current Pension Plan Profile	Considerations in Plan Design

FY 2025 Active Member Profiles

Reported Position Categories

Administrative/Professional	Statutory*
Teacher/Full-Time Librarian	Statutory*
Support Staff	Statutory*
Bus Driver	Statutory*
Full-Time Nurse/Counselor	Administrative
Peace Officer	Statutory*
Food Service	Administrative
Summer School	Administrative

Source: Government Code Section 825.515

Optional Retirement Program

Certain higher education positions are eligible to elect the Optional Retirement Program (ORP) in lieu of TRS

- Defined contribution plan administered by the Texas Higher Education Coordinating Board
- One-time irrevocable election within 90 days of TRS employment in an eligible position

ORP participants are not TRS members

- There were 147,151 ORP participants in FY 2025
- The number of ORP participants has stayed at less than 40% of higher education staff that could participate in the TRS pension plan during the last 6 years

ORP Eligibility

- Faculty Members
- Faculty Administrator
- Executive Administrator, President, Assistant Vice President, or Equivalent

- Other Key Administrators
- Librarian
- Athletic Coach
- Professional Positions

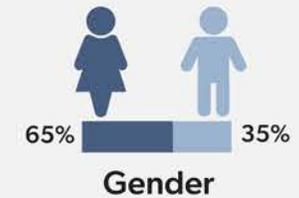# Active Member Profiles (FY 25)

PUBLIC EDUCATION

80% or 770,028 of all Active TRS Members

Gender: 77% / 23%

28 — Median Age They Joined TRS

10.4 — Average Years of Service

Average Salary: $56,270

Salary Range: $19K — $78K

HIGHER EDUCATION

20% or 198,336 of all Active TRS Members

Gender: 65% / 35%

32 — Median Age They Joined TRS

8.7 — Average Years of Service

Average Salary: $78,421

Salary Range: $27K — $132K

Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Professional/Administrative (FY 25)

Roles: Includes Chancellors, Deans, Presidents, Superintendents, Principals, Attorneys, Accountants, Directors and Administrators

Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.
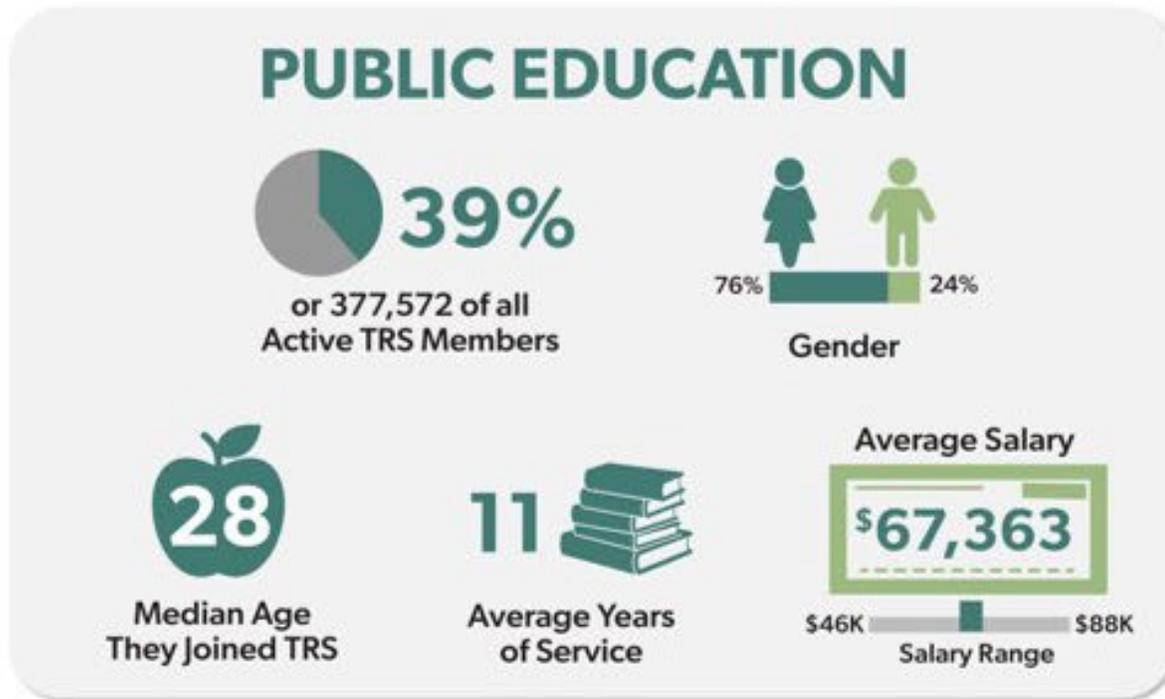
Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Teacher/Full-Time Librarian (FY 25)

Roles: Includes Only Teachers and Librarians

PUBLIC EDUCATION
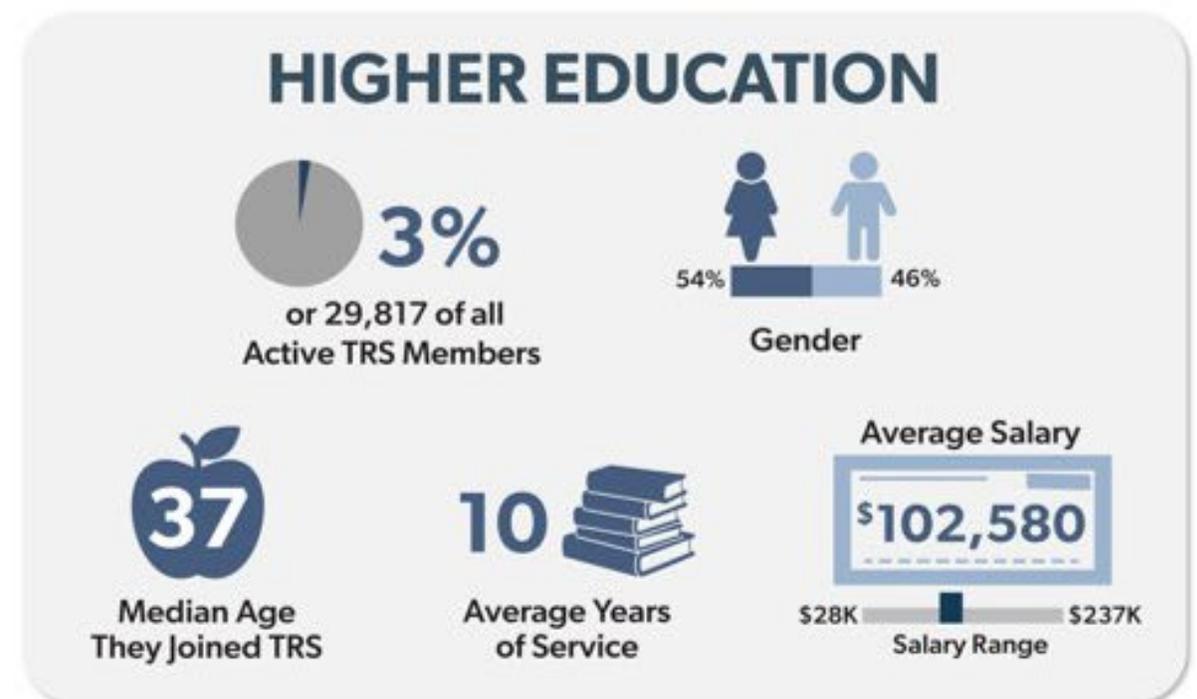
39% or 377,572 of all Active TRS Members

Gender: 76% / 24%

28 Median Age They Joined TRS

11 Average Years of Service

Average Salary **$67,363**
$46K — Salary Range — $88K

HIGHER EDUCATION

3% or 29,817 of all Active TRS Members

Gender: 54% / 46%

37 Median Age They Joined TRS

10 Average Years of Service

Average Salary **$102,580**
$28K — Salary Range — $237K

Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Bus Driver (FY 25)

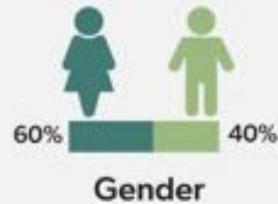**Roles:** Includes Only Bus Drivers

PUBLIC EDUCATION

2% or 21,607 of all Active TRS Members

Gender
60% — 40%

47 Median Age They Joined TRS

8 Average Years of Service

Average Salary
$35,539
$14K — $62K
Salary Range
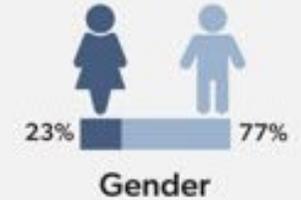
Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.

HIGHER EDUCATION

<1% or 47 of all Active TRS Members

Gender
23% — 77%

44 Median Age They Joined TRS

5 Average Years of Service

Average Salary
$40,089
$21K — $62K
Salary Range

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

FY 2025 Retiree Profiles
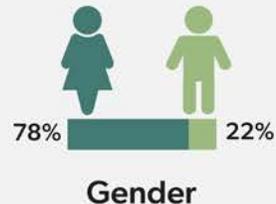
Retiree Profiles (FY 25)

PUBLIC EDUCATION

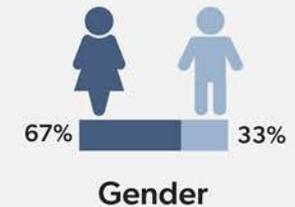**85%**
of all FY 2025 Retirees
(378,206 of 444,995)

Gender
78% | 22%

63.1
Average Age
of FY 2025 Retirees

60.7
Average Age of all
Retirees at Retirement

HIGHER EDUCATION

15%
of all FY 2025 Retirees
(66,789 of 444,995)

Gender
67% | 33%

64.6
Average Age
of FY 2025 Retirees

62.3
Average Age of all
Retirees at Retirement

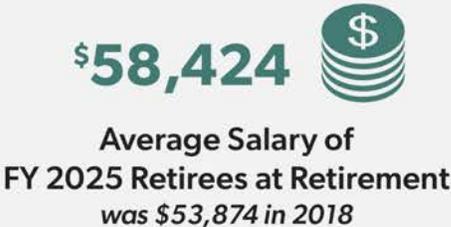Public education includes ISDs and Charter Schools.

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Snapshot of retiree information as of August 31, 2025, separating public and higher education and reflecting all position codes except summer school.

Retiree Profiles (FY 25)

PUBLIC EDUCATION

22.7
Average Years of Service of FY 2025 Retirees
was 23.8 in 2018

$53,003
Average Salary of all Retirees at Retirement
was $49,649 in 2018

$2,394
$294 — Annuity Range — $5,057
Average Monthly Annuity
was $2,160 in 2018

$58,424
Average Salary of FY 2025 Retirees at Retirement
was $53,874 in 2018

HIGHER EDUCATION

19.2
Average Years of Service of FY 2025 Retirees
was 19.9 in 2018

$58,475
Average Salary of all Retirees at Retirement
was $50,309 in 2018

$2,266
$307 — Annuity Range — $5,773
Average Monthly Annuity
was $1,876 in 2018

$73,585
Average Salary of FY 2025 Retirees at Retirement
was $61,193 in 2018

Public education includes ISDs and Charter Schools.

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Snapshot of retiree information as of Aug. 31, 2025, separating public and higher education and reflecting all position codes except summer school.

Annuity ranges include between 5% and 95% of all annuities to remove the outliers.
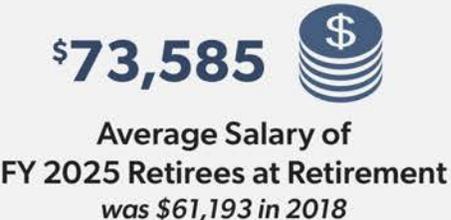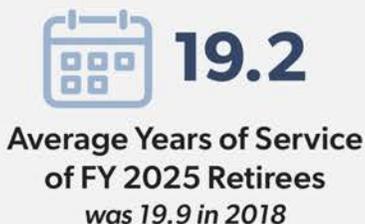
Assessing Pension Plan Health

Assessing Pension Plan Health

Board Items

Annual

- Actuarial Valuations
- Funding Policy

Every Four Years (non-session)

- Actuarial Experience Study
- Audit of the Actuarial Valuation
- Reprocure Actuarial Contract

Legislative Items

Session Years

- Requested Impact Statements on Legislation Scheduled for Public Hearing
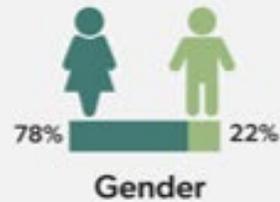- February Update of the Actuarial Valuation

Appendix

Support Staff (FY 25)

Roles: Includes Aide, Clerk, Security, Maintenance, Groundskeeper, Secretary, and Computer Operator
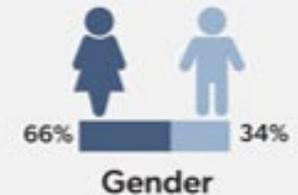

PUBLIC EDUCATION

23% or 227,312 of all Active TRS Members

Gender: 78% / 22%

37 Median Age They Joined TRS

8 Average Years of Service

Average Salary $32,377
Salary Range $14K – $62K

HIGHER EDUCATION

5% or 49,972 of all Active TRS Members

Gender: 66% / 34%

34 Median Age They Joined TRS

8 Average Years of Service

Average Salary $53,556
Salary Range $22K – $105K

Public education includes ISDs and Charter Schools.

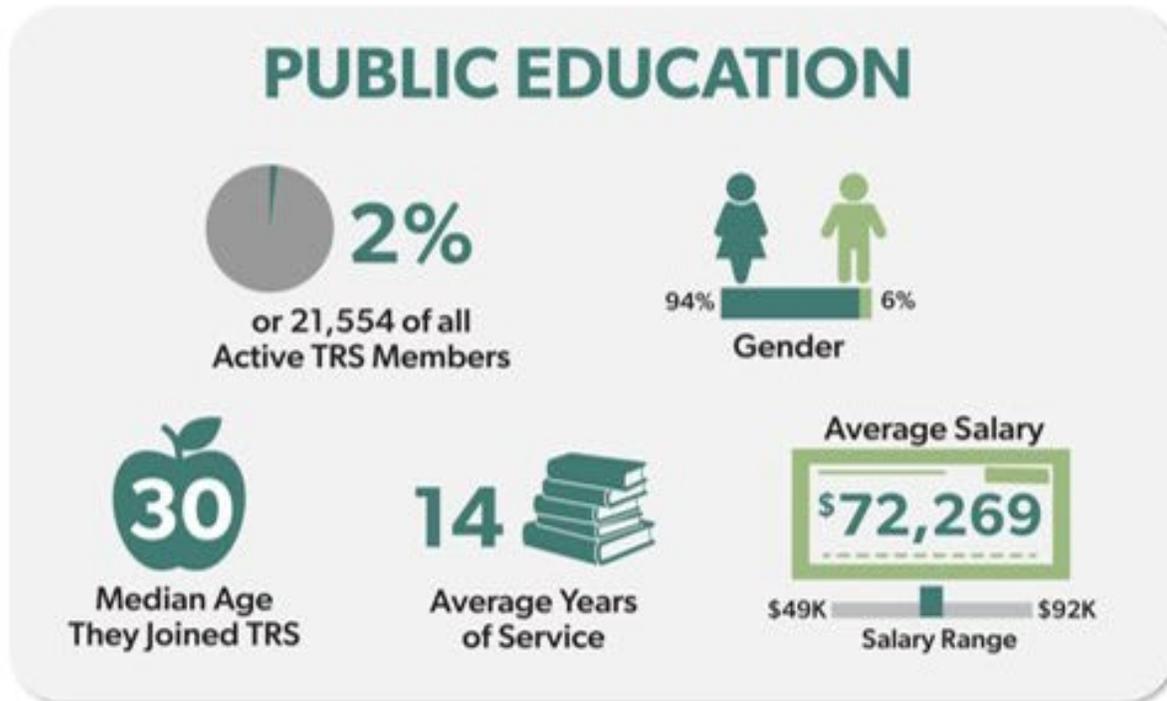Salary ranges include between 5% and 95% of all salaries to remove the outliers.

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Full-Time Nurse/Counselor (FY 25)
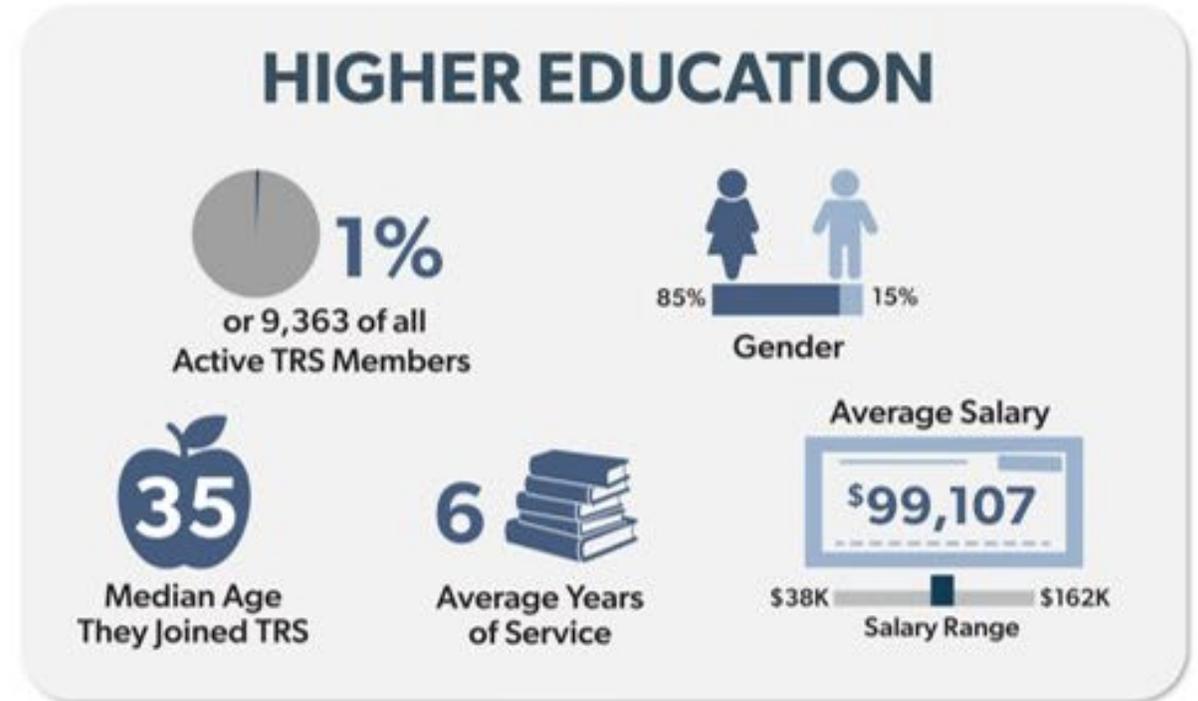
Roles: Includes Only School Nurses and Counselors

PUBLIC EDUCATION

2% or 21,554 of all Active TRS Members

Gender
94% / 6%

30 Median Age They Joined TRS

14 Average Years of Service

Average Salary
$72,269
$49K — Salary Range — $92K

Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.

HIGHER EDUCATION

1% or 9,363 of all Active TRS Members

Gender
85% / 15%

35 Median Age They Joined TRS

6 Average Years of Service

Average Salary
$99,107
$38K — Salary Range — $162K

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Peace Officer (FY 25)

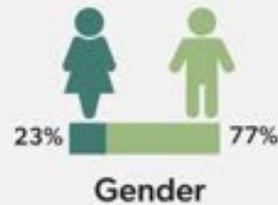**Roles:** Includes Only Peace Officers

PUBLIC EDUCATION

1% or 4,156 of all Active TRS Members

Gender: 23% / 77%

37 Median Age They Joined TRS

7 Average Years of Service

Average Salary **$69,077**
$31K — Salary Range — $111K

HIGHER EDUCATION

<1% or 1,391 of all Active TRS Members

Gender: 22% / 78%

31 Median Age They Joined TRS

8 Average Years of Service

Average Salary **$75,213**
$30K — Salary Range — $132K

Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.

Food Service (FY 25)

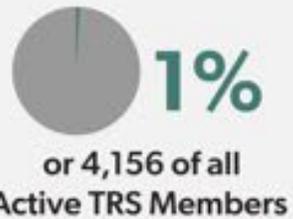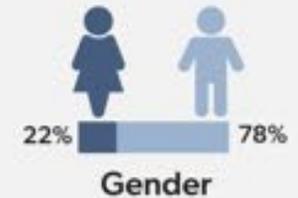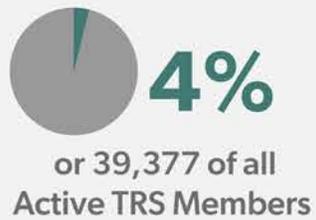**Roles:** Includes Only Food Service

PUBLIC EDUCATION

4% or 39,377 of all Active TRS Members

Gender 95% / 5%

41 Median Age They Joined TRS

8 Average Years of Service

Average Salary $23,388
Salary Range: $11K — $42K
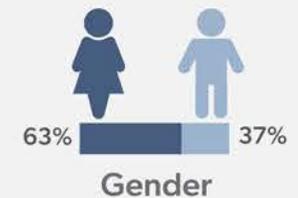
Public education includes ISDs and Charter Schools.

Salary ranges include between 5% and 95% of all salaries to remove the outliers.

HIGHER EDUCATION

<1% or 166 of all Active TRS Members

Gender 63% / 37%

41 Median Age They Joined TRS

5 Average Years of Service

Average Salary $38,714
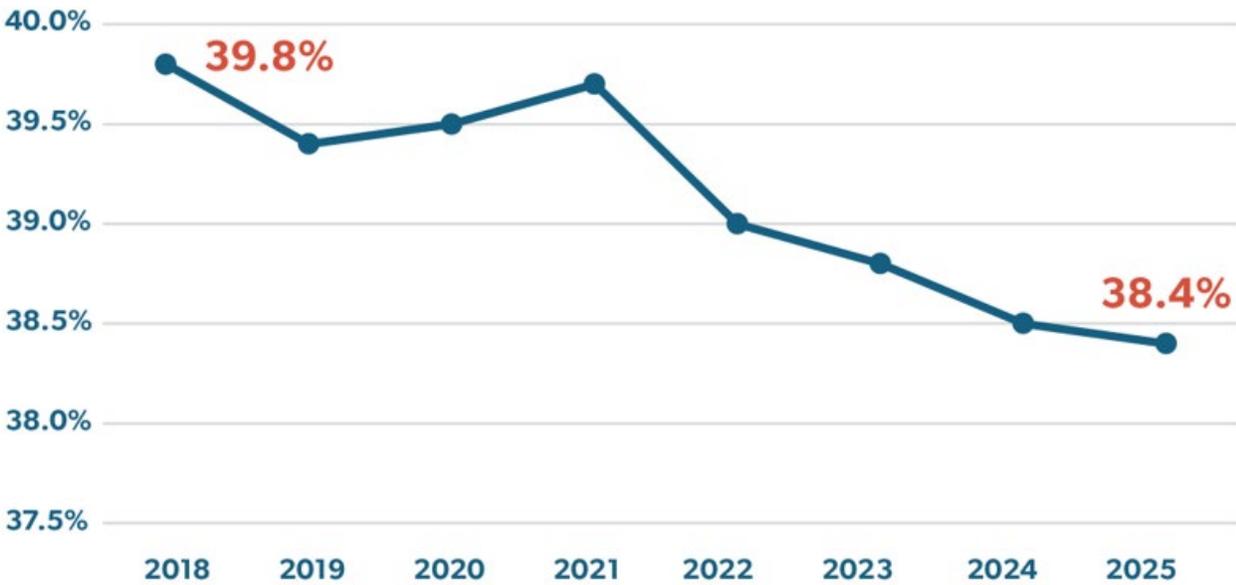Salary Range: $15K — $64K

Higher education includes Community and Junior Colleges, Senior Colleges and Universities, and Medical Schools.
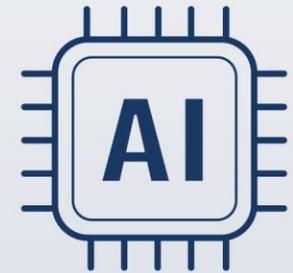
Optional Retirement Program: Participants

ORP Participants as a Total
of Possible TRS Higher Education Members

TAB 18

Agenda and Presenters

Panel One

Opening Remarks
Brian Guthrie, *Executive Director*

Introduction
Chris Cutler, *Chief Information and Technology Officer*

Milestones and Successes
Kyle Weigum, *Enterprise Architect Strategist*

Workforce and AI Enablement
Michelle Gray, *Deputy Chief Organizational Excellence Officer*

Panel Two

AI at TRS
Adam Fambrough, *Deputy Chief Benefit Officer*

Kyle McKay, *Director of Health Analytics*

Tim Koek, *Director Private Markets Analytics*

Chris Cutler, *Chief Information and Technology Officer*

Panel Three

AI at TRS
Kristi Glasgall, *Deputy Chief Information Security Officer*

Beth Hallmark, *Chief Communications Officer*

Heather Traeger, *General Counsel and Chief Compliance Officer*

Peer Insights
Kyle Weigum, *Enterprise Architect Strategist*

The Next Chapter
Kyle Weigum, *Enterprise Architect Strategist*

Panel One

Opening Remarks
Brian Guthrie, *Executive Director*

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Milestones and Successes
Kyle Weigum, *Enterprise Architect Strategist*

Workforce and AI Enablement
Michelle Gray, *Deputy Chief Organizational Excellence Officer*

Milestones and Successes

TRS' AI Journey to Date

Major AI Milestones

Nov 30, 2022	April 20, 2023	June 13, 2023	Sept 21, 2023
AI Revolution begins (ChatGPT released)	AI Use Policy Development launched	HB2060 Creation of AI Advisory Council Signed	AI Use Policy Approved

Sep 17, 2024	Aug 14, 2024	Jun 10, 2024	Feb 7, 2024
Microsoft Copilot Chat launched	AI Transformation Program launched	AI Workshop 1.0	First AI Use Case Approved

Dec 10, 2024	Jul 2, 2025	Dec 3, 2025	Dec 20, 2025
AI-Center of Enablement launched	Microsoft 365 Copilot project launched	Microsoft 365 Copilot project – IMD & Agency rollout	AI Workshop 2.0

TRS' AI Journey to Date

AI Workshop 1.0

- Collected 117 AI use cases across all business units

- Developed AI strategy and high-level roadmap
  - **AI Vision**
  - **AI Mission**
  - **AI Strategic Guiding Principles and Responsible Use Guidelines**

- Led to *AI Transformation Program (AITP)*
  - Guides the implementation and responsible use of approved AI tools across the enterprise
  - Initial three-year roadmap:
    - AI Driven Development
    - Microsoft Copilots
    - AI Contact Center
    - Buy & Build Initiatives
    - Data Protection & Compliance, and Program Activities

AI Vision
Strategically employ AI technology for the ongoing benefit of TRS members in a secure, efficient and productive way.

AI Mission:
As a public pension system leader focused on best serving our members, we engage stakeholders and deliver value by identifying, assessing and aligning AI opportunities with priorities, resources, technology, information security and data protection.

6

TRS Center of Enablement

Enterprise Adoption at Scale
Leads the agency-wide rollout of AI technologies to ensure tools translate into realized efficiencies.

Training & Support
Delivers quick-start guides, workshops, office hours, hands-on help and **Study Hall** updates so every employee can adopt new capabilities with confidence and clarity.

Champions: Igniting the Movement
Empowers a network of **~70 Champions** who extend the CoE's reach and accelerate adoption across every division.

Standardized Best Practices, Governance
Builds the playbooks, templates, processes, and guardrails that make technology adoption safe, consistent, and repeatable across TRS.

Cross-Agency Knowledge Sharing
Connects teams, captures insights, and amplifies successes, creating a unified transformation movement, building a **Copilot Prompt Library**.

Membership: Powering the Movement
Connects a community of **over 1000 Members** that will expand as more technology becomes available.

AI Transformation Program Highlights

Microsoft Copilot Chat

- General AI chat tool
- Deployed agencywide (Sept 2024)

Microsoft 365 Copilot

- Productivity chat tool
- Deployed to staff who use M365 applications daily (Jan 2026)

GitHub Copilot Business

- Developer assistant
- Deployed to IT and business engineering teams (Nov 2025)

PAVES Digital Invoicing

- Procure-to-Pay system
- Deployed to AP to expedite invoicing review process (Apr 2025)

Intelligent Document Processing

- Extract data and summarize documents
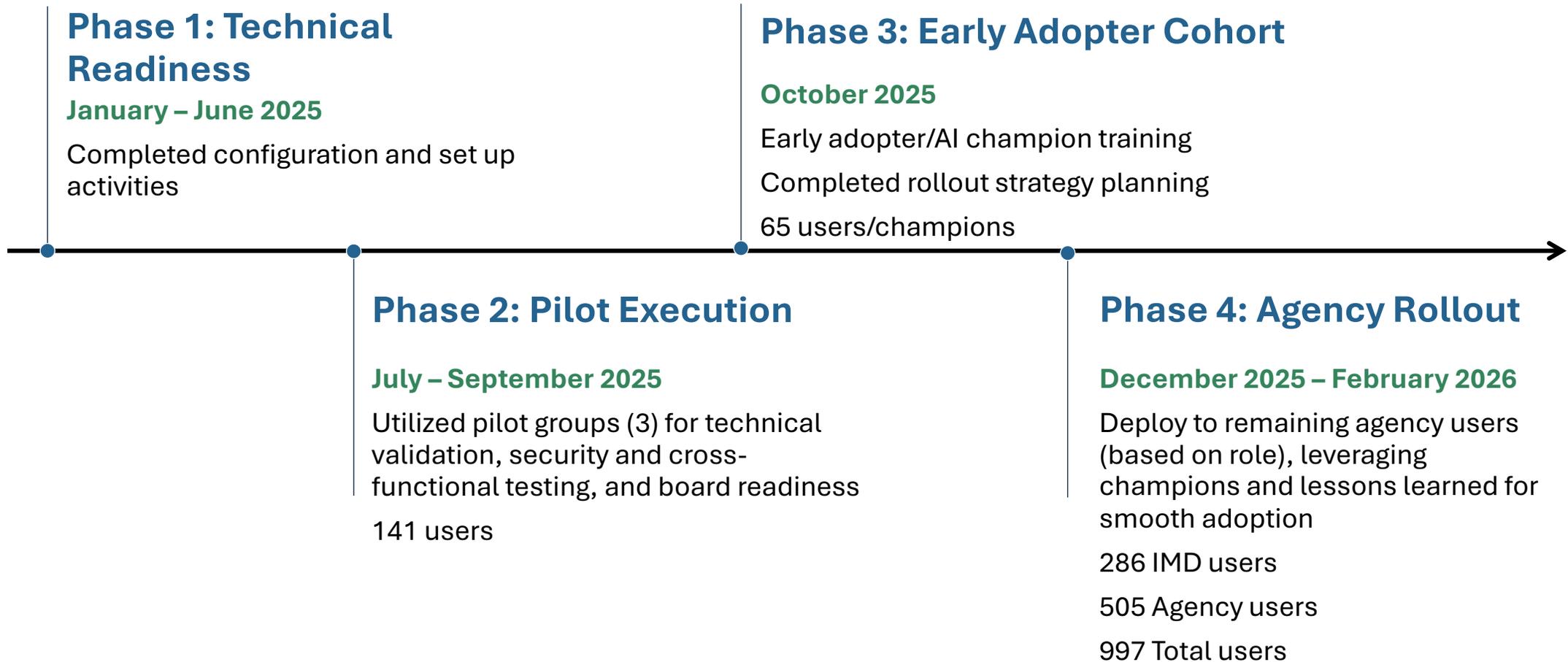- IMD-Private Markets and part of IDM (Jan 2026)

Enterprise AI Platform (TeReSAI)

- Foundational AI platform
- Deployed to pilot teams (Nov 2025)

M365 Copilot Project Overview

Driving secure, scalable adoption through technical readiness, proven pilots, empowered champions, and unified deployment.

Phase 1: Technical Readiness
January – June 2025

Completed configuration and set up activities

Phase 2: Pilot Execution
July – September 2025

Utilized pilot groups (3) for technical validation, security and cross-functional testing, and board readiness

141 users

Phase 3: Early Adopter Cohort
October 2025

Early adopter/AI champion training

Completed rollout strategy planning

65 users/champions

Phase 4: Agency Rollout
December 2025 – February 2026

Deploy to remaining agency users (based on role), leveraging champions and lessons learned for smooth adoption

286 IMD users

505 Agency users

997 Total users

Measuring Success in Investments

Overall Adoption Rate
- 94% of licensed users actively use Copilot

Satisfaction Levels
- 89% were satisfied or very satisfied with Copilot

Productivity Impact
- 84% report improved productivity
- 79% report increased speed in completing tasks and responding to requests

What did We Learn
- **Chat**: General research
- **Teams**: Intelligent meeting and chat summarization
- **Word**: Draft, revise, and summarize documents
- **Excel**: Formula creation, standardization, and spreadsheet cleanup
- **Outlook**: Draft email responses
- **PowerPoint**: Presentation creation

AI in Action

TRS Workforce and AI Enablement

Workforce and AI Enablement

Recruitment

Enhanced Search Accuracy
LinkedIn AI enables precise candidate sourcing by allowing prompt-based criteria instead of manual entry.

Reduced Manual Effort
AI automates the creation of search criteria, saving time and ensuring consistency in key terms and skills.

Improved Candidate Engagement
By analyzing LinkedIn activity and job-seeking behavior, AI highlights candidates most likely to respond.

Streamlined Communication
AI compares profiles with job postings and shared connections to generate personalized outreach messages, boosting response rates and engagement.

Results
Average LinkedIn inbox reply rate typically ranges from 10% to 20%. Prior to implementing AI, TRS inbox response rate of 37.3%. Following the integration of AI, rate increased to 40%.

Workforce and AI Enablement

Knowledge, Skills, and Requirements

- Candidate profiles will evolve as AI becomes integral to job roles
- As AI integration advances, job requirements will be updated to reflect the need for AI expertise
- OE will work with hiring managers to define clear position requirements and ensure screening tools assess relevant AI skills
- Staff will continue ongoing AI training in line with TRS standards and the law

Panel Two

AI at TRS

Adam Fambrough, *Deputy Chief Benefit Officer*
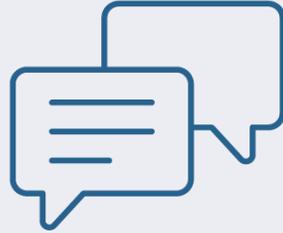
Kyle McKay, *Director of Health Analytics*

Tim Koek, *Director Private Markets Analytics*

Chris Cutler, *Chief Information and Technology Officer*

Transforming TRS with AI

AI in Health

TRS Health Strategic Plan: How LLMs Can Help Achieve Our Goals

Understanding Customers and Tailor Solutions to Them
Use customer insights to drive solutions
Implement district profile CRM

→ NICE Call Summarization & Knowledge Base

Pay for High Value Care
Expand the use of data analytics to improve the
cost-efficiency of care and rates

→ Databricks Data Science Agent

Pursue Operational Excellence & Effectiveness
Successful RFP implementations
Enhance cross-division communication

→ Copilot Studio Workflows
M365 Copilot Search and Summarization

Engage and Educate Customers
Increase participant engagement in key programs such
as member rewards

→ Customer Service & Intelligent Call Routing;
Plan & Care Navigation Tools (Vendors)

AI in Health: Data Science Agent

Q: "When does Medicare deny extensive lab testing?"

A: One example is when subtests are included with comprehensive metabolic, lipid, and respiratory panels

Databricks Data Science Agent

Query Catalog Search for Claim Edit Rules	**Test and Resolve Queries**	**Develop Data Queries** Filter relevant procedures	**Analyze Output**

Key Benefit: Can reduce minutes or hours of finding relevant columns and drafting initial code down to seconds.

AI in Investment Management

Active

- M365 Copilot IMD rollout December 2025

- GitHub Copilot for coding assistance rollout November 2025

- Intelligent Document Processing (IDM Program)
  - Developing and testing initial patterns for audited financial statements and investment pitch decks

- Machine Learning (ML) for Quantitative Investing

- Exploring solutions to "Chat With Your Data" including Copilot Studio

- Exploring use of LLMs on Databricks

Identified Use Cases

IMD has identified four general areas of potential AI use cases that could drive efficiency, enhance IMD's decision-making, and strengthen its risk management.

Investment Research

- Proactive portfolio monitoring
- Macro, peer, and consultant research synthesis
- TRS GPT (internal LLM for knowledge retrieval)

Workflow Automation

- Diligence and draft memo support
- Real-time note-taking and meeting summarization
- AI email and calendar management

Software Development

- Proactive portfolio monitoring
- Macro, peer, and consultant research synthesis
- TRS GPT (internal LLM for knowledge retrieval)

Quantitative Modeling

- Machine learning on structured and time series data
- Geopolitical risk agent analyzing unstructured news
- Forecasting models for market behavior

AI in Information Technology

Driving

Driving AI Transformation

- Led AI Transformation Program and ongoing implementation of approved AI tools
- Launched AI Center of Enablement (CoE) driving adoption of AI tools and capabilities through a community driven approach
- Championed AI Workshop 2.0

Building

Building Foundational Enterprise Enablement

- Gen AI technologies across Microsoft ecosystem
- Foundational enterprise-ready AI platforms
- Data Classification & Labeling Program
- AI agent management
- Innovation/Sandbox Environments

Establishing

Establishing IT Operational & Development Improvements

- **AI Coding Assistants** TEAM 3.0 and optimize codebase
- **Enterprise AI Platform (TeReSAI)** Establishing an enterprise-ready AI platform to support AI technologies at scale across TRS
- **Quality Assurance** (QA) Testing of AI for accuracy and quality

Panel Three

AI at TRS

Kristi Glasgall, *Deputy Chief Information Security Officer*

Beth Hallmark, *Chief Communications Officer*

Heather Traeger, *General Counsel and Chief Compliance Officer*

Peer Insights

Kyle Weigum, *Enterprise Architect Strategist*

The Next Chapter

Kyle Weigum, *Enterprise Architect Strategist*

AI in Information Security

Data Security & Analytics Platform AI

AI functionality within the platform gives the Information Security team the ability to quickly surface overexposed sensitive data, analyze alerts, and answer complex security questions in seconds.

What it Does

- Monitors for potentially problematic M365 Copilot prompts across the agency
- Finds over-exposed sensitive data
- Summarizes and investigates alerts
- Streamlines daily InfoSec workflows

Why it Matters

- Dramatically reduces investigation time, helping us harden the TRS environment
- Strengthens our ability to protect sensitive member and employee information by identifying risky access patterns quickly
- Integrates directly with the data model we already rely on

AI in Information Security

Securing Against Fraud (for) Educators Transitioning Years (SAFETY) Tool

The SAFETY tool uses machine learning to spot potential fraud risks in the MyTRS portal. It acts as an early-warning system that flags when patterns or behaviors look risky, helping us respond quickly to potential fraud.

What it Does:

- Reduces manual investigation workload by identifying behavior that looks abnormal or potentially fraudulent
- Provides a single platform to monitor vs. dozens of logs and details that must be manually correlated

Why it Matters:

- 95.2% reduction in response time to potential member fraud
- Reduces the number of staff needed to investigate/respond to potential fraud

Strategic Upskilling of Security Workforce

Investing ahead of emerging threats by building deep, specialized AI security expertise across the team.

AI Security Certifications & Training
- Enrolling staff in leading AI-focused security programs, including:
    - OWASP AI Security Certification
    - Microsoft AI Engineer Certification
    - Generative AI and LLM Application Security programs
- Two employees already certified with additional team members progressing toward advanced AI/ML certifications

Developing In-House AI/ML Penetration Testing Capability
- Two additional team members are actively training to become AI/ML penetration testers → Strengthens our ability to identify, simulate, and mitigate AI-specific attack vectors.

Institutionalizing Continuous Learning

Facilitated by a team member who contributes as an exam developer for one of the industry's premier cybersecurity training organizations, ensuring TRS has direct access to cutting-edge expertise.

Weekly Internal AI Security Training
- Sessions focus on:
    - Rapid changes in AI threat landscapes
    - Real-world adversarial ML scenarios
    - Defensive patterns & secure model lifecycle management
    - Industry best practices and case studies
- Building a future-ready security culture

Reinforcing a mindset of *anticipation over reaction* by ensuring Information Security professionals have:
- The skills to secure AI systems before widespread adoption
- The capability to identify AI-driven risks early
- The confidence to guide the agency through responsible AI enablement

AI in Communications

We need to understand how those we serve use AI. The era of "search" is over – this is the era of "ask."

Web traffic referred by AI platforms
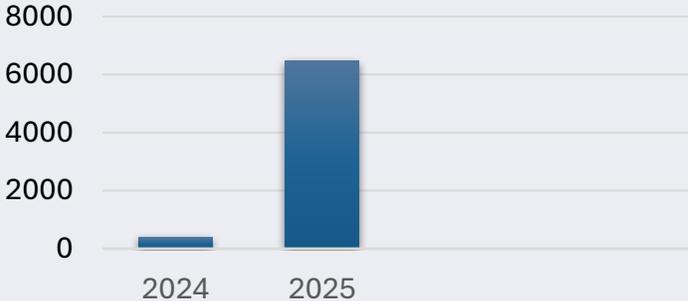
1,500%

increase in one year

(3,000% in ChatGPT alone)

Current AI Uses	Benefit to Members
Plain Language	Make complex topics clearer
Tailored Communications	Make communications more relevant
Accessibility	Ensure information is consumable for everyone
Consistency	Ensure members get the right answers
Ask The Video	Go directly to needed information
Tackling Misinformation	Identify and address misinformation; AI search optimization
Production Efficiencies	Produce materials faster (with humans in the loop)

AI in Legal & Compliance

Current:
- **Testing**: AI tools specific to legal profession
- **Completing RFP**: Consolidated compliance platform to enhance efficiencies through automation and improve employee experience

Near Future:
- **Turn On:** Docusign CLM AI functionality for contracting to improve the procurement/contract lifecycle management process, including tracking, review, comparison, flagging, drafting.
- **Procure/Build:** A tool for external data analytics and extraction to, for example, review legislative history, proposed or final rules, or other large text volume documents to provide summary and data sought.
- **Procure/Build:** A tool for internal data analytics and extraction to analyze lengthy member documents.

Peer Insights

Survey Data Points

Peer Public Pension Systems Survey

- Sent to:
    - NASRA (National Association of State Retirement Administrators)
    - PRISM (Public Retirement Information Systems Management)
    - NAPPA (National Association of Public Pension Attorneys)
- 11 questions
- 50 unique survey respondents

Peer AI Journey

- 72% have an AI policy in place
- 44% have plans to implement enterprise-wide generative or agentic AI tools in the coming year

Peer AI Strategy & Champions

- 60% reported leadership (CEO, CIO, or department head) is primarily responsible for driving AI strategy
- 78% reported IT is the biggest AI champion in their organization, followed by Pension Services, Information Security, Investments, and Communications
- Many indicated it is still early in their AI journey, making it difficult to assess impact or provide meaningful insights at this stage

Survey Themes

Governance First Posture

Emphasis on cross-functional policy, guidelines, governance bodies, and regulatory & data privacy frameworks.

Adoption & Momentum

Adoption Ranges from none > limited > early adopter.

Moving from pilots to broader rollouts in the next year.

Primary Drivers & Benefits

Operational efficiency, improving member service & experience, innovation, productivity gains, and faster processing.

Technologies & Platforms

M365 Copilot, ChatGPT, Google Gemini, Anthropic Claude, Azure Copilot Studio, and MS Foundry are most common.

Challenges & Constraints

Skill gap, literacy, technology integration, data quality & readiness, governance & compliance hurdles, and budget limitations.

In the Pipeline

Document creation, classification, & retrieval, call transcription & disposition, text automation, investment research, and fraud detection.

The Next Chapter

Initiating AI Workshop 2.0

How We Did It

- Met with each division to review use cases
- Prioritized and identified top four (4) use cases
- Documented duplicate or similar use cases across divisions
- Discussed feasibility for each use case
- Identified top two (2) use cases per division

What's Next

- Review use cases with Executives
- Provide proposed recommendations
- Approve priorities
- Revise and update the AI Roadmap 2.0
- Develop resource plan

Initiating AI Workshop 2.0

Use Case Summary

- **Priority 1**
  - NICE InContact Autopilot and Copilot
  - IntelligenceGPT: Agent chat experience with an IMD personality
  - Data summarization, integration, and reconciliation for business process efficiency
  - AI Developer Assistants expand beyond the individual developer
- **Priority 2**
  - Member file summarization
  - Investment diligence
  - Security data summarization
  - Data extraction
  - Compliance, policy, process, and procedures

Outcomes

- **Complete near-term opportunities**
- **Ensure data is AI-ready**
- **Scale AI successfully**
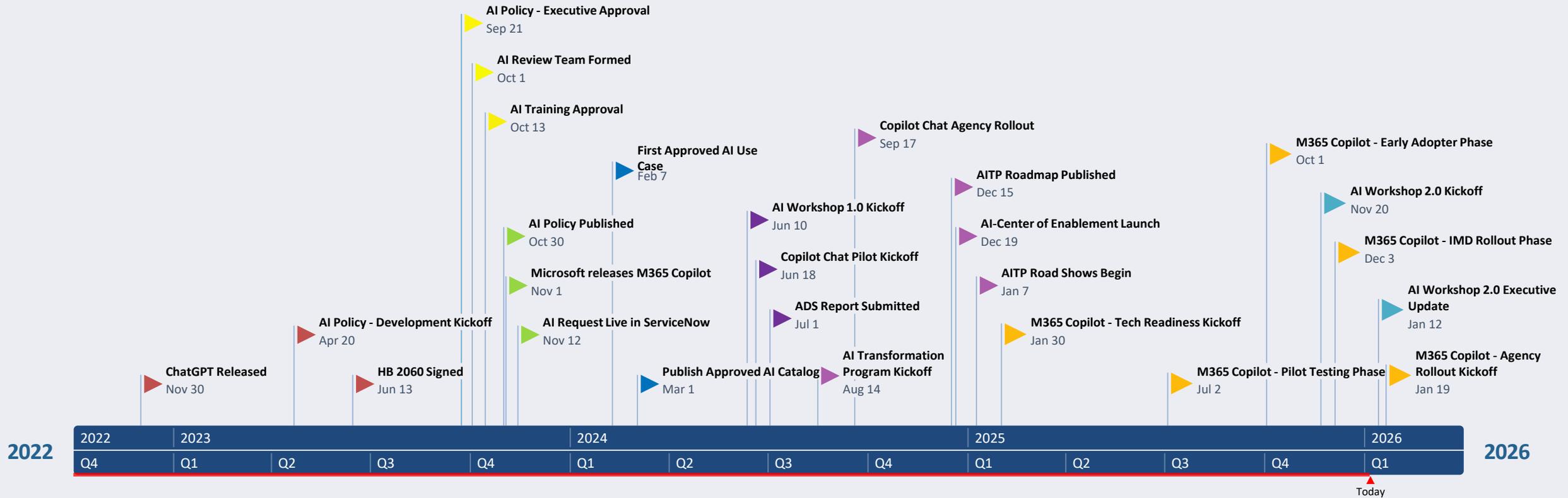 - Training
  - Resources
  - Commitment

AI Roadmap 2.0

- **Business driven process and efficiency improvements**
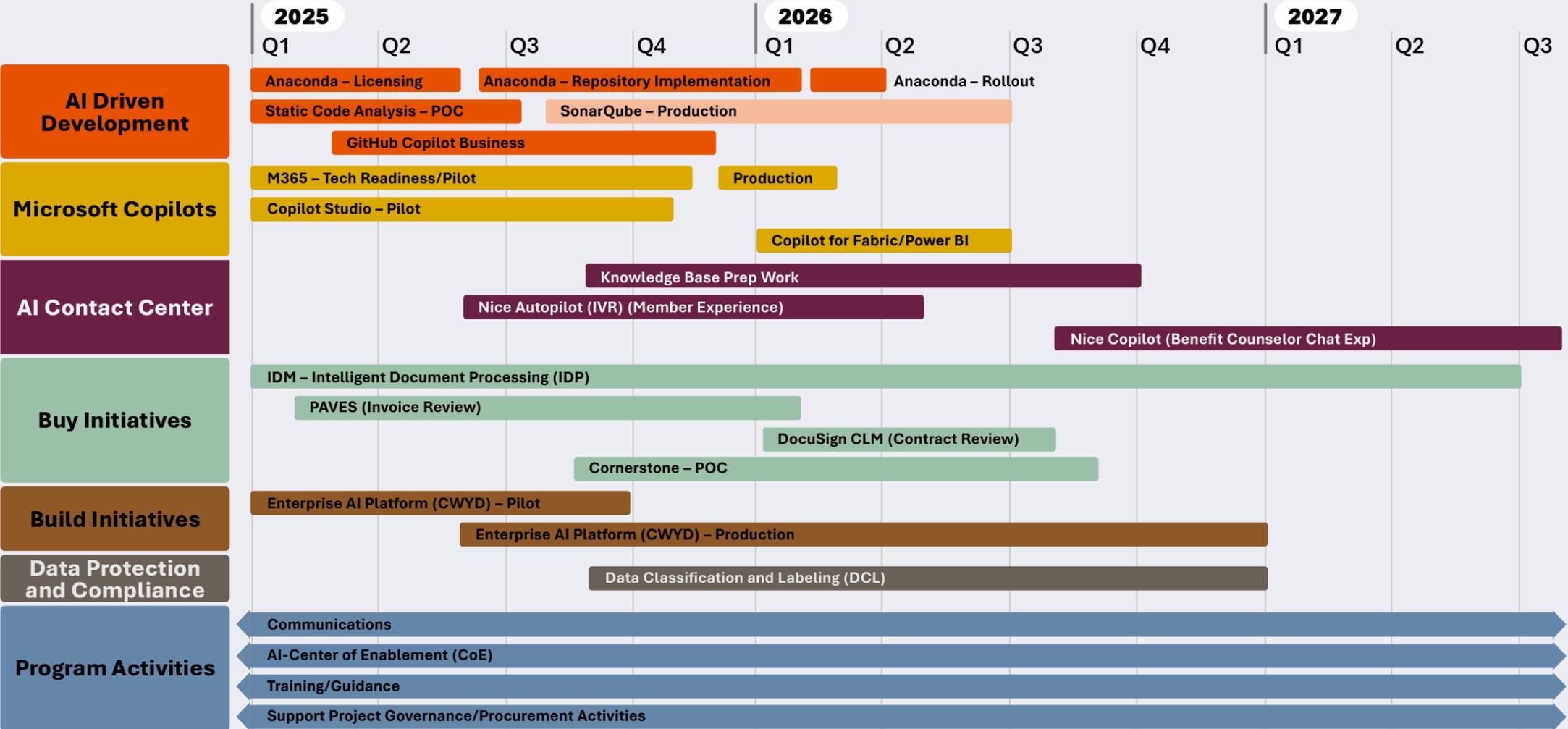- **Targeting the next two-three years**

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Appendix

TRS' AI Journey to Date

AI Policy - Executive Approval
Sep 21

AI Review Team Formed
Oct 1

AI Training Approval
Oct 13

Copilot Chat Agency Rollout
Sep 17

M365 Copilot - Early Adopter Phase
Oct 1

First Approved AI Use Case
Feb 7

AITP Roadmap Published
Dec 15

AI Workshop 2.0 Kickoff
Nov 20

AI Workshop 1.0 Kickoff
Jun 10

AI-Center of Enablement Launch
Dec 19

M365 Copilot - IMD Rollout Phase
Dec 3

AI Policy Published
Oct 30

Copilot Chat Pilot Kickoff
Jun 18

AITP Road Shows Begin
Jan 7

AI Workshop 2.0 Executive Update
Jan 12

Microsoft releases M365 Copilot
Nov 1

ADS Report Submitted
Jul 1

M365 Copilot - Tech Readiness Kickoff
Jan 30

AI Policy - Development Kickoff
Apr 20

AI Request Live in ServiceNow
Nov 12

M365 Copilot - Agency Rollout Kickoff
Jan 19

ChatGPT Released
Nov 30

HB 2060 Signed
Jun 13

Publish Approved AI Catalog
Mar 1

AI Transformation Program Kickoff
Aug 14

M365 Copilot - Pilot Testing Phase
Jul 2

2022	2023		2024			2025			2026
Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1

2022

2026

Today

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AI Roadmap 1.0

	2025				2026				2027		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3

AI Driven Development
- Anaconda – Licensing
- Anaconda – Repository Implementation
- Anaconda – Rollout
- Static Code Analysis – POC
- SonarQube – Production
- GitHub Copilot Business

Microsoft Copilots
- M365 – Tech Readiness/Pilot
- Production
- Copilot Studio – Pilot
- Copilot for Fabric/Power BI

AI Contact Center
- Knowledge Base Prep Work
- Nice Autopilot (IVR) (Member Experience)
- Nice Copilot (Benefit Counselor Chat Exp)

Buy Initiatives
- IDM – Intelligent Document Processing (IDP)
- PAVES (Invoice Review)
- DocuSign CLM (Contract Review)
- Cornerstone – POC

Build Initiatives
- Enterprise AI Platform (CWYD) – Pilot
- Enterprise AI Platform (CWYD) – Production

Data Protection and Compliance
- Data Classification and Labeling (DCL)

Program Activities
- Communications
- AI-Center of Enablement (CoE)
- Training/Guidance
- Support Project Governance/Procurement Activities

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TAB 19

Agenda and Presenters

Fiduciary Responsibility and Governance

Heather Traeger, *General Counsel and Chief Compliance Officer*

Exploring the Power of AI Securely

Frank Williams, *Chief Information Security Officer*

Providing Assurance on AI Risk Management

Amanda Jenami, *Chief Audit Executive*

Fiduciary Responsibility and Governance

AI and the Fiduciary Responsibility of the Board

The trustees traditional fiduciary responsibilities
extend to their oversight of TRS use of AI.

Duty of Care: requires trustees to make informed decision about AI and with AI. This means they must understand the technology's potential and limitations.

Duty of Loyalty: requires trustees to consider whether TRS' use of AI is in the best interest of the members.

Duty of Oversight/Supervision: requires trustees to ensure there are adequate internal controls and reporting systems in place to implement and monitor TRS' use of AI.

AI Regulatory Foundation

Texas AI Laws

HB 149:
Texas Responsible Artificial Intelligence Governance Act

SB 1964:
AI Laws for Governmental Entities

HB 3512:
Annual AI Training

HB 2818:
DIR assistance for implementing Gen AI to modernize and replace legacy systems

Proposed Rules:
AI Code of Ethics and Minimum Standards for Heightened Scrutiny AI Systems

Other Applicable Laws

- Privacy and Data Security Laws
- Civil Rights (non-discrimination Laws)
- Intellectual Property Laws (copyright protection)

- Consumer Protection Laws (deceptive trade practices)
- Contracting Laws
- Executive Orders and NIST* framework

*National Institute of Standards and Technology

Ripped from the Headlines

n8n Workflow Automation Vulnerable

As of January 2026, over 59,000 internet-exposed hosts were identified as vulnerable to exploits that could allow attackers to execute code through AI-powered automation workflows.

Samsung Confidential Code leaked!

Samsung employees plugged lines of confidential code into ChatGPT effectively leaking corporate secrets that could be included in the chatbot's future responses to other people around the world.

Venture Capital Firm Loses Critical Deal!

An unnamed firm lost a critical deal in 2024 after an AI meeting assistant automatically shared a transcript that mistakenly included sensitive post-meeting discussions regarding the firm's "strategic failures."

Amazon Recruitment Tool Biased!

In 2018 Amazon discontinued its AI recruitment tool after discovering that it systematically downgraded resumes that included the word "women."

Replit AI Agent Deletes Database!

A Replit AI-agent deleted a live production database during a code freeze, wiping critical data for over 1,200 executives and companies. The incident exposed major gaps in AI safety and accountability frameworks, prompting new safeguards to prevent unauthorized actions.

New York City Chatbot Gives Illegal Advice!

NYC's tool gave inaccurate and illegal advice, such as suggesting business owners could take a cut of employees' tips or serve food nibbled by rodents.

US cyber defense chiefs accidentally uploads to ChatGPT!

The acting director of CISA inadvertently uploaded sensitive information to a public version of ChatGPT in 2025.

AI and TRS Data Governance

TRS' governance processes help assure the safe implementation and use of AI

- **The Enterprise Data Governance Council (EDGC) supports oversight for TRS data governance,** and an EDGC subcommittee, Artificial Intelligence Data Governance (AIDG), supports TRS AI strategy and governance.
- **The Project Governance process reviews and evaluates all new demands** (new products, changes to existing products, etc.) including all new AI demands.
- **The Enterprise Risk Management program evaluates all enterprise risks** and includes the evaluation of AI as part of the evaluations.
- **The Record Information Management's department regularly meets with each business group to review their files.** This past autumn, RIM, L&C, ISO and the business units reviewed and classified the files in each SharePoint library and Microsoft Team. This review is a critical part of TRS' Data Classification and Labeling (DCL) program and supports the broader initiative to implement more AI tools across the agency.

Exploring the Power of AI Securely

AI Security Guiding Principles

Security By Design

Security integrated into every stage of the AI lifecycle

Data Privacy & Confidentiality

Strong controls to protect and minimize sensitive data use

Transparency & Traceability

Documented, explainable, and auditable AI decisions

Accountability & Governance

Clear ownership and governance aligned to recognized frameworks

Safety & Resilience

AI systems built to monitor, withstand, and recover from disruptions

Continuous Risk Assessment

Ongoing AI threat modeling and enterprise risk tracking

Vendor & Third-Party Risk

Consistent AI security standards applied to all external providers

Incident Response Integration

AI-specific scenarios embedded into IR plans and escalation paths

Performance & Bias Monitoring

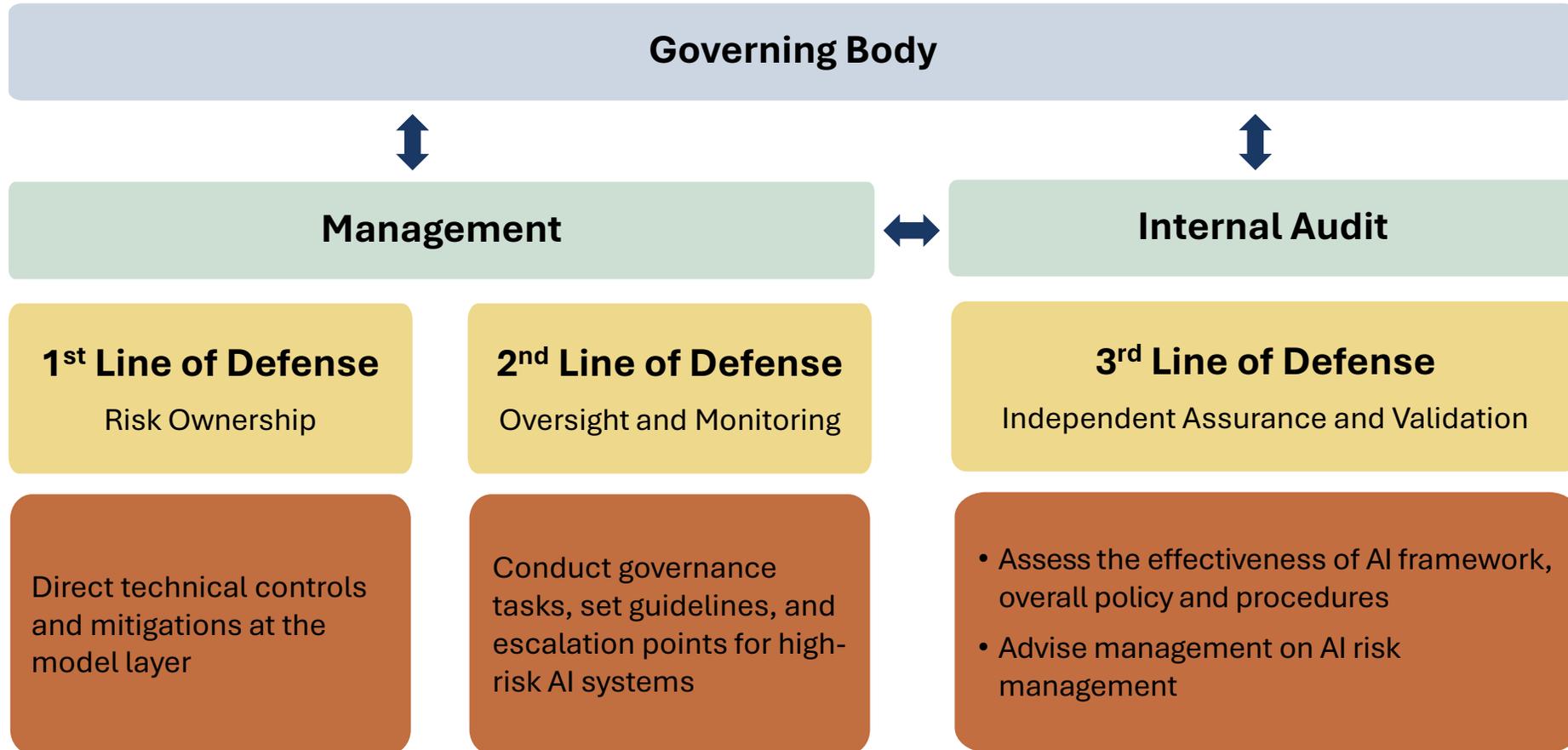Continuous monitoring for drift, attacks, and fairness issues

Workforce Training & Awareness

Required training to ensure secure, responsible AI use

Providing Assurance on AI Risk Management

AI Adoption Requires Cross-Functional Governance

Governing Body

Management ↔ **Internal Audit**

1st Line of Defense	2nd Line of Defense	3rd Line of Defense
Risk Ownership	Oversight and Monitoring	Independent Assurance and Validation
Direct technical controls and mitigations at the model layer	Conduct governance tasks, set guidelines, and escalation points for high-risk AI systems	• Assess the effectiveness of AI framework, overall policy and procedures • Advise management on AI risk management

Internal Audit: Current vs Future Efforts

Advisory

Advising on the Responsible Use of AI

- AI Steering Committee
- AI Use Policy
- Enterprise Data Governance Council
- Acceptable Use Policy
- Awareness of TRS AI inventory

Advising on AI Governance and Risk Management

- Executive Project Review Committee

Assurance

Foundational (Prior & Current)

- Audit of System Inventory and Data Classification (*Issued: December 2022*)
- Audit of Cloud Computing (Azure)
- Audit of Data Loss Prevention
- Research and track risk implications of upcoming tools

Potential Future Projects

- Audit of AI Governance Framework
- Audit of Data Classification and Labeling
- Audit of M365 Implementation
- Audit of Third-Party Risk Management
- Review of Cyber Controls
- Incident Response Integration
- TRS Contact Center Platform

Internal Audit efforts should be aligned with senior management's strategy and implementation

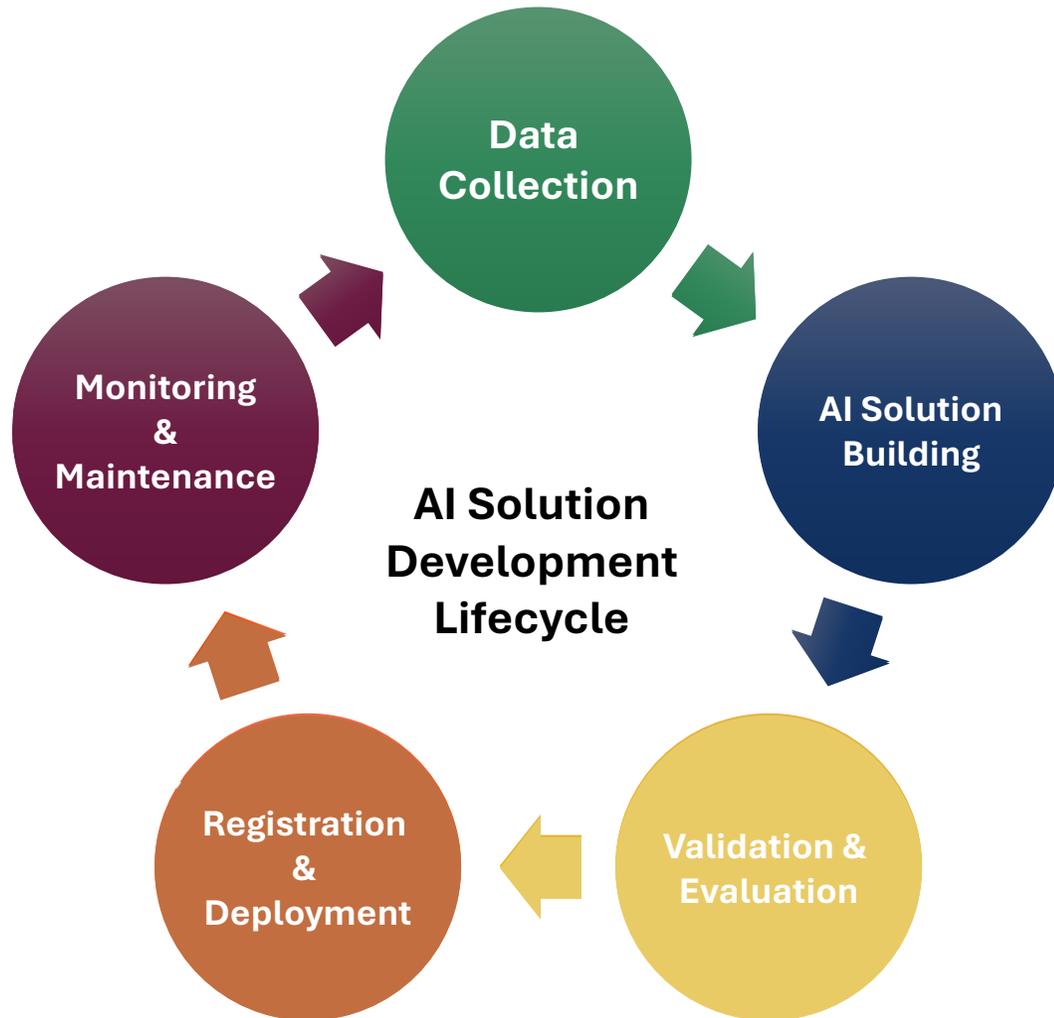# Authoritative Guidance on AI Risk Management Frameworks
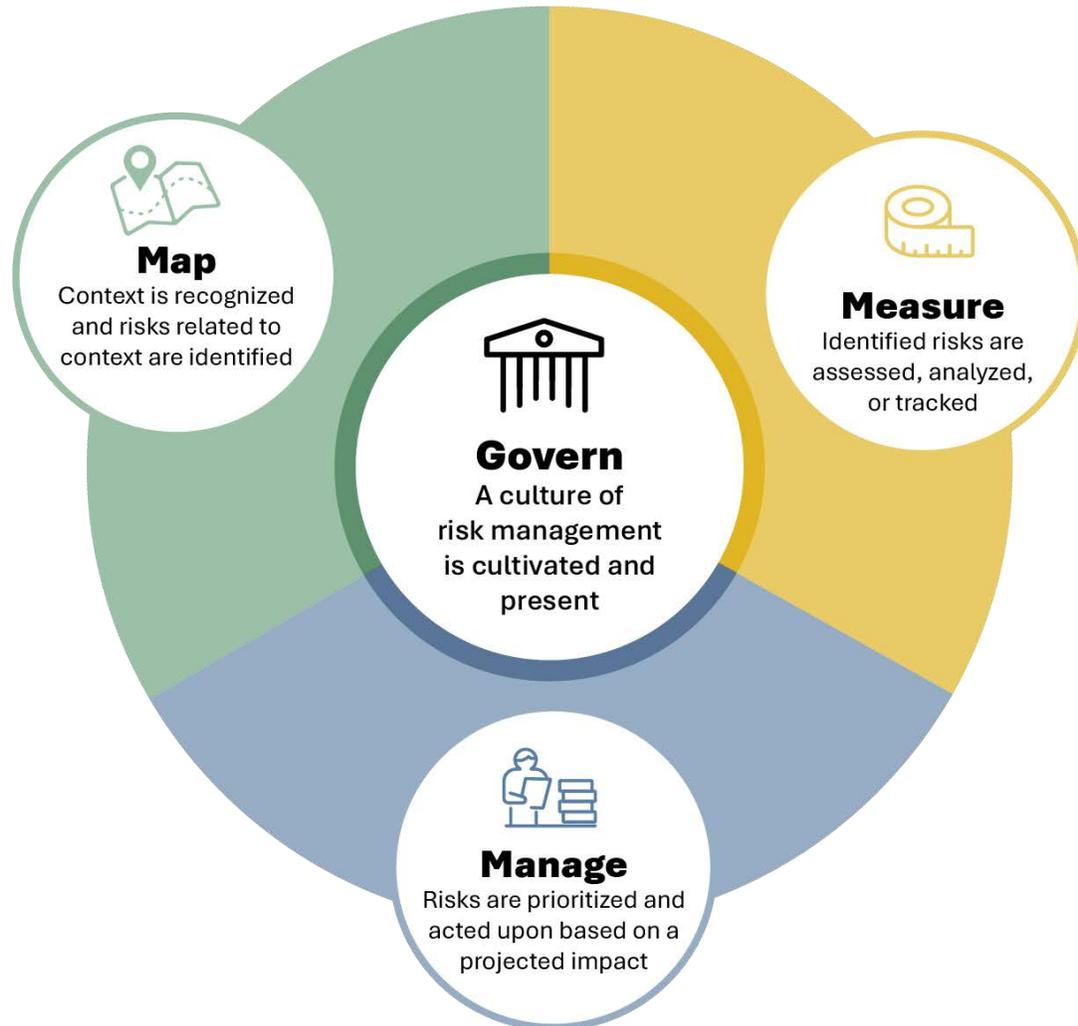
NIST* AI 600-1

Includes key requirements on designing, developing, deploying, or using AI systems to help manage the many risks of AI and to promote trustworthy and responsible development and use of AI systems.

*National Institute of Standards and Technology

AI Solution Lifecycle

An audit could include testing the design and effectiveness of the following control principles:

- Ownership & Accountability
- Registration in central repository
- Privacy, compliance and ethics
- Operational resiliency/ stress testing
- Human controls/ override
- Continuous monitoring/ retraining

Reviews will focus on high-impact AI systems/ processes and evaluate both design and effectiveness

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Understanding AI Fundamentals

- Foundation models and core AI capabilities
- AI lifecycle awareness, expected artifacts, metrics

Risk Identification & Management

- Ability to assess AI-related risks
- Process-level risk identification
- Model Risk Management

Compliance & Best Practices

- Knowledge of AI risk management tools
- Awareness of authoritative AI risk management frameworks.

Opportunities exist for upskilling, increased collaboration with AI experts and data owners, and talent recruitment

Train
Collaborate
Capability Enhancement
Recruit
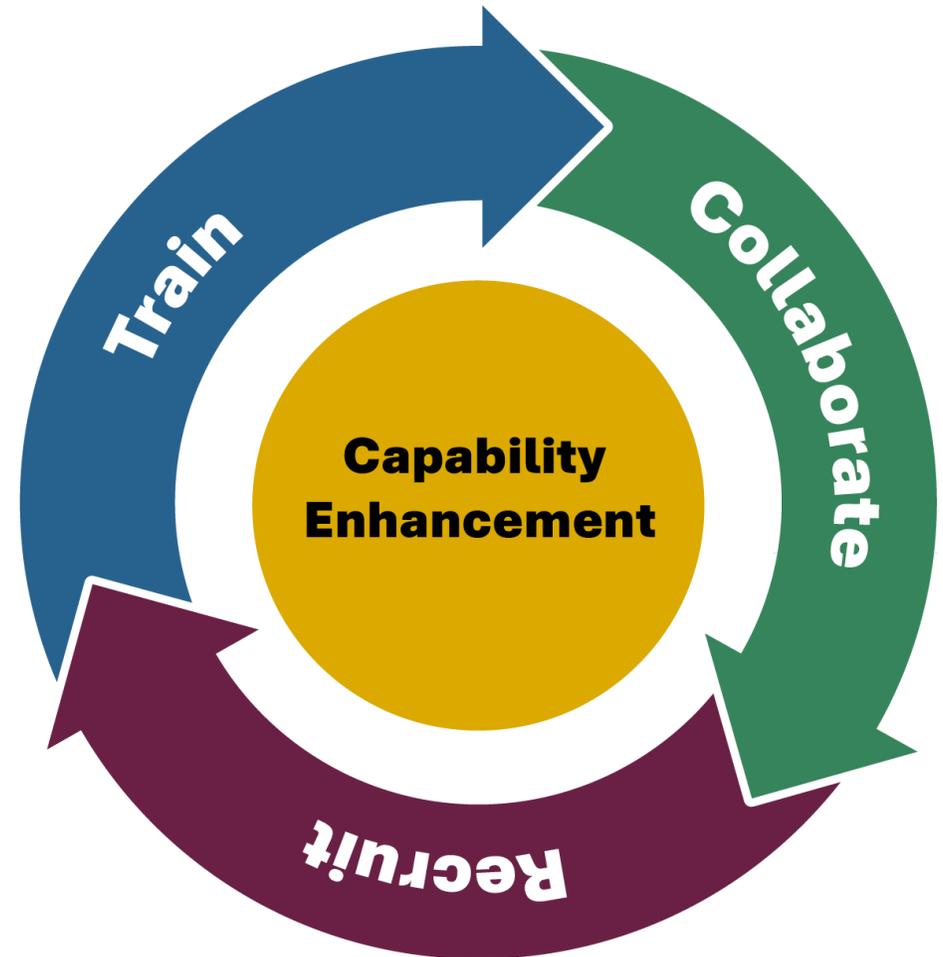
Activation Roadmap for Auditing AI

Transforming internal audit for AI-driven complexity: new skills; strategic partnerships

Skills assessment: Train and upskill Internal Audit team

Establish Internal Audit's AI strategy

AI Risk Universe: Identification and categorization

Obtain an inventory of AI systems

AI audit execution

Use case ideation and implementation

Support talent and tooling for Internal Audit's AI upskilling and specialized external testing for complex models, as needed

Key Reminders

- AI risk is enterprise risk, not just IT risk
- Affirm TRS' AI risk appetite and guiding principles, consistent with TRS' AI policy
- Strong governance transforms AI from experimentation into responsible innovation built on transparency and accountability
- NIST* AI RMF provides a defensible structure
- GenAI requires additional, targeted controls
- Ongoing monitoring is critical as AI evolves

With your endorsement of the risk appetite and resourcing, Internal Audit will provide ongoing independent assurance that TRS' AI use is responsible, resilient, and aligned with policy.

*National Institute of Standards and Technology