

June 2025

TRUSTEES

TRS Board of Trustees Meeting



**Teacher Retirement System of
Texas**

1000 Red River Street
Austin, Texas
78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES**

AGENDA

June 3, 2025 – 9:00 a.m.

*All or part of the June 3, 2025, 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 the presiding officer and 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 June 2, 2025.

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

NOTE: The Board may take up any item posted on the agenda during its meeting on June 3, 2025 beginning at the time and place specified on this agenda.

1. Call roll of Board members.
2. Consider the following administrative matters – Robert H. Walls, Jr.:
 - A. Approval of the April 2025 proposed meeting minutes; and
 - B. Excusing Trustee absences from the April 2025 meeting.
3. Provide an opportunity for public comment – Robert H. Walls, Jr.
4. 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, the 89th Legislative Session overview, and Moving Forward Together update.
 - 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.
5. Receive an update and consider the following related to the TRS health benefits programs – Katrina Daniel and Kirsten Schatten, Segal Consulting.

- A. TRS Active-Care FY2026 Self-funded Rates and Benefits Changes;
 - B. TRS Active-Care FY2026 Fully Insured HMO Rates and Benefits Changes.
- 6. Consider proposed amendments to the Investment Policy Statement including changes to the Minimum Allocation of All Country asset class and other administrative changes – Katy Hoffman.
 - 7. 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 and J.R. Morgan.

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, Chief Audit Executive, Chief Investment Officer.
- d. Texas Government Code, Section 551.076: Deliberation Regarding Security Devices or Security Audits;
- e. Texas Government Code, Section 551.089: Deliberation Regarding Security Devices or Security Audits; or
- f. Texas Government Code, Section 825.115: Applicability of Certain Laws;
- g. Texas Government Code, Section 825.3011: Certain Consultations Concerning Investments.

Minutes of the Board of Trustees

April 10, 2025

The Board of Trustees of the Teacher Retirement System of Texas met on Thursday, April 10, 2025, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

The following Board members were present:

Robert H. Walls, Jr., Chair
Michael Ball
Brittney Allred
David Corpus
John Elliott
Laronda Graf
James D. Nance
John R. Rutherford
Elvis Williams

Others present:

Brian Guthrie, TRS	Nanette Sissney, Former TRS Vice-Chair
Caasi Lamb, TRS	Melinda Nink, TRS Retiree
Heather Traeger, TRS	Jim Callahan, Callan
Jase Auby, TRS	Alex Ford, Callan
Don Green, TRS	Collin Bebee, Meketa
Barbie Pearson, TRS	Mika Malone, Meketa
Katrina Daniel, TRS	Victoria RedPern, Express Scripts
Amanda Jenami, TRS	Peter Jansen, CBRE
Shunne Powell, TRS	Maggie Norman, CBRE
Michelle Gray, TRS	Damian Esquibel, UHC
LaTresa Stroud, TRS	Steve Alexander, BCBS TX
Steve Wilson, TRS	Karen Haywood, BCBS TX
Aundre Petty, TRS	
Katherine Farrell, TRS	
Kyle Wynne, TRS	
Suzanne Dugan, Cohen Milstein	
Dr. Keith Brown, Board Investment Advisor	
Michael Comstock, Aon	
Ashley Woeste, Aon	

Mr. Walls called the meeting to order at 8:03 a.m.

1. Call roll of Board members.

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

2. Consider the following administrative matters – Robert H. Walls, Jr.:
a. Approval of the February 2025 proposed meeting minutes; and

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

- b. Consenting to the Chair’s appointment of committee members and receive the Chair’s announcement of committee chairs;**
c. Setting and rescheduling or canceling future Board meetings, including adding a June 3, 2025 meeting.

On a motion by Mr. Ball, seconded by Mr. Williams, the Board voted to approve the Trustee Walls absence from the December 8th meeting.

3. Resolution recognizing the service of Nanette Sissney – Robert H. Walls, Jr.

Mr. Walls read the following resolution:

Resolution

Whereas, Nanette Sissney was appointed to the TRS Board of Trustees of the Teacher Retirement System of Texas (TRS) by Gov. Greg Abbott in November 2017 as the inaugural at-large representative. With over 30 years of service in public education, she was unanimously elected as vice chair by the board in December 2019, making her the longest-serving vice chair in the 21st century. She was originally appointed by Gov. Rick Perry in 2009, serving in the active member position; and

Whereas, she provided leadership during a time when the retirement system grew from approximately 1.5 to more than 2 million members and annuitants and the net position of the fund increased from 147.4 to 210.5 billion; and

Whereas, Nanette chaired the TRS Benefits and Budget Committees while also serving on the Policy, Investment Management and Audit, Compliance and Ethics Committees. Ms. Sissney also represented TRS as chairman of the National Council on Teacher Retirement’s Resolutions Committee and served on the Legislative and Education Committees; and

Whereas, she proudly served her term when TRS went live with Phase 1 of the TEAM program in October 2017, and used her experience to put the program on a successful path to (eventual) completion; launched the new MyTRS member self-service portal and the New Email Subscription Service, Subscribe!; completed an updated Pension Benefit Design Study; received the “Triple Crown Award” for the Certificate of Achievement for

Excellence in Financial Reporting, Popular Annual Financial Reporting Award, and the Distinguished Budget Presentation Award from the Government Finance Officers Association for the Annual Comprehensive Financial Report; and annually hosted the Emerging Managers Conference; and

Whereas, Nanette helped guide the agency as the nation grappled with the impact of COVID-19, assuring members that TRS would continue providing pension and health care benefits and services to members; work diligently on core business activities; and ensure that the trust fund would be managed prudently; and

Whereas, Nanette supported the transition from the State Classification Plan to a new TRS-specific classification structure to provide an efficient and flexible framework to effectively recruit and retain staff; and

Whereas, she was an essential member in the due diligence performed determining that after almost 50 years at the Red River headquarters, it was time for TRS to purchase a new headquarters outside of downtown Austin. This historic action by the board of trustees in 2021 resulted in the purchase of a two-building campus in the Mueller development that will house the entire agency, and serve TRS' growing membership for generations; and

Whereas, Nanette also oversaw the agency with an eye always focused on her fiduciary responsibility as TRS developed an outreach plan to assist members and employers with effective retirement planning; she was instrumental in the success of the Customer Service Improvement Initiative raising telephone counseling center's service levels from 15% when she joined the board, to 95% at the end of her service; created an ombuds position; made comprehensive changes to employment after retirement; and opened TRS' first regional office in El Paso; and

whereas, under her leadership, the board directed staff to issue legislatively approved supplemental payments to retirees in 2019 and 2021. In 2023, she attended the signing of Senate Bill 10 on June 13, 2023 by Gov. Abbott, which authorized additional supplements and a cost-of-living adjustment to retirees; and

Whereas, Nanette devoted much time and energy to overseeing TRS' budget process; putting Whitesboro on the TRS map, making it a destination that everyone in finance, particularly the CFO became familiar with; and

Whereas, she made phone calls regularly to staff, checking in on all aspects of agency operations, family well-being, and pets, with many chiefs, the deputy and, of course, the Executive Director – to the point she knew all of his kids' names and their life journey....and they knew Nanette's number, always asking after her once he got off the phone; and

Whereas, Nanette will be fondly remembered as a friend, counselor, second grandmother or special aunt to most of the Executive Committee and their children;

Now, therefore, be it resolved, that the board of trustees and staff of the Teacher

Retirement System of Texas recognize the accomplishments and contributions of Nanette Sissney and express appreciation on behalf of TRS members both present and future, and

Be it further resolved, that a copy of this resolution be presented to Nanette Sissney and entered into the record of the board for April 10, 2025.

On a motion by Mr. Corpus, seconded by Mr. Elliott, the Board unanimously voted to approve the resolution. Ms. Sissney expressed appreciation for the staff in particular those that put the board meetings together. She noted the board had met in this room for around 35 years and that Melinda Nink was there for that first meeting and she was there today for the last meeting. She said this Board exists to serve members and during her tenure she had tried to keep the mission as the basis for every decision she made.

4. **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, notification of contract renewals and trustee elections.**
 - 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. He provided a legislative update noting the requested \$450 million in supplemental funding for TRS-ActiveCare continued to be included in the Appropriations bill. He reviewed the actuarial valuation as of February 28, 2025. He said this is the valuation that will be used for the remainder of the session despite the volatility the market experienced for the month of March. He said the funding period remained at 28 years.

Mr. Guthrie reported on the Trustee Elections with voting to conclude next month. He reviewed upcoming contract renewals. He concluded by reviewing the upcoming board meeting agendas. Ms. Shunne Powell reviewed the process and timing of the upcoming evaluation of the Board's direct reports. Ms. Michelle Gray provided an overview of agency staffing and turnover. She also provided further information on the Fellowship program at TRS in response to trustee questions.

5. **Consider proposed amendments to the TRS Board of Trustees Bylaws – Heather Traeger and Katherine Farrell.**

Ms. Heather Traeger stated the next full review of the bylaws is to be in September of 2026 but due to the transition of the Board, as well as the concept of the efficiency initiatives staff had identified opportunities related to the bylaws. She reported staff researched how peers are operating and discussed with fiduciary counsel as well as considered corporate and non-corporate board structures. Ms. Farrell provided a high level review of the proposed amendments to the bylaws regarding the committee structure including the renaming of the Policy Committee to the Governance Committee and eliminating the Strategic Planning and Compensation Committees moving the majority of committees activities to the Governance Committee.

On a motion by Mr. Nance, seconded by Mr. Ball, the Board unanimously voted to approve the proposed amendments to the bylaws, as presented by staff.

Mr. Walls, without objection, called agenda item 2B.

2B. Consenting to the Chair's appointment of committee members and receive the Chair's announcement of committee chairs – Robert H. Walls, Jr.

Mr. Walls presented the following committee chairs and assignments. He noted with the reduction of committees, new trustees will likely forego chairing a committee.

Committee	Chair, Members
Audit, Compliance and Ethics Committee	Brittney Allred; Michael Ball, Laronda Graf, John R. Rutherford, Elvis Williams
Benefits Committee	Elvis Williams; Brittney Allred, Michael Ball, Dick Nance, John R. Rutherford
Budget Committee	John R. Rutherford; David Corpus, Laronda Graf, Dick Nance, Robert H. Walls, Jr.
Investment Management Committee	David Corpus; Michael Ball, John Elliott, Robert H. Walls, Jr., Elvis Williams
Governance Committee	John Elliott; Brittney Allred, Laronda Graf, Dick Nance, Robert H. Walls, Jr.

On a motion by Mr. Ball, seconded by Mr. Elliott, the Board unanimously voted to approve the new committee members and chairs.

- 6. Receive the Deputy Director's update including consider the acceptance of the Procurement and Contracting report; and consider extending, renewing or terminating contracts for the following services 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:**

- A. Executive Coaching
- B. Executive Assessment
- C. Pension Fund Actuarial Consultant
- D. Compensation Consultant
- E. Healthcare Actuarial Consultants
- F. TEAM Independent Program Assessment Vendor.

Ms. Caasi Lamb provided an update on the move from Red River Headquarters. She reported the move is on schedule and within budget. She next reviewed how TRS offered telework to employees prior to the pandemic, then required it during the pandemic. She said the return to work after pandemic has been decided largely by managers ensuring the highest level of service continued to be provided for members. She reported TRS continues to maintain hybrid work schedules except for leadership and certain positions that together comprise of a third of TRS workforce who have returned to five days a week. She provided a TEAM update stating all work streams are on-schedule. She reviewed the efficiency initiative and how it is being implemented including how it will relate to developing a more precise budget for the next fiscal year.

Ms. Lamb noted state leaders had requested state agencies to review their respective operations including spending on travel, subscriptions and contracts with external vendors. She provided a high overview of Board-approved contracts and requested further discussion of the six listed services in executive session. She concluded the public presentation by presenting the quarterly contract report for the Board to accept.

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

7. **Receive an update and consider lease for a second regional office in the 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 Shannon Gosewehr.**

Ms. Barbie Pearson provided a high-level overview of the process of identifying TRS' next regional office. She reported that five sites were visited in the Rio Grande Valley and that CBRE was collecting information from the landlords of the top sites.

8. **Consider the role, performance, engagement and selection or renewal of the Board Investment Advisors and Consultants role, including considering a finding that to deliberate or confer in open meeting would have a detrimental effect on the position of the retirement system in the negotiations with a third person – Steve Wilson, LaTresa Stroud and Aundre Petty.**

Ms. LaTresa Stroud provided an overview of the Board advisor role and the solicitation timeline and process.

Mr. Jim Callahan and Mr. Alex Ford presented for Callan Holding reviewing the background, experience and expertise of the firm.

Mr. Colin Bebee and Ms. Mika Malone presented for Meketa reviewing the background, experience and expertise of the firm.

Ms. Katherine Farrell provided a brief history and background on the investment advisor position held by Dr. Keith Brown since 2002. Additionally, she reviewed the scope of work that Dr. Brown provides the Board. She concluded by noting the contract is set to expire this August and staff is seeking a recommendation on how to proceed.

- 9. Consider renewal of the Fiduciary Counsel contract 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.**

Ms. Heather Traeger reported the fiduciary counsel's contract was up for renewal. She noted by law all outside counsel contracts are limited to two years. She said there was a renewal option available for the fiduciary counsel contract.

- 17. 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 and J.R. Morgan.**

Mr. Walls announced taking up agenda items 6, 7, 8, 9 and 17 in executive session.

On a motion by Mr. Ball, seconded by Mr. Elliott, the Board unanimously voted to find that deliberating or conferring on agenda items 6, 7, 8, and 9 would have a detrimental effect on the position of the Retirement System in negotiations with a third person.

At 12:09 p.m., Mr. Walls said the Board would go into executive session under the following agenda items and sections of the Government Code: item 6 under Sections 825.115(e) and 551.071, to consider extending, renewing or terminating the contracts specified in the agenda and to consult with legal counsel as needed; item 7 under Sections 825.115(e) and 551.071, to discuss a lease for a second regional office in the Rio Grande Valley area and to consult with legal counsel as needed; item 8 under 825.115(e) and 551.071, to discuss the role, performance, engagement, selection or renewal of the Board's investment advisors and consultants role and to consult with legal counsel

as needed; item 9 under Sections 825.115(e) and 551.071, to discuss renewal of the fiduciary counsel contract and to consult with legal counsel as needed; and item 17 under Section 551.071, to consult with legal counsel as needed.

At 3:47 p.m., Mr. Walls reconvened the meeting in public.

On a motion by Mr. Ball, seconded by Mr. Corpus, the Board unanimously voted to terminate the Board's executive coaching contract with Coleman & Associates and the TEAM independent program assessment contract with Ernst & Young.

On a motion by Mr. Ball, seconded by Mr. Elliott, the Board unanimously voted to adopt the following resolution selecting Meketa as the Board investment advisor and Callan as the alternative:

Resolution of Board of Trustees Relating to the Selection of a Board Advisor

WHEREAS, Texas Government Code §825.101 provides that the Teacher Retirement System ("TRS") Board of Trustees ("Board") is responsible for the general administration and operation of the retirement system, and §825.103(d) provides that the Board has exclusive authority over the purchase of goods and services using trust funds including, without limitation, professional services;

WHEREAS, the TRS Bylaws, subsection 1.7(n), state that the Board will select consultants and advisors to the Board, including investment consultants or advisors, to provide such expert advice and assistance to the Board as the Board deems necessary to exercise its investment and trust administration responsibilities;

WHEREAS, the TRS Bylaws, subsection 4.1.2(f), state that the Executive Director shall recommend to the Board the selection of the investment consultant or advisor to the Board;

WHEREAS, the TRS Board Procurement Policy states that the Board will consider and authorize contracts with one or more investment advisors pursuant to Section 1.3(a) of the Investment Policy Statement;

WHEREAS, On November 7, 2024, TRS issued a Request for Proposal (RFP) to solicit qualified respondents to provide investment advisory services;

WHEREAS, On April 10, 2025, the two top respondents presented to the Board; Now, therefore be it;

RESOLVED, That the Board considered the evaluation and recommendations made by TRS Staff related to the candidates for selection and finds that Meketa represents the best overall value for TRS based on qualifications, experience, proposed contract terms and conditions, proposed fees, and other relevant factors.

RESOLVED, That the Board hereby selects Meketa to serve as the Board Advisor for an initial term not to exceed five (5) years with the option for two one-year renewals; and

RESOLVED, That the Board hereby authorizes the Executive Director or his designee to negotiate, as soon as practicable, with the assistance of legal counsel, a contract with Meketa to provide investment advisory services; if negotiations are deemed in his or her discretion to be successful, then the Executive Director or his designee is hereby authorized to execute a contract on such terms and conditions as such officer may deem, in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including the renewals set forth above and any amendments or extensions to the contract, that such officer may deem to be in the best interest of TRS and reasonably necessary or appropriate to effectuate this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract, renewals, extensions, or amendments.

RESOLVED, That the Board hereby authorizes the Executive Director or his designees to expend funds and to take all actions deemed by him or a designee to be necessary or advisable to implement this resolution and will report to the Board on any actions taken in furtherance of this resolution, including any renewals or amendments, at the next Board meeting. And,

RESOLVED, That nothing in this resolution may be construed as a contract, an offer to contract with a power of acceptance that would form a contract, or an acceptance of an offer to contract, and TRS is not and will not be legally bound to any agreement unless and until the Executive Director has executed and delivered definitive agreements relating to the subject matter, as applicable. in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including the renewals set forth above and any amendments or extensions to the contract, that such officer may deem to be in the best interest of TRS and reasonably necessary or appropriate to effectuate this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract, renewals, extensions, or amendments.

RESOLVED, That if for any reason, the Executive Director concludes in his sole judgment that TRS is not reasonably likely to successfully negotiate a contract with Meketa, then the Board hereby selects Callan to provide investment advisory services; if negotiations are deemed in his or her discretion to be successful, then the Executive Director or his designee is hereby authorized to execute a contract on such terms and conditions as such officer may deem,

On a motion by Mr. Nance, seconded by Mr. Elliott, the Board unanimously voted to adopt the following resolution renewing the fiduciary counsel's contract:

RESOLUTION SELECTING FIDUCIARY COUNSEL

Resolved, That the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) hereby selects the law firm of Cohen, Milstein, Sellers and Toll PLLC to serve as fiduciary counsel;

Resolved, That the board authorizes the Executive Director to negotiate an outside counsel contract with fiduciary counsel for a two-year term beginning on September 1, 2025, and terminating on August 31, 2027, and to obtain approval from the Office of the Attorney General for the engagement of such outside counsel; and

Resolved, That, if negotiations are deemed by the Executive Director in his discretion to be successful, then the Executive Director is hereby authorized to execute such contract, including future amendments, with fiduciary counsel on such terms and conditions as the Executive Director may deem in his discretion to be in the best interest of TRS, and further to execute and deliver all such other documents that the Executive Director may deem necessary or appropriate to effect this resolution and to incur, approve, and pay any budgeted expenses or costs associated with such contract and deemed in the discretion of the Executive Director, or his designee, to be reasonably necessary or advisable with respect to such contract.

At 3:49 p.m., Mr. Walls announced the Board would recess to take up the scheduled committee meetings.

April 11, 2025

The Board of Trustees of the Teacher Retirement System of Texas met on April 11, 2025 in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

The following Board members were present:

Robert H. Walls, Jr., Chair

Brittney Allred

Michael Ball

John Elliott

Laronda Graf

James D. Nance

John R. Rutherford

Elvis Williams

Others present:

Brian Guthrie, TRS

Caasi Lamb, TRS

Don Green, TRS

Heather Traeger, TRS

Jase Auby, TRS

Barbie Pearson, TRS

Katrina Daniel, TRS

Amanda Jenami, TRS

Katherine Farrell, TRS

Suzanne Dugan, Cohen Milstein

Dr. Keith Brown, Board Investment Advisor

Phyllis Ruffin, Texas AFT Retiree Plus

Rita Runnels, Texas AFT Retiree Plus

Silver Davis, Texas AFT Retiree Plus

At 9:00 am the Chair reconvened the Board meeting, Mr. Corpus was absent.

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

Ms. Phyllis Ruffin, Texas AFT Retiree Plus member, expressed concern that the State of Texas, which has the world's eighth largest economy refuses to give an automatic cost of living adjustment for retirees. She also expressed concern about the impact of proposed voucher legislation on the pension system.

At 9:08 a.m., Mr. Walls recessed the meeting to take up committee meetings.

At 11:00 a.m., Mr. Walls reconvened the Board meeting.

11. Receive the report of the Benefits Committee on its April 10, 2025 meeting and consider the following:

- A. Acceptance of the Medical Board Meeting minutes of November 2024 and January 2025 meetings;**
- B. Approval of the Benefit Payments for December 2024 – February 2025;**

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

The Benefits Committee met on April 10, 2025. The Committee approved the proposed minutes of the Benefits Committee for the December 5, 2024 meeting.

Barbie Pearson, Chief Benefits Officer, provided an update on the Medical Board. The Committee recommends to the Board the acceptance of the Medical Board Meeting minutes for the November 2024 and January 2025. Ms. Pearson provided an update on Benefit payments for the second quarter of fiscal year 2025. The Committee recommends to the Board the approval of benefit payments for December 2024 through February of 2025. The committee received a Pension Services update from Ms. Pearson for the first two quarters of fiscal year 2025. Ms. Bridgeman, senior director of benefit processing, provided an overview of the service credit purchase team and processes, including a number of service credit cost statements calculated and actually paid for the top four service types for fiscal year 2025 and through February of fiscal year 2025.

Ms. Katrina Daniel, chief health care officer, introduced two new deputy chief roles for the Health Division: Ms. Yimei Zhao, chief of finance; Mr. Chris Herrick, the chief deputy for operations. Next, Ms. Daniel provided an update on the TRS-Care plan, dental and vision plan enrollment and TRS-ActiveCare. Finally, Ms. Melanie Ingleby, the chief actuary for the Health Division, provided an overview of the work of the health actuarial team.

Mr. Williams concluded his report with the following motions:

On a motion by Mr. Williams, the Board voted to accept the Medical Board meeting minutes for November 2024 and January 2025, as recommended by the Benefits Committee.

On a motion by Mr. Williams, the Board voted to approve the benefits payments for December 2024 through February of 2025, as recommended by the Benefits Committee.

12. Receive the report of the Investment Management Committee on its April 10, 2025 meeting – Committee Chair.

Mr. Ball, Acting-Committee Chair, provided the following report of the Investment Management Committee:

The Investment Management Committee met on April 10, 2025. The Committee approved the proposed minutes for its December 2024 meeting. Jase Auby began with the CIO update.

Next the fourth quarter 2024 performance review was presented by Mike Comstock and Ashley Woeste of Aon. James Nield and Stephen Kim followed with the semi-annual risk report. Concluding the Investment Management Committee, a review of public markets was then provided by Dale West, Lulu Llano, Kyle Wynne, and Ashley Baum.

- 13. Receive the report of the Governance Committee on its April 10, 2025 meeting and consider the following – Committee Chair:**
 - A. Adopting the proposed amendments to the Resolution Authorizing the Executive Director to Designate Persons Authorized to Approve and Sign Vouchers; and**
 - B. Adopting proposed changes to the Fiscal Year 2025 – 29 Strategic Plan Goals, Objectives and Strategies.**

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

The Governance Committee met on April 10, 2025. The committee approved the proposed minutes of the December 2024 Policy Committee, the September 2024 Strategic Planning Committee, and the September 2024 Compensation Committee meetings.

The committee recommended to the Board adoption of proposed amendments to the resolution authorizing the executive director to designate persons authorized to approve and sign vouchers. The committee recommended to the Board adoption of the proposed changes to the fiscal year 2025-2029 Strategic Plan goals, objectives and strategies.

The committee authorized for publication in the Texas Register notice of the proposed amendments to TRS Rule 25.131 in Subchapter J, Chapter 25, Title 34, Part 3 of the Texas Administrative Code, related to required service. The committee authorized for publication in the Texas Register notice of the proposed amendments to TRS Rule 41.12 in Chapter 41 of Title 34, Part 3 of the Texas Administrative Code, related to eligibility for alternative plan for Medicare eligible participants.

Mr. Elliott concluded his report with the following motion:

On a motion by Mr. Elliott, the Board voted to adopt the proposed amendments to the resolution authorizing the executive director to designate persons authorized to approve and sign vouchers, as recommended by the Governance Committee.

On a motion by Mr. Elliott, the Board voted to adopt the proposed changes to the fiscal year 2025 - 2029 strategic plan goals, objectives and strategies, as recommended by the Governance Committee.

14. Receive the report of the Budget Committee on its April 11, 2025 – Committee Chair.

Mr. Nance, Committee Acting-Chair, provided the following report of the Budget Committee:

The Budget Committee met Friday, April 11. The first item of business was approval of the minutes of the December 2024 Budget Committee meeting.

Mr. Green presented a high-level overview of the year 2025 midyear budget, as well as a FTE status report. He addressed the spending activity for the first six months of the fiscal year and the projected FTE cap variance.

Mr. Green presented a high-level overview of the 2026 administrative operating budget. He discussed the major budget impacts from legislative recommendations for 2026. Mr. Green discussed how staff will continue efforts to identify efficiencies in the budget proceeds and intends to recommend the budget within appropriated levels and FTEs limitations.

15. Receive the report of the Audit, Compliance, and Ethics Committee on its April 11, 2025 meeting and consider adopting proposed revisions to the Fiscal Year 2025 Audit Plan – Committee Chair:

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

The Audit, Compliance, and Ethics Committee met earlier this morning. The Committee approved the minutes of its December 5, 2024 meeting. The committee considered the chief audit executive's recommended revisions to the fiscal year 2025 Audit Plan. Internal Audit staff presented audit reports on energy, natural resources and infrastructure portfolio operations and Information Security

Office's contract oversight. The committee also received an update on the status of prior audit recommendations, as well as some administrative reports.

The committee then went into executive session to discuss the results of the audit of access control management. The committee reconvened in open session to receive routine compliance and enterprise risk reports from general counsel and the chief compliance officer and staff.

Ms. Allred concluded her report with the following motion:

On a motion by Ms. Allred, the Board voted to adopt the proposed revision to the fiscal year 2025 audit plan, as recommended by the Audit, Compliance, and Ethics Committee.

16. Receive Quarterly TRS Data Governance and Information Security Update - Frank Williams.

This item was not taken up for discussion.

Mr. Walls announced taking up Agenda Item 8 without objection.

8. Consider the role, performance, engagement and selection or renewal of the Board Investment Advisors and Consultants role, including considering a finding that to deliberate or confer in open meeting would have a detrimental effect on the position of the retirement system in the negotiations with a third person – Steve Wilson, LaTresa Stroud and Aundre Petty.

On a motion by Mr. Ball, seconded by Mr. Elliott, the Board voted to find that deliberating or conferring on item 8 would have a detrimental effect on the position of the Retirement System in negotiations with a third person.

At 11:11 a.m., Mr. Walls announced the Board would go into executive session under the following agenda item and sections of the Government Code: item 8 under Sections 825.115(e) and 551.071, to discuss the role, performance, engagement and selection and renewal of the Board investment advisors and consultants role and to consult with legal counsel as needed.

At 11:43 a.m., Mr. Walls reconvened the open meeting and announced taking up Agenda Item 4 without objection.

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

- D. Administrative operational matters, including updates on financial, audit, legal, staff services, special projects, strategic planning, legislative, personnel matters, notification of contract renewals and trustee elections.**
- E. Board operational matters, including a review of draft agendas for upcoming meetings.**
- F. 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. Guthrie stated he had two final items to close the Board meeting out with. Mr. Guthrie noted barring any unforeseen issues, this would be Mr. Nance's last meeting. He thanked Mr. Nance for his outstanding service as a trustee since December 2017 and seeing out his term to the very end.

Mr. Guthrie also noted this was the last meeting in the Red River location. He said the buildings had served us well over the last 50 years, there are a lot of memories and history here. He then shared a short video capturing the activities over the last half century. He concluded by thanking everyone in the room and all employees for their service to members. Mr. Walls, echoing Mr. Guthrie's comments, said he would like to thank staff and Mr. Guthrie personally for his steady hand.

At 11:50 a.m., Mr. Walls announced with no more scheduled business before the Board he adjourned the last meeting at Red River Headquarters.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE __ DAY OF JULY 2025.

ATTESTED BY:

Katherine H. Farrell
Secretary to the TRS Board of Trustees

Date

TAB 4



Upcoming Board Meeting Agendas



July 17, 2025

Benefits Committee

- Operational Updates
- Approval of Benefits
- Medical Board Minutes

Investment Management Committee

- CIO Update
- 1st Quarter Performance Review
- Annual Review of External Private Markets
- Review of IPS Modifications

Budget Committee

- Proposed Adoption of FY 2026 Budget

Governance Committee

- Proposed Changes to Performance Pay Plans (PPP)
- Proposed changes to ED's Areas of Focus
- Possible Proposed Rules from Legislative Session

ACE Committee

- Internal Audit and Compliance Reports

July 18, 2025

Committee Reports

ED Report

Ombuds Report

Deputy Director Report

Information Security Update

Actuarial Services Procurement

Medical Board Contract

Litigation Update

TAB 5



TRS Health

Tuesday, June 3, 2025

Presented by:

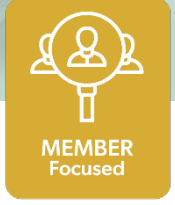
Katrina Daniel, Chief Health Care Officer

Kirsten R. Schatten, Sr. Vice President, The Segal Group

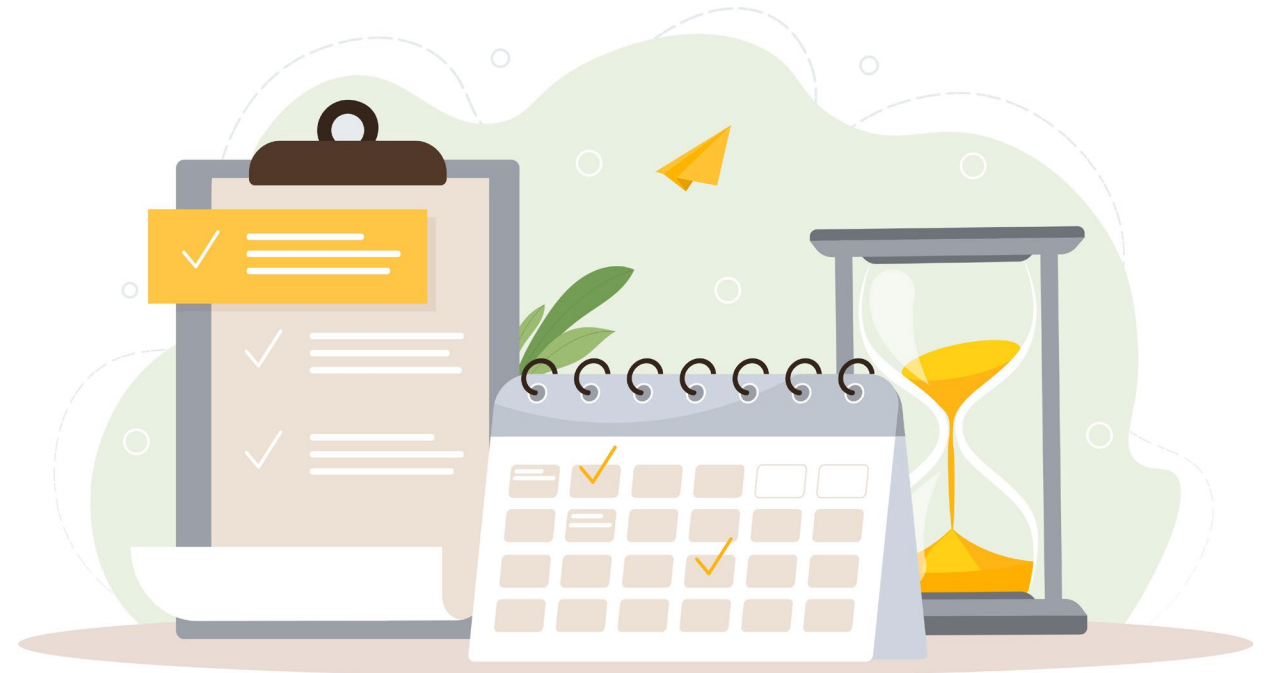




Health Agenda



- **TRS-ActiveCare 2025-26 Rates & Benefits**
 - TRS-ActiveCare Self-Insured Rates and Benefits Changes for FY 26
 - TRS-ActiveCare Fully Insured HMO Rates and Benefits Changes for FY 26





TRS-ActiveCare Receives Legislative Appropriation



The 89th Texas Legislature appropriated \$369M to TRS-ActiveCare to help offset rate increases in the 2026-27 biennium.

TRS



Maintains premium increases under 10% on average



Supplemental funding covers 8% of total premium cost

Districts



Amounts to \$59 per month per employee for premiums (on average)



Equated to annual cost reduction of \$700 (on average)

Even without this funding, TRS-ActiveCare offers a competitive option compared to other health plans offered to public school employers.



Proposed FY 26 TRS-ActiveCare Benefit Alignments



TRS is proposing **several benefit adjustments** to the TRS-ActiveCare HD plan to align with **regulatory standards**.

	Benefit Alignment	Current FY 25	Proposed FY 26
TRS-ActiveCare HD Plan	In-network deductibles (<i>IRS requirement</i>)	\$3,200 (Individual) / \$6,400 (Family)	\$3,300 (Individual) / \$6,600 (Family)
	In-network maximum out-of-pocket (MOOP)	\$8,050 (Individual) / \$16,100 (Family)	\$8,300 (Individual) / \$16,600 (Family)
	Out-of-network deductibles	\$6,400 (Individual) / \$12,800 (Family)	\$6,600 (Individual) / \$13,200 (Family)
	Out-of-network maximum out-of-pocket (MOOP)	\$20,250 (Individual) / \$40,500 (Family)	\$20,500 (Individual) / \$41,000 (Family)



Proposed FY 26 TRS-ActiveCare Gross Premiums (Before Employer Contribution)



		Lowest Cost Region (Region 18 - Midland)			Mid-Point Region (Region 4 - Houston)			Highest Cost Region (Region 10 - Dallas)		
Plan	Tier	FY25 Rate	FY26 Rate	Dollar & Percent Change	FY25 Rate	FY26 Rate	Dollar & Percent Change	FY25 Rate	FY26 Rate	Dollar & Percent Change
Primary	EMP	\$395	\$418	\$23 (5.8%)	\$471	\$507	\$36 (7.6%)	\$501	\$556	\$55 (11.0%)
	ESP	\$1,067	\$1,129	\$62 (5.8%)	\$1,272	\$1,369	\$97 (7.6%)	\$1,353	\$1,502	\$149 (11.0%)
	ECH	\$672	\$711	\$39 (5.8%)	\$801	\$862	\$61 (7.6%)	\$852	\$946	\$94 (11.0%)
	FAM	\$1,343	\$1,422	\$79 (5.9%)	\$1,602	\$1,724	\$122 (7.6%)	\$1,704	\$1,891	\$187 (11.0%)
Primary+	EMP	\$464	\$490	\$26 (5.6%)	\$553	\$596	\$43 (7.8%)	\$588	\$653	\$65 (11.1%)
	ESP	\$1,207	\$1,274	\$67 (5.6%)	\$1,438	\$1,550	\$112 (7.8%)	\$1,529	\$1,698	\$169 (11.1%)
	ECH	\$789	\$833	\$44 (5.6%)	\$941	\$1,014	\$73 (7.8%)	\$1,000	\$1,111	\$111 (11.1%)
	FAM	\$1,532	\$1,617	\$85 (5.5%)	\$1,825	\$1,967	\$142 (7.8%)	\$1,941	\$2,155	\$214 (11.0%)
HD	EMP	\$405	\$430	\$25 (6.2%)	\$484	\$521	\$37 (7.6%)	\$513	\$570	\$57 (11.1%)
	ESP	\$1,094	\$1,161	\$67 (6.1%)	\$1,307	\$1,407	\$100 (7.7%)	\$1,386	\$1,539	\$153 (11.0%)
	ECH	\$689	\$731	\$42 (6.1%)	\$823	\$886	\$63 (7.7%)	\$873	\$969	\$96 (11.0%)
	FAM	\$1,377	\$1,462	\$85 (6.2%)	\$1,646	\$1,772	\$126 (7.7%)	\$1,745	\$1,938	\$193 (11.1%)
AC2	EMP	\$1,013	\$1,013	\$0 (0.0%)	\$1,013	\$1,013	\$0 (0.0%)	\$1,013	\$1,013	\$0 (0.0%)
	ESP	\$2,402	\$2,402	\$0 (0.0%)	\$2,402	\$2,402	\$0 (0.0%)	\$2,402	\$2,402	\$0 (0.0%)
	ECH	\$1,507	\$1,507	\$0 (0.0%)	\$1,507	\$1,507	\$0 (0.0%)	\$1,507	\$1,507	\$0 (0.0%)
	FAM	\$2,841	\$2,841	\$0 (0.0%)	\$2,841	\$2,841	\$0 (0.0%)	\$2,841	\$2,841	\$0 (0.0%)



Enhancing Member Rewards Incentives



Incentivizing members toward high-quality, low-cost providers

PCP rewards

- One reward per year will be given for seeing a PCP with a **Top Performing Physician** designation

Specialist rewards

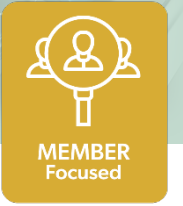
- One reward* for seeing a specialist with a **Top Performing Physician** designation
- Two rewards* for visiting a specialist with a **Top Performing Physician designation** at a cost-effective reward-eligible facility

**PCP and
specialist
rewards
range from
\$25-\$150**

*Rewards based on Top Performing Physician designation will be paid out at a flat rate based on the type of service.



Expanding Musculoskeletal Benefits



**Virtual, no-cost option to help members manage joint and back pain
and avoid other, more invasive services**



Mobility and stability rehab exercises



Customized recovery plan



Injury-specific Remote Recovery Kit



Unlimited access to provider through
mobile app for 12 months



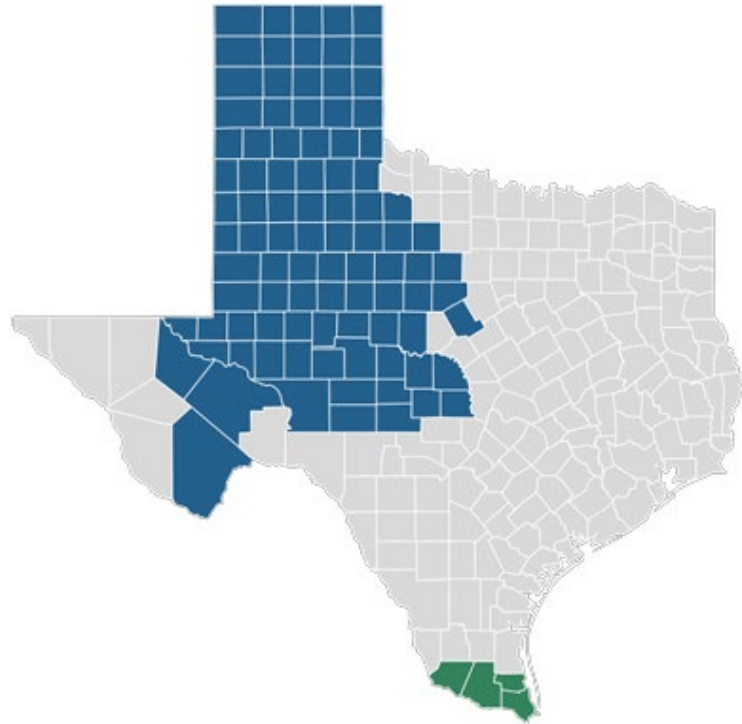


Fully Insured Health Maintenance Organizations (HMOs)

Blue Essentials – West Texas HMOSM

No benefit changes
2025-26 Rates

	Total Monthly Premium	% Increase from 2024-25
Employee Only	\$1,214.50	20%
Employee & Spouse	\$2,961.60	20%
Employee & Children	\$1,915.00	20%
Employee & Family	\$3,145.30	20%



Blue Essentials – South Texas HMOSM

No benefit changes
2025-26 Rates

	Total Monthly Premium	% Increase from 2024-25
Employee Only	\$1,282.10	30%
Employee & Spouse	\$3,119.40	31%
Employee & Children	\$2,014.40	31%
Employee & Family	\$3,321.40	31%



Outreach & Engagement Plan



Hands-on outreach & training for districts and participants

Districts



Customized onboarding for **three** new employers



Quarterly *AC Connect* calls



15 Benefit Administrator (BA) trainings



Content for employers' use



Ongoing support from District Ambassadors (DAs)

Participants



15 webinars in June and July



Digital engagement through emails, monthly newsletter, videos, etc.



District Ambassadors (DAs) present at benefit fairs



Publications with plan benefit information



Appendices

Fund Balance



Appendix: TRS-ActiveCare Fund Balance Projection Through 2027

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	\$1,211,522,821		\$842,672,341	\$7,601,899	\$0	\$34,732,202	\$2,096,529,263	\$2,012,406,447	\$322,125,417	\$7,503,664	\$80,369,689	\$2,422,405,216	\$362,600,857
FY 2026	\$1,243,729,449		\$865,073,599	\$7,748,252	\$0	\$13,342,475	\$2,129,893,776	\$2,074,301,865	\$360,765,707	\$7,651,052	\$81,527,970	\$2,524,246,594	(\$31,751,961)
FY 2027	\$1,281,041,333		\$891,025,807	\$7,980,699	\$0	\$635,072	\$2,180,682,912	\$2,167,645,449	\$401,276,405	\$7,883,499	\$84,848,657	\$2,661,654,011	(\$512,723,060)

Notes:

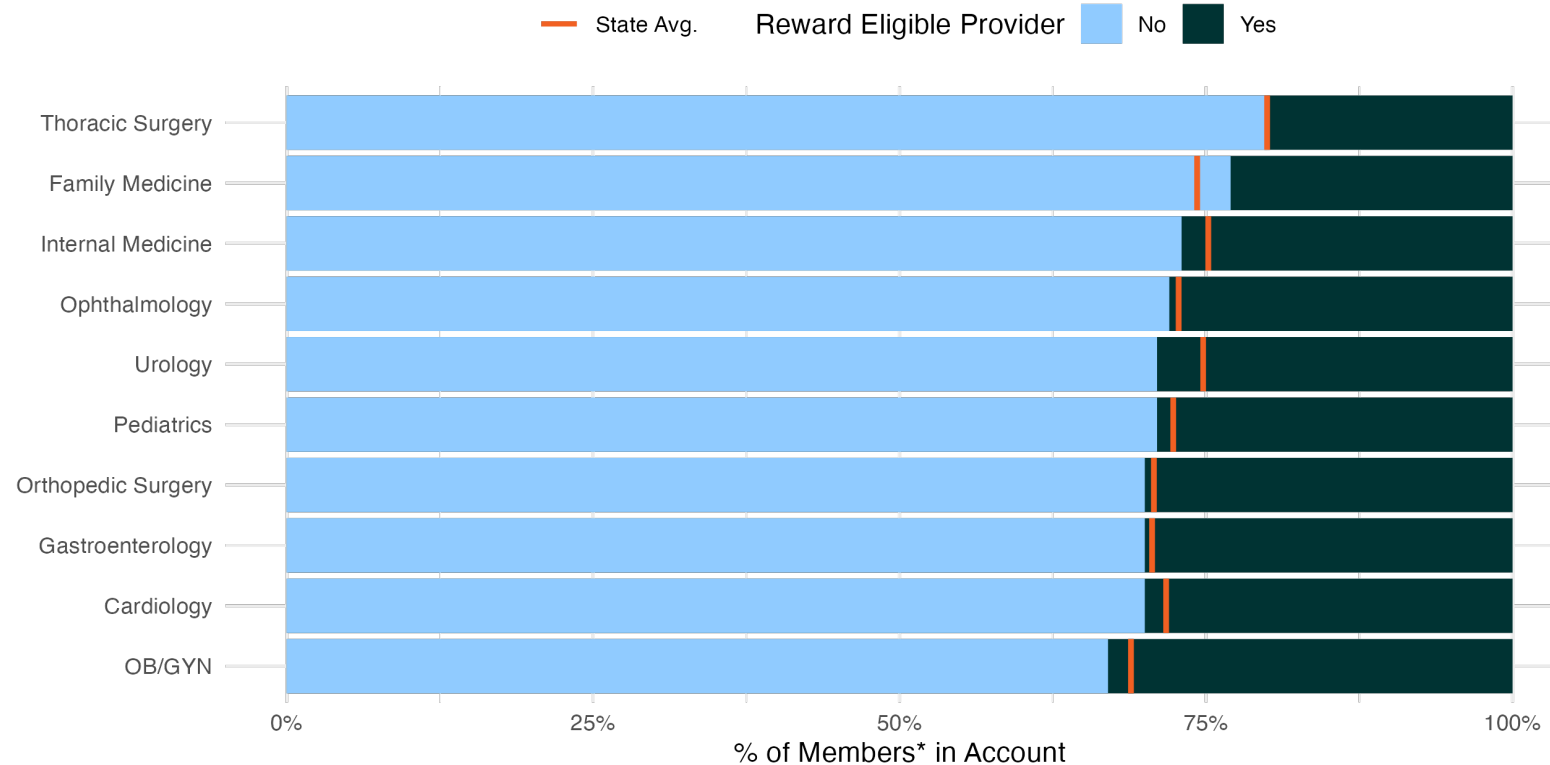
- Invoice data through Feb. 28, 2025
- Medical trend: 6% in FY25 (Higher trend used in FY25 to account for new districts). 4.75% trend in FY26 and reduced by 0.25% each year thereafter with a 4% minimum.
- Pharmacy trend: 9% in FY25 (Higher trend used in FY25 to account for depressed claims in FY24 because of PBM switch). 8% trend in FY26 and reduced by 0.25% each year thereafter with a 6% minimum.
- Prior to FY2018: State contributions are equal to \$75 PEPM. District contributions are equal to \$150 PEPM. 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%.
- Premium rate increases of 3% are assumed for all years after FY25.
- The ActiveCare Fund balance is managed to prevent a deficit through premium and benefit adjustments.
- Assumes no supplemental funding for FY26-27



Member Rewards Findings



70-80% of individuals who received care last year could earn a reward by choosing a top-performing provider



Members who fall into this category have the highest cost reduction opportunity.

*Members with at least one episode of care in the previous year
Source: PEAQ 24.1



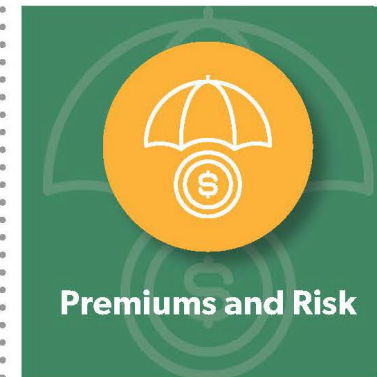
Questions for Brokers



QUESTIONS FOR BROKERS

TRS is committed to helping school districts make the best health care choices for their employees. This is why we provide resources for district leaders to utilize when they talk with outside health brokers.

The list is broken into important categories for consideration:



Questions are available on TRS' website along with other district leader materials.

Scan the QR code for the full list of questions.





Network Access Questions



Network Access

- What network options are included in the plan? Preferred Provider Organization (PPO), Health Maintenance Organization (HMO), Exclusive Provider Organization (EPO)?
- Does the plan you're being offered have reference-based pricing, or an existing provider network for hospital services?
- How are out-of-network claims handled? (wrap networks with shared savings, percentage of Medicare)
- Are the facilities, primary care providers and specialists my employees use in network?
- What hospital systems are currently negotiating or at risk with the carrier you are recommending? If a hospital system drops out of the carrier network do you have the ability to set up a direct contract for us with that provider so that we do not lose an important group of providers?





2025-26 TRS-ActiveCare Plan Comparison



2025-26 TRS-ActiveCare Plan Comparison

Benefit	TRS-ActiveCare Primary In-Network Coverage Only	TRS-ActiveCare Primary+ In-Network Coverage Only	TRS-ActiveCare HD In-Network & Out-of-Network	TRS-ActiveCare 2 (Closed)* In-Network & Out-of-Network
	<ul style="list-style-type: none"> lowest premium copays for doctor visits before deductible statewide network referrals from PCP required to see specialists 	<ul style="list-style-type: none"> lowest deductible copays for many services and drugs higher premium statewide network referrals from PCP required to see specialists 	<ul style="list-style-type: none"> compatible with a Health Savings Account nationwide network no requirement for PCP or referrals must meet your deductible before plan pays for non-preventive care 	<ul style="list-style-type: none"> current enrollees can stay in plan lower deductible copays for many services and drugs nationwide network no requirement for PCP or referrals
Individual Deductible	\$2,500	\$1,200	\$3,300 / \$6,600	\$1,000 / \$2,000
Family Deductible	\$5,000	\$2,400	\$6,600 / \$13,200	\$3,000 / \$6,000
Pharmacy Deductible	Integrated with deductible	\$200 Brand drugs only	Integrated with deductible	\$200 Brand drugs only
Individual Out-of-Pocket Max	\$8,050	\$6,900	\$8,300 / \$20,500	\$7,900 / \$23,700
Family Out-of-Pocket Max	\$16,100	\$13,800	\$16,600 / \$41,000	\$15,800 / \$47,400
Preventive Care	Covered at 100%	Covered at 100%	Covered at 100%	Covered at 100%
Office Visit	\$30 PCP Copay, \$70 SPC Copay	\$15 PCP Copay, \$70 SPC Copay	30% coinsurance / 50% coinsurance	\$30 PCP Copay, \$70 SPC Copay / 40% coinsurance
Urgent Care	\$50 Copay	\$50 Copay	30% coinsurance / 50% coinsurance	\$50 Copay / 40% coinsurance
TRS Virtual Health (Medical)	\$12 Copay Teladoc \$0 Copay RediMD	\$12 Copay Teladoc \$0 Copay RediMD	\$42 Teladoc \$30 RediMD	\$12 Copay Teladoc \$0 Copay RediMD
Inpatient Admission	30% coinsurance	20% coinsurance	30% coinsurance / \$500 max/day + 50% coinsurance	\$150/day + 20% coinsurance / \$500 max/day + 40% coinsurance
Emergency Room	30% coinsurance	20% coinsurance	30% coinsurance	\$250 + 20% coinsurance
Free-Standing ER	\$500 Copay + 30% coinsurance	\$500 Copay + 20% coinsurance	\$500 + 30% coinsurance / \$500 + 50% coinsurance	\$500 Copay + 20% coinsurance / \$500 Copay + 40% coinsurance

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Blue Cross and Blue Shield of Texas, a Division of Health Care Service Corporation, a Mutual Legal Reserve Company, an Independent Licensee of the Blue Cross and Blue Shield Association

TAB 6

All Country Minimum Allocation Range

Katy Hoffman, Chief of Staff

June 2025



Executive Summary

Current State

- All Country (AC) public equity was created in the recent SAA study with a target allocation of 39% (minimum of 34% and maximum of 44%)
- Equity market declines and overweights to other asset classes resulted in an All Country allocation that was close to the minimum range
- CIO reduced the minimum range for All Country and Total Global Equity on April 4th, to 29% and 45%, respectively, as authorized by the Investment Policy Statement (IPS)
- IPS requires the Board authorize this change. If the change is not authorized, IMD is required to use best efforts to bring the portfolio within range in the next 90 days

Proposal

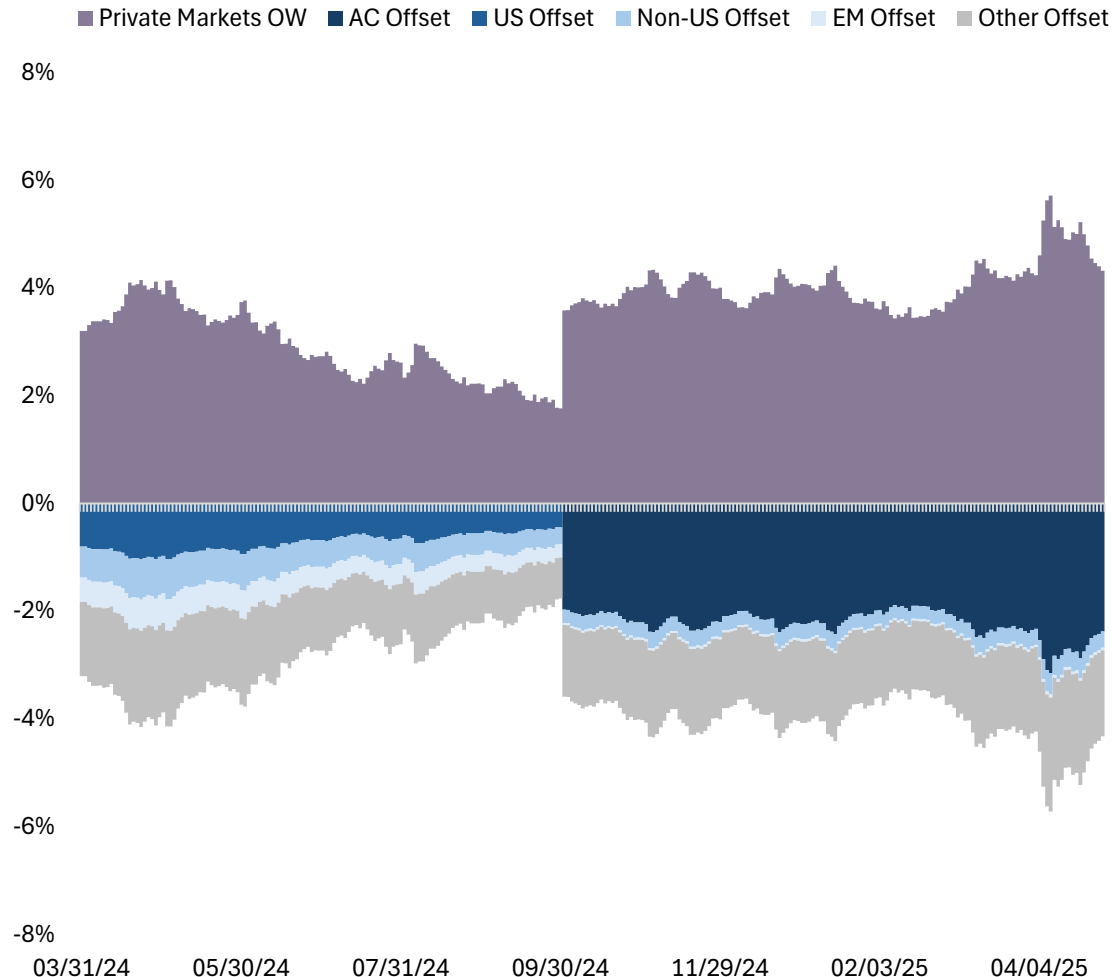
- Maintain 29% minimum range of All Country Asset Class through October 2027
 - No change requested for Total Global Equity and the minimum range will revert to 50%
- Update IPS for other administrative changes such as outdated footnotes, investment titles and Board Committee names as marked

Rationale

- Provides time for Private Equity portfolio to reach the new Board target
- Expands CIO flexibility to maintain lower equity allocation and minimizes need to be a “forced-buyer” of equities
- Regain flexibility as SAA changes reduced IMD’s ability to underweight US and Emerging Markets asset classes without shorting

SAA modifications shift All Country allocation towards minimum range

Private Market Overweight and Policy Offset Weights



- As part of the SAA, Private Equity target was reduced from 14% to 12%
 - The reduced allocation drove TRS more overweight to Private Markets in the short-term
- The funding source for Private Markets is set in IPS that now includes an offset to All Country (55%)
 - Prior offset was spread more evenly across US (25%), Non-US (18%) and EM (14%) asset classes
 - A larger portion of the offset is now embedded in just one asset class
- Proposal to lower All Country minimum through October 2027
 - This aligns with the temporary wider maximum range to Private Equity in IPS
 - IMD reduced Private Equity commitment levels given change in target

Administrative Updates

Clean up edits were also made to the IPS to address non-substantive administrative changes. Majority of the changes are noted below and fully marked in the IPS provided to the Board and the Board Advisors

Outdated References

- Changing references of Policy Committee to Governance Committee in Article 1.3 to align with updated Bylaws
- Removal of nonexistent investment titles in Appendix F that were eliminated by the Board in 2021 and 2023
- Removal of outdated benchmark transition language in Article 1.6 used in the last Strategic Asset Allocation study
- Updating the effective date of the IPS throughout

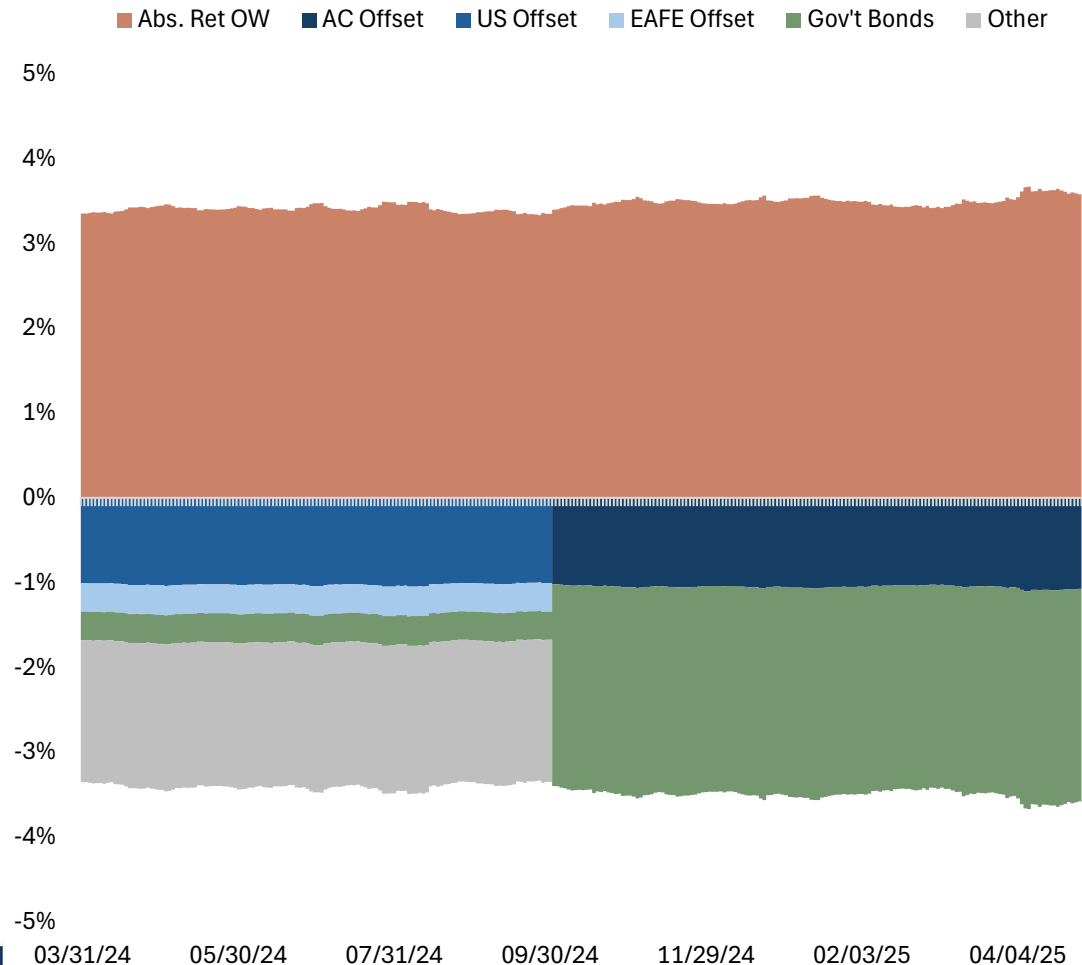
Other Edits

- Using proper capitalization for defined terms such as Board, Hedge Fund and Emerging Manager Program
- Changing TRS's to TRS'
- Consistent use of the oxford comma
- Fixing an error in the Table of Contents

APPENDIX

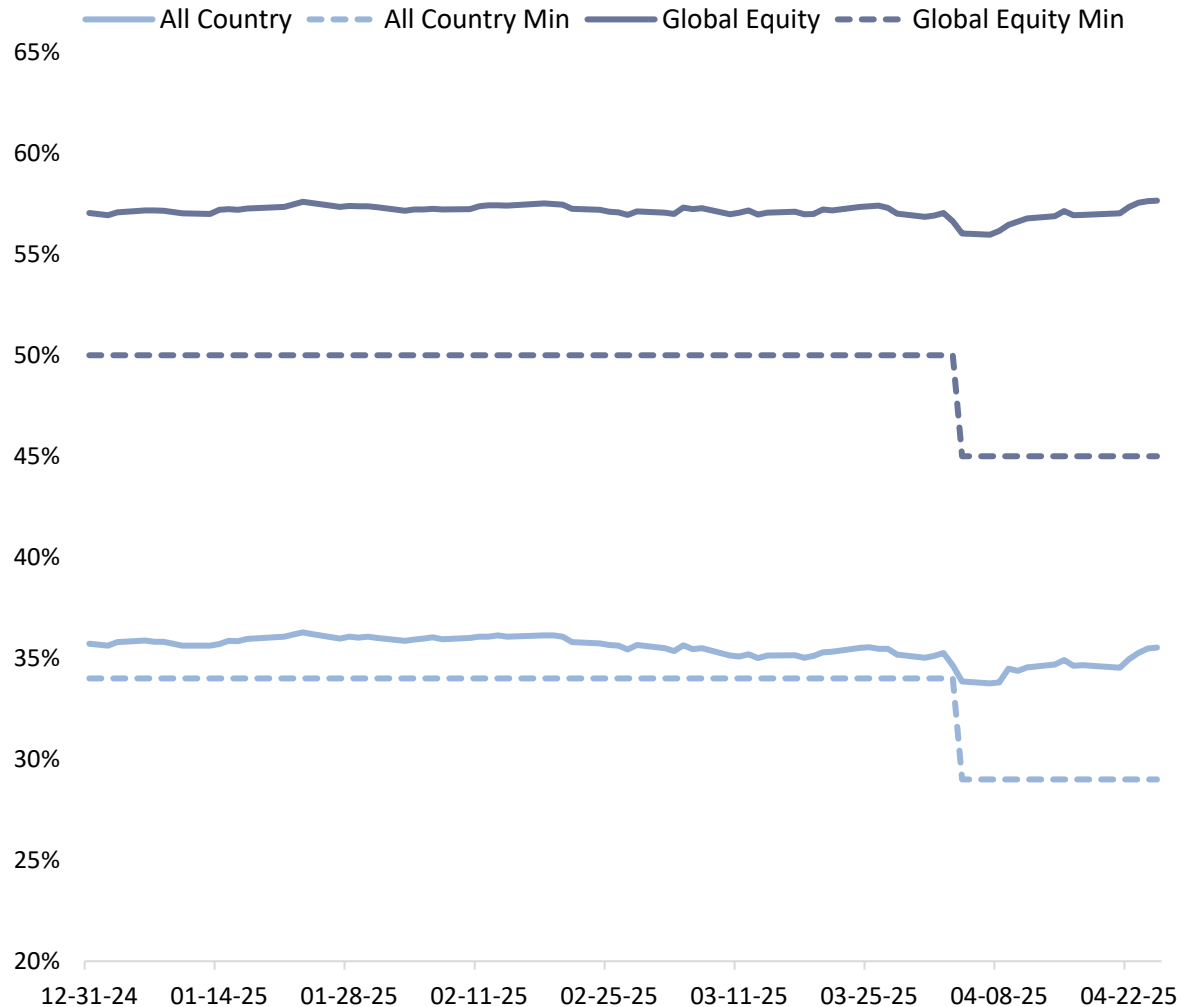
Absolute Return overweight is funded in part by using All Country

Absolute Return Overweight and IMD Offset Weights



- The Absolute Return asset class has a 0% target allocation in IPS
 - Thus, any Absolute Return allocation is an overweight
- This requires IMD fund any overweight with underweights to other policy asset classes
 - IMD is currently funding the Absolute Return allocation with 30% All Country and 70% Government Bonds – Real
- This funding source is continuously evaluated and can be changed by the IMD

Actual Trust Weights since SAA Transition



- All Country allocation fell below the 34% minimum allocation in April
- Global Equity allocation did not breach the minimum range and we do not believe a change in this limit is necessary
 - Global Equity includes Private Equity which is not marked-to-market on a daily basis
 - Global Equity minimum allocation would revert to 50% with adoption of new IPS

Investment Policy Article 1.6

Policy Weights Table - Existing

Asset Class	Benchmark	Reference Bloomberg Ticker	Minimum Range ^{1,2,3}	Maximum Range ^{1,2,10}	Target ^{2,9}
Global Equity:					
All Country	MSCI All Country World Investible Market ex China and Hong Kong ⁴	NU753853	34%	44%	39%
USA	MSCI USA Investible Market ⁴	MIMUUSAG	-5%	5%	0%
Non-US Developed	MSCI EAFE and Canada Investible Market ex Hong Kong ⁴	NU757408	0%	10%	5%
Emerging Markets	MSCI EM Investible Market ex China ⁴	NU711294	-4%	6%	1%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁵		7%	19%	12%
Total Global Equity	Target-weighted Blend		50%	64%	57%
Stable Value:					
Government Bonds – Nominal	Bloomberg US Long Treasury Index	LUTLTRUU	0%	15%	10%
Government Bonds – Real	Bloomberg US Treasury TIPS Index	LBUTTRUU	0%	11%	6%
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	10%	0%
Stable Value Hedge Funds ⁸	SOFR + 2.5%	SOFRRATE (Plus 2.5%)	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return:					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity:					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	10%	5%
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash					2%
Asset Allocation Leverage ^{7,8}	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	-6%
Net Asset Allocation Leverage	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-4%
TOTAL FUND	Target-weighted Blend				100%

Investment Policy Article 1.6

Policy Weights Table - Revised

Asset Class	Benchmark	Reference Bloomberg Ticker	Minimum Range ^{1,2,3,9}	Maximum Range ^{1,2,10}	Target ^{2,9}
Global Equity:					
All Country	MSCI All Country World Investible Market ex China and Hong Kong ⁴	NU753853	3429%	44%	39%
USA	MSCI USA Investible Market ⁴	MIMUUSAG	-5%	5%	0%
Non-US Developed	MSCI EAFE and Canada Investible Market ex Hong Kong ⁴	NU757408	0%	10%	5%
Emerging Markets	MSCI EM Investible Market ex China ⁴	NU711294	-4%	6%	1%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁵		7%	19%	12%
Total Global Equity	Target-weighted Blend		50%	64%	57%
Stable Value:					
Government Bonds – Nominal	Bloomberg US Long Treasury Index	LUTLTRUU	0%	15%	10%
Government Bonds – Real	Bloomberg US Treasury TIPS Index	LBUTTRUU	0%	11%	6%
Absolute Return (Including Credit Sensitive Investments) ^{6,8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	10%	0%
Stable Value Hedge Funds ⁸	SOFR + 2.5%	SOFRRATE (Plus 2.5%)	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return:					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity:					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	10%	5%
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage ^{7,8}	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
Net Asset Allocation Leverage					-4%
TOTAL FUND	Target-weighted Blend				100%

Investment Policy Article 1.6

Select Footnotes - Existing and Revised

Existing Footnotes 1 and 2:

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

² To calculate the Total Fund benchmark, the benchmark weight of each of Private Equity, Real Estate, and Energy, Natural Resources and Infrastructure, will be set each quarter as the ending actual weight from the prior quarter. Any difference in the calculated Private Equity, Real Estate and Energy, Natural Resources, and Infrastructure benchmark weights from the target benchmark weights will be offset using other asset classes with 55% of such difference applied to All Country, 7% to Non- US Developed, 1% to Emerging Markets, 7% to Stable Value Hedge Funds, 7% to Risk Parity, 14% to Government Bonds – Nominal and 9% to Government Bonds - Real.

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

Revised Footnote 9:

¹⁰² The Maximum Range for the Private Equity Asset Class will change to 17% and the Minimum Range for the All Country Asset Class will change to 34% on October 1, 2027.

MEMORANDUM

TO: Board of Trustees
Teacher Retirement System of Texas (“TRS”)
FROM: Suzanne M. Dugan
Fiduciary Counsel
DATE: May 21, 2025
RE: Proposed Revisions to the TRS Investment Policy Statement

At the June 2025 meeting, TRS staff will propose modifications to the Investment Policy Statement (“IPS”) to (1) maintain the asset allocation of 29% minimum range for the All Country public equity asset class through October 2027, and (2) make certain administrative, non-substantive edits including removal of outdated references and other clean-up changes. Detailed information regarding these changes is set forth in your materials, both in the presentation by Investment Management Division (“IMD”) staff and the memos of the Board Advisors.

The proposed substantive change now before the Board for action follows notification in April 2025 when the Board was advised in writing that the CIO had exercised his authority, pursuant to the IPS, to reduce the lower policy range for the All Country public equity asset class to 29% in order to avoid forced rebalancing in a time of significant market volatility. The IPS provides, “The Board, at the next succeeding Board meeting, must authorize the increase or decrease if the CIO proposes that the changes continue in effect after such Board meeting.”¹

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

¹ IPS Section 1.6, footnote 1, provides as follows:

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

May 21, 2025

the Board, I have reviewed the proposed modifications to the IPS and provided input on the presentation to the Board and on the process for that presentation.

Aon notes that they often have discussed with the Board the critical importance of a well written and unambiguous IPS that provides the means for the Board to control critical aspects of the investment portfolio, including long-term asset allocation. As further noted by Aon, the IPS requires the Board to authorize the requested change regarding maintaining a 29% minimum range for All Country public equity asset class. Aon is comfortable with the proposed changes and recommends the Board adopt them. Aon also recommends that IMD continue to provide the Board updates related to the progress made in repositioning the portfolio in advance of October 2027.

Dr. Brown often has highlighted the role of the IPS as a Board-level policy that expresses to TRS staff the Board's vision of the most prudent way to invest the assets in the TRS portfolio. Dr. Brown endorses the modifications and recommends their adoption. After discussing the background necessary in order to understand the substantive change, Dr. Brown notes that the Board should be cognizant of the additional investment flexibility that is being granted to the IMD before the reversion to the asset allocation occurs in 2027.

As I regularly note to the Board, fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process help to demonstrate prudence. In reviewing the process that was undertaken with regard to the drafting of these proposed revisions to the IPS, it appears that the Board has sufficient information before it from staff, as well as the advice of independent outside experts, in order to enable it to engage in a rigorous decision-making process in a manner consistent with procedural prudence. Following this process will allow the Board to demonstrate that it has exercised appropriate fiduciary oversight should it choose to adopt the proposed revisions to the IPS.



DEPARTMENT OF FINANCE


THE UNIVERSITY OF TEXAS AT AUSTIN

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MEMORANDUM

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

From: Keith C. Brown 
Advisor to the TRS Board

Re: Proposed Changes to the TRS Investment Policy Statement

Date: May 14, 2025

I have reviewed the modifications to the Investment Policy Statement (IPS) that the Investment Management Division (IMD) has proposed recently. Overall, I endorse these changes and recommend their adoption.

Below, I include discussion and analysis of the recommended modifications. Please note that, where relevant, I refer to the language and data used in IMD's "All Country Minimum Allocation Range" presentation to the Board of June 2025.

- *#1: Adjust Minimum Range of the All Country Public Equity Asset Class*

In September 2024, the Board adopted a revised IPS that included a significantly modified asset allocation scheme with regard to how the public equity asset class is presented and managed. Perhaps the most important change along those lines was to consolidate the previous public equity categories (i.e., USA, Non-US Developed, and Emerging Markets) into a new, single category labeled "All Country". This All Country public equity asset class was adopted with a long-term target allocation of 39%, as well as minimum and maximum allocations of 34% and 44%, respectively. These target and tactical range limits represent one of the main ways in which the Board expresses its ability to control the amount of risk the IMD is allowed to take in the delegated management scheme that TRS currently uses to invest the System's portfolio.

At the April 2025 meeting, the CIO informed the Board of an "executive order" he implemented that lowered temporarily the minimum value of the tactical range for the All Country allocation to 29%. The justification offered at the time for that action was, given

that the public equity book was effectively marked to market at the time of the tariff announcement-induced market downdraft while the private equity book was not, the System was in danger of being mechanically out of compliance with policy. The situation was exacerbated by the fact that the *actual* All Country allocation at the time of this market disruption was underweight relative to its long-term target (i.e., around 36% versus the 39% benchmark in the IPS) due to overweight positions elsewhere in the overall portfolio (i.e., Private Equity, Absolute Return), which were being paid for, in part, by reductions in the public equity holdings. So, the motivation for the temporary downward adjustment to the All Country minimum allocation ultimately was a case of allowing the IMD sufficient flexibility to rebalance the total portfolio in a thoughtful and sensible manner without the need to rush into making adjustments that might prove deleterious in a time of unsettled financial markets.

That background is useful to help understand that the sole substantive change being proposed for the IPS would make *permanent* the minimum permissible allocation limit for the All Country public equity position at 29%. While this adjustment would continue to address the “avoid forced rebalancing” issue just discussed, it also important to recognize that it gives the IMD the tactical flexibility to underweight this asset class to a far greater degree than the Board originally stipulated with its September 2024 IPS adoption. However, this consequence has been anticipated by the inclusion of a new Footnote 9 in the Asset Allocation Table from the revised IPS (cf. pp. 11-12) with the following language spelling out an allocation limit transition clause:

“The Maximum Range for the Private Equity Asset Class will change to 17% and the Minimum Range for the All Country Asset Class will change to 34% on October 1, 2027.”

So, as the actual Private Equity allocation moves toward its recently adopted new target level (i.e., 12% from 14%) by October 2027, part of the need for the lower All Country public equity minimum allocation will disappear and, consequently, this tactical allocation limit will also revert to its original level of 34%. However, the Board should be cognizant of the additional investment flexibility that is being granted to the IMD before this reversion occurs more than two years from now.

- #2: *Update IPS Document for Myriad Administrative Changes*

While not as impactful for investment outcomes, the revised IPS also includes several proposed modifications designed to improve readability in the document, adjust language to reflect recent Board-level changes (e.g., the Policy Committee becomes the Governance Committee), and remove outdated directives (e.g., striking the old Footnote 9 in the Asset Allocation Table involving an investment transition plan that expired in March 2025). In particular, the Oxford comma is now being used in a consistent manner throughout the IPS, which is a significant increase in the grammatical civility of the document.



Memo

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

From Mike Comstock; Ashley Woeste

Date May 19, 2025

Re Proposed Changes to the TRS Investment Policy Statement

Introduction

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

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

As an appendix to this memorandum, we have included a list of items we think are indicative of best practices for investment policy.

Executive Summary

We have reviewed the modifications to the IPS that the Investment Management Division (IMD) has recently proposed and have had discussions with the IMD to understand the rationale. Overall, we are comfortable with the proposed changes and recommend the Board adopt them as presented by the IMD.

Proposed Changes

Below we detail the proposed modifications.

1. Maintain 29% minimum range for All Country Asset Class through October 2027



During the 2024 IPS review, the Board approved modified asset allocation targets that re-configured the composition of the Global Equity portfolio. The All-Country Public Equity asset class was approved with a 39% target. Additionally, minimum and maximum allocation ranges, which serve as a risk management tool, were adopted to maintain exposure between 34% and 44%.

At the April 2025 Board meeting, during a period of significant market volatility, the Board was informed that the CIO decided to exercise his authority to reduce the lower policy range for the All-Country Public Equity allocation to 29% from 34% and reduce the lower policy range for the Global Equity portfolio to 45% from 50%. Public equity market declines and overweight positions to other Trust asset classes resulted in the All-Country Public Equity allocation falling close to the minimum allowable range, per the IPS.

The rationale for the proposed change is to allow IMD greater flexibility to react to market movements and to provide time for the Private Equity portfolio to move towards the new Board target (12% from 14%, per the 2024 SAA review). Private Markets, which are not marked-to-market at the same frequency as public markets, have not experienced price declines. The change also allows greater flexibility to rebalance the portfolio in a thoughtful manner rather than potentially forcing rebalancing, which could have undesirable outcomes.

While we agree with the proposed changes, we recommend IMD continue to provide the Board updates related to the underlying Global Equity components and progress made in repositioning the portfolio over the next couple of years in advance of the October 2027 date, when the policy minimum range will revert back to the standard.

It is noteworthy that the Total Global Equity component's minimum range is not part of this proposal and will revert to 50%.

The IPS requires the Board to authorize this change. If the change is not authorized, IMD is required to use best efforts to bring the portfolio within range in the next 90 days.

2. Update IPS for other administrative changes

Various clean-up edits have also been made to the IPS to address non-substantive administrative changes. These changes relate to several outdated references and other minor edits. While not as impactful as changes that directly involve the investment of the portfolio, we believe these types of clean-ups are important in the ongoing evolution of the IPS.



Appendix: Aon's Key Elements of Investment Policy:

1. Introduction

- Reference to state or local law creating the plan
- Reference the board's right to have an investment committee and to set policy
- Intended beneficiaries of the plan (e.g., the plan is created for certain employees and their dependents and other beneficiaries of special trusts)
- Scope of policy (e.g., limited in application to pension fund assets or it may also include other assets)

2. Statement of Purpose

- The sole or fundamental purpose of the Retirement System (e.g., to provide retirement and other benefits to plan participants)
- Plan fiduciaries must act in the sole interest of plan participants and beneficiaries and for the exclusive purpose of providing benefits

3. Investment Goals or Objectives

- To preserve the actuarial soundness of the plan in order to meet benefit obligations
- To obtain a long-term rate of return (one or two market cycles), net of fees, equal to or in excess of the policy benchmark.
- The policy benchmark and asset allocation targets should be defined

4. Identification of Roles and Responsibilities

- Board of trustees – general and investment related duties
- Investment committee – role to make recommendations or final decisions
- Internal staff – general and investment related duties
- External investment consultants – duties, reporting lines, expectations regarding the frequency of communications and acknowledgement of fiduciary responsibilities
- Other external providers' duties, expectations and fiduciary responsibilities

5. Asset Allocation

- Describe the importance of asset allocation as the most important decision to be made in the investment management process
- Purpose is to provide an optimal mix of investments to produce desired returns and meet current and future liabilities, with minimal volatility
- Frequency and methodology of asset liability modeling and resetting allocation
- Describe permissible asset classes as well as minimum, maximum, and target ranges
- Diversification should be covered in regard to a single issuer, single asset class, economic sector, or country



6. Asset Class Guidelines and Benchmarks

- Benchmarks – who sets them and how often they are revisited, and their rationale
- Prohibited investments – short selling, margin, investments precluded by law or regulation

7. Rebalancing Policy

- Purpose of rebalancing – to ensure that the investment program adheres to its strategic asset allocation
- Describe how often the portfolio will be reviewed for rebalancing and whether a fixed threshold or proportional threshold will be used

8. Risk Management

- Acknowledgement and definition of risk to be managed in investment portfolio (active risk, credit risk, counterparty risk, market risk, operational risk, etc.)
- Risk Budget – articulation of risk guardrails for public traded asset classes and total fund relative to appropriate benchmarks
- Derivative usage permitted in risk management process, by internal or external parties

9. Monitoring and Reporting

- Purpose – to ensure compliance with the investment policy and applicable law, to manage risk, and assess the performance of managers
- Describe quarterly reporting for both external managers and other external investment professionals.
- Annual and more frequent reporting – define purpose and scope

10. Shareholder Activity

- Proxy positions -- describe the policy and how votes are cast and recorded
- Identify core principals of the Board (Board independence, Board management, shareholder rights) and communicate importance of fiduciary duty, integrity, and transparency
- Outline compensation for CEOs and other directors
- Structure of committees including audit, director nominating, board evaluation and governance, CEO Evaluation, and compliance and ethics
- Annual review of investment policy statement

11. Governance

- Identify core principals of the Board such as integrity and transparency
- If applicable, the emerging manager language could go here
- Discuss delegation and incorporate by reference the CIO position description
- Require an annual review of investment policy statement



INVESTMENT POLICY STATEMENT

(Adopted ~~September-June 2023~~, 2024~~5~~, to be effective ~~September-June 23~~, 2024~~2025~~)

TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN	6
1.1 Introduction	6
1.2 Purpose and Design	6
1.3 Roles of Board, Staff, Advisors, and Consultants	6
1.4 Total Fund Objectives	8
1.5 Total Fund Investment Standard.....	8
1.6 Total Fund Asset Mix and Benchmarks	8
1.7 Total Fund Measurement and Reporting Criteria	12 12
1.8 Total Fund Portfolio Implementation and Design; Restrictions	13
ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS	14
2.1 Public Markets Portfolios Objectives	14
2.2 Public Markets Portfolios Authorized Investments	14
2.3 Public Markets Portfolios Restrictions	15 15
2.4 External Public Markets Portfolios.....	15
2.5 Hedge Fund Defined.....	15
2.6 External Public Markets Portfolio Authorization	17
2.7 External Public Markets Portfolio Restrictions	18
2.8 External Public Markets Portfolio Conflicts of Interest	18
2.9 Risk Parity Portfolios.....	18
ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS	18
3.1 Private Markets Portfolios.....	18
3.2 Private Markets Portfolios Authorization	19 18
ARTICLE 4 – PRIVATE EQUITY PORTFOLIO	19
4.1 Private Equity Portfolio Objectives	19
4.2 Private Equity Portfolio Authorized Investments	19
4.3 Private Equity Portfolio Restrictions	20
ARTICLE 5 – REAL ESTATE PORTFOLIO	20
5.1 Real Estate Portfolio Objectives	20
5.2 Real Estate Portfolio Authorized Investments.....	20
5.3 Real Estate Portfolio Restrictions.....	20

ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO	20
6.1 Energy, Natural Resources and Infrastructure Portfolio.....	20
6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments.....	21
6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions.....	21
ARTICLE 7 – EMERGING MANAGERS PROGRAM.....	21
7.1 Emerging Manager Program.....	21
ARTICLE 8 – OVERLAY PORTFOLIOS	22
8.1 Overlay Portfolios Objectives.....	22
8.2 Overlay Portfolios Authorized Investments	22
8.3 Overlay Portfolios Restrictions.....	22
ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES	22
9.1 Derivatives Policy Scope.....	22
9.2 Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)	23
9.3 Derivatives Definition; Authorization	23
9.4 Derivatives Applications Permitted.....	24
9.5 Derivatives Applications Not Permitted	24
9.6 Derivatives Documentation and Controls.....	24
9.7 Derivatives Limitations	25
9.8 Derivatives Risk Management and Compliance.....	25
ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT	26
10.1 Market Risk Management	26
10.2 Foreign-Exchange Risk Management.....	26
10.3 Credit Risk Management	27
10.4 Liquidity Risk Management	27
10.5 Operations Risk Management.....	28
10.6 Settlement Risk Management.....	28
10.7 Legal Risk Management.....	28
10.8 Risk Management Compliance Cure Periods and Remedies.....	28
10.9 Permitted Sources of Leverage Financing.....	29
ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO	29
11.1 Health Insurance Program Portfolio Objective.....	29
11.2 Authorized Investments for the Health Insurance Program Portfolio.....	29
ARTICLE 12 – INVESTMENT INTEGRITY POLICY.....	29
12.1 Scope	29
12.2 Purpose	30
12.3 Philosophy	30
12.4 Required Disclosures and Questionnaire.....	30
12.5 Contractual Representations, Warranties, and Covenants	30
12.6 Prohibitions	31
12.7 Reporting.....	31
12.8 Definitions	31

APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)	33
APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS	34
APPENDIX C – CURRENCY HEDGE RATIOS.....	36
APPENDIX D – GENERAL AUTHORITY RESOLUTION	37
APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE.....	41
APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION.....	45
DEFINITIONS	47

EXECUTIVE SUMMARY

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

Introduction / Background

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

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

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

Objectives

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

Authority and Key Restrictions

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

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

Asset Allocation

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

Broad Asset Class Category	Target	Min	Max
Global Equity	57%	50%	64%
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	5%	0%	10%
Net Asset Allocation Leverage	-4%		
Total	100%		

[objectives](#).

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

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

Measurement and Reporting

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

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

Risk Management

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

See “Article 10 – Risk Management and Oversight.”

Tracking Error

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

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

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

TOTAL FUND AND PORTFOLIO DESIGN

1.1 Introduction

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

1.2 Purpose and Design

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

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

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

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

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

1.3 Roles of Board, Staff, Advisors, and Consultants

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

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

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

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

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

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

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

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

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

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

- d. All proposed changes to this Policy will be reviewed by Legal and Compliance for compliance with state and federal laws regarding fiduciary responsibility, investment prudence, regulatory compliance,

ethics compliance, and other applicable standards or requirements before submission to the [Policy Governance](#) Committee. Except as authorized by the Executive Director, proposed changes to this Policy will first be presented to the [Policy Governance](#) Committee, which will consider recommending the proposed changes to the Board. The Board may consider and adopt proposed changes that have not been considered by the [Policy Governance](#) Committee. This Policy shall be reviewed at least once every three years.

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

1.4 Total Fund Objectives

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

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

1.5 Total Fund Investment Standard

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

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

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

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

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

1.6 Total Fund Asset Mix and Benchmarks

The Investment Division will assist the Board in engaging in an asset-liability study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with

applicable benchmarks and across asset classes. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent portfolio exposures and a “long-term target” position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within the risk tolerances specified herein.

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

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

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

[Table appears on following page]

Asset Class	Benchmark	Reference Bloomberg Ticker	Minimum Range ^{1,2,3,9}	Maximum Range ^{1,2,10}	Target ^{2,9}
Global Equity:					
All Country	MSCI All Country World Investible Market ex China and Hong Kong ⁴	NU753853	3429%	44%	39%
USA	MSCI USA Investible Market ⁴	MIMUUSAG	-5%	5%	0%
Non-US Developed	MSCI EAFE and Canada Investible Market ex Hong Kong ⁴	NU757408	0%	10%	5%
Emerging Markets	MSCI EM Investible Market ex China ⁴	NU711294	-4%	6%	1%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁵		7%	19%	12%
Total Global Equity	Target-weighted Blend		50%	64%	57%
Stable Value:					
Government Bonds – Nominal	Bloomberg US Long Treasury Index	LUTLTRUU	0%	15%	10%
Government Bonds – Real	Bloomberg US Treasury TIPS Index	LBUTTRUU	0%	11%	6%
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	10%	0%
Stable Value Hedge Funds ⁸	SOFR + 2.5%	SOFRRATE (Plus 2.5%)	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return:					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity:					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	10%	5%
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage ^{7, 8}	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
Net Asset Allocation Leverage					-4%
TOTAL FUND	Target-weighted Blend				100%

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

² To calculate the Total Fund benchmark, the benchmark weight of each of Private Equity, Real Estate, and Energy, Natural Resources, and Infrastructure, will be set each quarter as the ending actual weight from the prior quarter. Any difference in the calculated Private Equity, Real Estate and Energy, Natural Resources, and Infrastructure benchmark weights from the target benchmark weights will be offset using other asset classes with 55% of such difference applied to All Country, 7% to Non- US Developed, 1% to Emerging Markets, 7% to Stable Value Hedge Funds, 7% to Risk Parity, 14% to Government Bonds – Nominal and 9% to Government Bonds - Real.

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

³ Allocation to USA and Emerging Markets may only be negative if offset by allocations within the All Country asset class.

⁴ Benchmarks will be adjusted for transitions authorized by Policy and for securities TRS is not authorized to own or buy because of this Policy or statutory provisions for which no fiduciary exemption has been exercised and have the Bloomberg Tickers of NU757432, GU722807, NU722808, and NU722809.

⁵ The Customized State Street Private Equity Index is composed of the quarterly reported SSPEI, one quarter lagged and adjusted for the most recent quarter-end currency spot prices. Quarterly returns are geometrically linked for longer return horizons. The benchmark is adjusted in each quarter to remove any index constituents which did not provide a valuation statement as of the time of publication. The benchmark will exclude funds with size of \$1 billion or less and will be adjusted to match the vintage year of the Private Equity Portfolio commingled fund commitments.

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

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

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

~~⁹ The transition period to the new strategic allocation will be October 1, 2024, through March 31, 2025, unless the CIO, upon notification to the Chairman of the Investment Management Committee, elects to terminate the transition period.~~

~~No later than two business days before the beginning of each month during the transition period, the CIO will notify the Chairman of the Investment Management Committee and Chief Compliance Officer of the designated target allocation during the following month for the following asset classes: All Country, USA, Non US Developed, Emerging Markets, Government Bonds—Nominal, Government Bonds—Real and Risk Parity. The maximum and minimum range for these asset classes will take effect at the end of the transition period. For Non US Developed and Emerging Markets, the CIO will designate the percentage of each asset class benchmarked to the prior benchmark and to the new benchmark.~~

~~The CIO will also provide notice to the Board of the end of the transition period.~~

~~10-9~~ The Maximum Range for the Private Equity Asset Class will change to 17% and the Minimum Range for the All Country Asset Class will change to 34% on October 1, 2027.

1.7 Total Fund Measurement and Reporting Criteria

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

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

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

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

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

1.8 Total Fund Portfolio Implementation and Design; Restrictions

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

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

- b. In no event shall the aggregate allocation to External Managers pursuant to IMAs exceed 30% ~~percent~~ (or a different percentage of not more than 50% ~~percent~~, if a greater percentage is specified in the Texas Government Code) of the Total Fund at the time of investment. For avoidance of doubt, this restriction does not apply to assets held by funds (including Hedge Funds) which limit the liability of TRS to the capital contributed and any distributions that TRS might be legally obligated to contribute or repay to the fund.
- c. Subject to Appendix F, the Investment Division is authorized to represent TRS on:
 - i. Advisory committees or boards and as board observers in investments in which TRS has an investment interest.
 - ii. After evaluation of the net benefit to TRS, employees in the Investment Division are authorized to represent TRS or to nominate or appoint third-party independent non-employees to represent TRS on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- d. Except as required by fiduciary duties created by the Texas Constitution or applicable law, each TRS investment portfolio, including separate account investments, will comply with prohibitions and restrictions on investments imposed on TRS by state law. For the avoidance of doubt, the Policy and its implementation are subject to all applicable state, federal, and international laws where and to the extent that such laws are in force. The Board authorizes and requires compliance with such laws. No further action by the Board will be required to implement compliance with an applicable law.
- e. The General Authority Resolution adopted by the Board designating those employees authorized to execute documents and attached as Appendix D is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix D as of the effective date of the superseding resolution.

PUBLIC MARKETS PORTFOLIOS

2.1 Public Markets Portfolios Objectives

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

2.2 Public Markets Portfolios Authorized Investments

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

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

- e. Private Investment Funds including Hedge Funds; and
- f. Cash and cash equivalents.

2.3 Public Markets Portfolios Restrictions

- a. Not more than 20% of the outstanding equity securities of a single class of any company may be purchased. Securities which are deemed to be beneficially held by TRS for purposes of Section 13 of the Securities Exchange Act of 1934 (including equity securities held in an IMA or a Private Fund in which TRS is deemed to be the beneficial owner for purposes of Section 13), shall be counted against the 20% limit.
- b. The Public Markets Portfolios shall conform to the tracking error targets prescribed in Appendix A.
- c. The Public Markets Portfolios that are managed directly by the Investment Division may hold short positions in securities listed in Section 2.2. The aggregate short positions exposure excluding derivatives of the portfolios may not exceed 25% of the market value of the internal equity portfolios without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the internal equity portfolios exceed 50% of the market value of the internal equity portfolios, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable securities are traded or listed.
- d. The market value of Restricted Securities purchased in Public Markets Portfolios pursuant to 2.2c will not exceed 2% of the market value of the Total Fund at time of investment.
- e. Not more than 15% of the Total Fund may be invested in Hedge Funds. Compliance with this limit is determined at the time TRS executes the investment documents for each Hedge Fund investment or additional investment.

2.4 External Public Markets Portfolios

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

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

2.5 Hedge Fund Defined

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

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

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

For the purposes of complying with Section 2.3(e), the Investment Division shall use the following criteria to analyze and determine whether a Private Investment Fund is “primarily engaged in strategic trading” and should be classified as a ~~H~~edge ~~F~~und:

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

In this Section 2.5:

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

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

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

At time of consideration, the IIC will approve the allocation of each Hedge Fund to an asset class by reference to factors such as investment strategy, underlying investments, correlation, beta, leverage, expected return and expected risk. Generally, Hedge Funds in the Global Equity broad asset class category will be allocated to the All Country asset class.

2.6 External Public Markets Portfolio Authorization

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

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

- b. **Short positions limit** – The EPM Portfolios may hold short positions in securities authorized under Section 2.2. The aggregate short positions exposure of the External Manager Portfolio may not exceed 25% of the market value of the External Manager Portfolio without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the External Manager Portfolio exceed 50% of the market value of the External Manager Portfolio, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable Securities are traded or listed.
- c. **Allocation Adjustment Authority** – Subject to the limits set forth in this Policy, the CIO, CRO, the heads of Public Markets, EPM₂, or Special Opportunities may add to previously approved funds or investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not, on a monthly basis, exceed 2% of the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio (as appropriate) per investment.
- d. **Termination and Withdrawal Authority** – The CIO, CRO, or the heads of Public Markets, EPM₂, or Special Opportunities may transfer, sell, withdraw, or terminate interests in the Hedge Fund Portfolio,

External Manager Portfolio, or Absolute Return Portfolio, provided that the action does not breach the terms and conditions of the applicable investment agreements.

2.7 External Public Markets Portfolio Restrictions

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

2.8 External Public Markets Portfolio Conflicts of Interest

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

2.9 Risk Parity Portfolios

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

PRIVATE MARKETS PORTFOLIOS

3.1 Private Markets Portfolios

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

Private markets opportunities that will be considered for investment include the following: investments in securities of any legally permissible investment vehicle, including title-holding entities that are wholly owned, organized, and controlled by the retirement system, Private Investment Funds, co-investments, secondary investments, externally managed separate accounts investing in securities, hybrid securities with characteristics of equity or debt, joint ventures, secondary market transactions, entity-level investing or other off-market investments, new and emerging managers, and opportunistic investments (e.g., investments in the management entity of a private investment firm or sponsor, public-to-private transactions, and the acquisition of business development company or investment trust assets).

3.2 Private Markets Portfolios Authorization

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

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

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

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

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

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

PRIVATE EQUITY PORTFOLIO

4.1 Private Equity Portfolio Objectives

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

- a. The primary long-term objective is to develop a prudently diversified portfolio of investments that is expected to enhance the overall risk-return profile of the Total Fund.
- b. Provide competitive returns through capital appreciation.

The following attributes will be considered in constructing a diversified PE Portfolio: strategy, geography, industry sectors, investment size, and vintage year.

4.2 Private Equity Portfolio Authorized Investments

Private equity funds build portfolios of private investments in the equity or debt of operating companies. Private equity funds may acquire investments in debt obligations, public or private common and preferred stocks,

convertible securities, and any warrants, rights, or options attached to any of the foregoing that relate to equity ownership in an issuer. Privately-acquired securities usually have transfer restrictions and are not as liquid as publicly-traded securities. Private equity funds are often classified by strategy, including: buyouts, credit, special situations, and venture capital/growth equity.

4.3 Private Equity Portfolio Restrictions

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

REAL ESTATE PORTFOLIO

5.1 Real Estate Portfolio Objectives

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

- a. As the primary focus, contribute favorably to diversification of the Total Fund through exposure to real estate's low or negative correlation to the Public Markets Portfolios.
- b. Provide competitive returns through capital appreciation.

The following attributes will be considered in constructing a diversified RE Portfolio: strategy, geography, property types, size of investment, vintage year, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

5.2 Real Estate Portfolio Authorized Investments

The RE Portfolio will focus on private or public real estate equity securities investments, including title-holding entities that are wholly owned, organized, and controlled by the retirement system, private or public real estate debt, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, private or public real estate investment trusts ("REITs"), private or public master limited partnerships ("MLPs"), and other opportunistic investments in real estate.

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

5.3 Real Estate Portfolio Restrictions

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

ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO

6.1 Energy, Natural Resources and Infrastructure Portfolio

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

- a. Contribute favorably to diversification of the Total Fund by increasing exposure to assets with a higher degree of inflation sensitivity.
- b. Provide competitive returns through capital appreciation.

The following attributes will be considered in constructing a diversified ENRI Portfolio: general inflation sensitivity, expected return, strategy, geography, resource exposure, size of investment, vintage year, where

investment is in the resources value chain (upstream, midstream, or downstream) or infrastructure type, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments

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

6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions

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

EMERGING MANAGERS PROGRAM

7.1 Emerging Manager Program

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

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

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

The Investment Division shall document its efforts to identify and expand its investments with qualified emerging managers for the purpose of Board and legislative reporting on the methods and results, including data disaggregated by race, ethnicity, gender, and fund size. All investments under the Emerging Managers Program must be made prudently and in accordance with fiduciary and ethical standards.

OVERLAY PORTFOLIOS

8.1 Overlay Portfolios Objectives

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

8.2 Overlay Portfolios Authorized Investments

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

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

8.3 Overlay Portfolios Restrictions

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

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

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

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

AUTHORIZED USES OF DERIVATIVES

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

9.1 Derivatives Policy Scope

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

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

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

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

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

9.3 Derivatives Definition; Authorization

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). For the purposes of this Policy, derivatives include, without limitation, futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling, or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios. Derivatives, for purposes of this policy, do not include currency forwards with a tenor of 30 days or less if such forwards do not require upfront amounts to be paid or received.

Derivatives may be exchange traded or OTC. Exchange traded derivatives are listed and traded on a national exchange. Fulfillment of the contract is generally guaranteed by the exchange on which the instruments are

traded. OTC derivatives are negotiated transactions between a buyer and a counterparty, which may result in non-standard terms.

OTC derivatives between internal portfolios are authorized and subject to all procedures, controls, and reporting required by this Policy unless denoted otherwise. Internal OTC trades shall be made prudently and in accordance with fiduciary and ethical standards and may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

9.4 Derivatives Applications Permitted

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

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

9.5 Derivatives Applications Not Permitted

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

9.6 Derivatives Documentation and Controls

Prior to the implementation of a new internal derivative instrument type or application, the Investment Division shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including, at a minimum, market, modeling, pricing, liquidity, and legal risks), the expected increase or reduction in systematic and idiosyncratic risk resulting from the application, the amount of leverage employed under the strategy, the prudent reasons for employing leverage, and the procedures in place to monitor and manage the derivative exposure. The documentation will be approved by the CIO and reported to the IIC and the Board (or appropriate Board committee, as applicable) at their next regularly-scheduled quarterly meetings. The

Investment Division shall adopt fully documented control procedures to properly account for and value the Total Fund's exposure to each derivatives application, whether internal or external under an IMA. The Investment Division shall establish an appropriate risk management procedure to monitor compliance both internally and by External Managers and will take corrective action if necessary. The Investment Division shall have due regard for operational risks associated with various derivatives strategies, including risk management, accounting systems, liquidity needs, adequate staffing, and staff qualifications.

9.7 Derivatives Limitations

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

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

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

9.8 Derivatives Risk Management and Compliance

To ensure compliance with this Article 9, all internally and externally managed derivatives (other than derivatives held in Hedge Funds) must be marked to market on a daily basis by the Fund's external custodian(s), and such daily reports will be reviewed for accuracy by the TRS Risk Management staff and Investment Operations personnel.

Compliance with the requirements of this Policy will be monitored by the Chief Compliance Officer using information systems and data from internal and external sources. Any violations of this Article 9 will be reported immediately to the Executive Director and to the CIO, who will determine, if considered material as determined by Chief Compliance Officer, Chief Investment Officer, and Executive Director, the appropriate remedy and report promptly to the Board (and the appropriate Board committee, as applicable).

RISK MANAGEMENT AND OVERSIGHT

10.1 Market Risk Management

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

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

10.2 Foreign-Exchange Risk Management

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

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

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

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

10.3 Credit Risk Management

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

10.4 Liquidity Risk Management

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

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

- iii. TRS manages unfunded capital commitments that the Fund is legally obligated to fund when called by general partners.

External Funding Authority

The Investment Division is authorized to establish external funding mechanisms (such as master repurchase agreements with one or more counterparties) and the flexibility to operate in all types of market liquidity environments to allow prudent management of these funding requirements while achieving a long-term rate of return and adhering to the asset allocation limits outlined in this Policy. In addition to these external funding mechanisms, TRS will maintain adequate funds in its custodial account to cover investment-related obligations. Finally, the Board authorizes the Investment Division to access the cash holdings backing OTC swaps to manage its commitments.

10.5 Operations Risk Management

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

10.6 Settlement Risk Management

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

10.7 Legal Risk Management

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

10.8 Risk Management Compliance Cure Periods and Remedies

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

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

10.9 Permitted Sources of Leverage Financing

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

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

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

HEALTH INSURANCE PROGRAM PORTFOLIO

11.1 Health Insurance Program Portfolio Objective

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

11.2 Authorized Investments for the Health Insurance Program Portfolio

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

INVESTMENT INTEGRITY POLICY

12.1 Scope

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

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

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

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

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

12.2 Purpose

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

12.3 Philosophy

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

12.4 Required Disclosures and Questionnaire

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

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

12.5 Contractual Representations, Warranties, and Covenants

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

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

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

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

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

12.6 Prohibitions

Neither TRS nor any TRS investment shall be burdened with or liable for any Placement Fee. No TRS investment may be made if the transaction involves either (a) a Placement Agent who is not registered with either of the Securities and Exchange Commission or the Financial Industry Regulatory Authority ("FINRA"), or (b) the sharing of a Placement Fee with a non-registered person or entity. No TRS investment may be made if an authorized officer or the board, in consultation with legal counsel, determines that a disclosed contact with a Board member or Texas Candidate or Elected Official, or a contribution to a Texas Candidate or Elected Official, has created an unacceptable risk to the integrity and reputation of the TRS investment program or has been made in violation of a TRS policy or applicable law. A contact-based referral, without more, by a TRS trustee of either an investment opportunity or a Manager or Fund Party contact to the Executive Director, or Chief Investment Officer does not constitute such a risk or a violation of the IIP.

12.7 Reporting

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

12.8 Definitions

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

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

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

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

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

Placement Agent – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee in connection with a TRS investment. Any other person or entity who

claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent's Placement Fee is also deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, agent, owner, officer, shareholder, director, managing member, or employee of the first Placement Agent. For the avoidance of doubt, a finder, broker-dealer, originator, fundraiser, financing arranger, or investment bank receiving a Placement Fee is a Placement Agent. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under this policy.

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

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

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

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

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

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

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

	Neutral	Maximum
Government Bonds- Nominal		300
Government Bonds – Real		300
Total Public Fund Tracking Error	100	300

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

APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS

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

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

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

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

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

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

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

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

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

APPENDIX C – CURRENCY HEDGE RATIOS

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

APPENDIX D – GENERAL AUTHORITY RESOLUTION

Board of Trustees

Revised General Authority Resolutions

Adopted September 15, 2023

Investment Group

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

Chief Investment Officer	Managing Director
Senior Managing Director	Director
Senior Director	

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

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

A. General Authority for Investment Matters other than Derivatives

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

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

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

B. Investment Contracting Authority other than Derivatives

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

- B.1.** Make, execute, deliver, waive, modify, amend, renew, extend, assign, terminate, or transfer, in each case in writing, investment- related documents, including without limitation, written contracts, investment management agreements, subscription agreements, capital commitments, account agreements, consents, certificates, powers of attorney, notes, deeds, security agreements, pledges, mortgages, endorsements, directions, and instructions to amend, modify, fix, and execute written investment guidelines in investment management agreements with External Managers and fund managers, and any and all documents necessary or proper to effectuate the authority granted in this Section B.1.
- B.2.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute investment fund redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash or securities to a TRS account by a third-party fund, External Manager, account, debtor, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements, side letter agreements, or other investment-related documents executed by TRS in connection with a new investment, and any amendments or modifications to such documents and agreements other than redemption and withdrawal notices and corresponding instructions for the transfer or delivery by wire or physical transfer of cash or securities.

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

C. Derivatives Authority

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

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

Financial Group

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

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

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Investment Group** or the **Executive Group**, to execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral,

margin, or securities to a TRS account by a third-party fund, account, debtor, or derivatives counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements and any amendments to subscription agreements or side letter agreements.

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

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

Executive Group

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

Trading Group

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

Fixed Income, Currency, and Commodities Trading Group

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

Investment Operations Group

Resolved further, That the “**Investment Operations Group**” comprises the employees holding the following TRS working titles: Managing Director, Senior Director, and Director.

Resolved further, That each member of the **Investment Operations Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Financial Group**, to authorize transfer of funds to pay fees under an investment contract for (i) research, data, and software for all investment areas, (ii) cloud computing services for all investment areas, (iii) investment consulting, tax, advisory, valuation, and benchmark services, and (iv) investment custodian services (e.g., custody fees, uncleared margin rule (UMR) fees, and securities lending fees).

Resolved further, That each member of the **Investment Operations Group** is authorized and empowered on behalf of TRS to make, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, disclosures, questionnaires, elections, certifications, or other administrative documents and deliverables related to transactions in currencies, securities, and derivatives.

Resolved further, That each member of the **Investment Operations Group** is authorized and empowered on behalf of TRS to approve operational instructions for the settlement of offsetting positions in repurchase agreements (i.e., repo “pair-offs”), provided that such operational instructions are limited to the movement of cash or collateral to settle the portfolio manager instruction to purchase or sell.

Compliance Group

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

APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

Investment Name:

Name of Responding Entity:

Responding Entity Type:

- ☐ Fund or Manager Party
☐ Placement Agent

Completed by:

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

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

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

1. Contacts with Texas Candidates and Elected Officials; Political Contributions.

- A. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Candidate or Elected Official in connection with a prospective investment transaction with a Texas state investment entity, including TRS? If the answer is “yes,” please attach a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including TRS. For purposes of this question, “person” includes (i) any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection with a prospective TRS investment, and (ii) any “covered associate” as defined under Rule 206(4)-5 of the Investment Advisers Act of 1940.

YES, see attachment

NO

- B. Has any person (as defined above) made political contributions during the past three years to any candidate for, or incumbent holding, any of the following elective offices in Texas: governor, lieutenant governor, attorney general or comptroller of public accounts?

YES, please describe

NO

- C. Is any person (as defined above) a registered lobbyist in the State of Texas?

YES, please describe

NO

- 2. Contacts with TRS Board Members.** Has any person lobbied or otherwise communicated on behalf of one or more of the Fund or Manager Party, or, if applicable, the Placement Agent with a current or former member of the TRS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the TRS investment staff or a TRS advisor or consultant to

recommend that TRS invest? If the answer is “yes,” please attach a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

YES, see attachment

NO

3. Placement Agents and Placement Fees. Is or was the Fund or Manager Party, or if applicable, the Placement Agent, a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent (or any other Placement Agent) with respect to the investment named at the top of this questionnaire? For the avoidance of doubt, a broker-dealer (among other entities) affiliated with a Fund or Manager Party is a Placement Agent as defined by Article 12 of the Investment Policy Statement. If any questions remain, reach out to your contact at TRS.

YES

NO

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

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

YES, please describe

NO

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

5. If the answer to 4 is “YES”:

- A. Please attach list of the name(s) of the person or entity acting as a Placement Agent with a copy of the written agreement or a summary of the agreement creating the obligation to pay a Placement Fee in connection with TRS’s investment. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.
- B. Will or did any TRS Person or any Relative of a TRS Person receive, has any such person received, or might any such person receive a “Placement Fee” in connection with TRS’s investment? If the answer is “yes,” please list the name or names of the TRS Person or Relative of a TRS Person and provide details about the terms of the Placement Fee.

YES, see attachment

NO

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

YES, see attachment

NO

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

YES, see attachment

NO

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

YES, see attachment

NO

- F. Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former TRS Person, either (1) recommend the Placement Agent or (2) receive a share of a Placement fee or any other economic benefit in connection with TRS's investment, whether directly or indirectly through a Placement Agent engaged by you? If the answer to this question 5.F is "yes," please attach the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment, stating whether the person or entity is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association (or a similar agency outside the United States).

YES, see attachment

NO

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

YES

NO

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

Name of Fund or Manager Party or Placement Agent:

By:

Name:

Title:

Date:

Attachment: Exhibit A, TRS Persons

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

A. External Advisory Committees or Boards and Board Observers. A TRS investment-related agreement may provide that an Investment Division employee may represent TRS by serving:

1. On an advisory committee, advisory board, or similar advisory body to a TRS investment vehicle, whether the position is voting or non-voting; or
2. As a non-voting TRS observer at meetings of the governing body of an investment vehicle, including a business entity, in which TRS has an interest.

B. Board Representation by a TRS Employee. A TRS investment-related agreement may provide for TRS representation on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.

1. Requirements:

- a. The TRS employee representative may not serve in a position that under applicable law has general liability to third parties, such as a general partnership position.
- b. The TRS employee representative must comply with internal policies and procedures relating to board representation, including recusal, notice and training requirements.
- c. An agreement for TRS representation on an external governing body must be in writing and, to the extent possible, address limitations on capacity and fiduciary duties, liability insurance, indemnification, recusal requirements, travel payments or reimbursements, and perquisites provided to persons on the governing body in the entity's ordinary course of business.
- d. Duties that an employee owes to TRS must be primary. TRS employees representing TRS must comply with recusal determinations made by the Executive Director in consultation with the Chief Compliance Officer and the General Counsel.
- e. The external entity's insurance and indemnification will be primary relative to any available TRS liability and indemnification coverage.
- f. If compensation or reimbursement of expenses will be paid, the agreement must require payment of any compensation or reimbursement directly to TRS.

2. Qualification: A TRS employee representative must hold one of the following TRS titles to be eligible to serve: ~~Senior Investment Manager~~, Director, ~~Senior Director~~, Managing Director, Senior Managing Director, or CIO.

3. Authorization:

- a. For a non-public (private) entity the CIO in consultation with Legal and Compliance, must authorize an employee to serve.
- b. For an entity that has issued publicly-traded securities, the CIO and the Executive Director, in consultation with Legal and Compliance, must authorize an employee to serve.
- c. The CIO may not serve on an external governing body without prior authorization from the Executive Director.

C. Board Representation by a Non-Employee Independent Third Party. A TRS investment-related agreement may grant TRS a contractual right or option to appoint, nominate, remove, or replace a non-employee independent third party to serve on the governing body of a business entity in which TRS has or will have an investment interest.

1. Requirements:

- a. A third-party may not be TRS's agent and shall have full discretion when voting as a member of the governing body.

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

DEFINITIONS

In this Policy,

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

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

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

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

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

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

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

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

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

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

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

TEACHER RETIREMENT SYSTEM OF TEXAS

BOARD RESOLUTION

June 3, 2025

RESOLUTION FOR THE MODIFICATION OF THE MINIMUM ALLOCATION OF THE ALL COUNTRY ASSET CLASS IN THE INVESTMENT POLICY STATEMENT

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

Whereas, The Investment Policy Statement (“IPS”) Article 1.3 provides the Board establishes investment objections and policy;

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

Whereas, The CIO found it prudent to decrease the minimum range for the All Country and Global Equity asset classes to 29% and 45%, respectively, due to the allocation approaching the existing limits driven by the decline in the equity markets and delivered the required notice to the Executive Director, Board of Trustees and Chief Compliance Officer on April 4, 2025;

Whereas, The IPS Article 1.6 footnote 1 requires the CIO to seek Board authorization at the next succeeding Board meeting to maintain these changes and the CIO recommends the modification of the IPS by changing the minimum range for All Country asset class from 34% to 29% until October 1, 2027;

Now, therefore be it

Resolved, That the Board finds the temporary change in the minimum range of All Country asset classes is prudent and in the best interest of TRS;

Resolved, The Board approves the modification of Article 1.6 and related footnote of the IPS as recommended by staff;

and

Resolved, That the Board hereby further directs staff to amend Article 1.6 and related footnote of the IPS and make other administrative changes such as formatting, updates to page numbers, the Table of Contents, removal of outdated footnotes, committee names and titles as required.