

September 2025

GUIDING PRINCIPLES

Governance Committee Meeting

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

*All or part of the September 18, 2025, meeting of the TRS Governance Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **4655 Mueller Blvd, 2nd Floor, Boardroom.***

The open portions of the September 18, 2025, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting are provided at www.trs.texas.gov. A recording of the meeting will be available at www.trs.texas.gov.

**AGENDA
September 18, 2025 – 11:00 a.m.**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the July 2025 committee meeting – Committee Chair.
3. Discuss and review the Executive Director’s proposed Areas of Focus for Fiscal Year 2026 – Brian Guthrie and Michelle Pagán.
4. Consider recommending to the Board continuation and adoption of the following performance pay plans for the 2025 – 2026 performance period:
 - A. Executive Director’s Performance Pay Plan – Shunne Powell and Josh Wilson, Mercer Consulting,
 - B. Investment Management Division and TRICOT’s Performance Pay Plan – Shunne Powell, Katy Hoffman and Josh Wilson, Mercer Consulting.
5. Consider recommending to the Board adoption of the proposed amendments to the Investment Policy Statement – Katy Hoffman.
6. Consider recommending to the Board proposed amendments to the General Authority Resolution – Heather Traeger and Elena Barreiro.
7. Consider amendments to the Policy Review Schedule – Katherine Farrell.

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

8. Consider authorizing for publication in the Texas Register notice of the proposed amendments to the following TRS Rules in Chapters 25, 31, and 41 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and Nick Gonzalez:
 - A. Rule 25.21 – Compensation Subject to Credit and Deposit
 - B. Rule 31.3 – Return-to-work Employer Pension Surcharge
 - C. Rule 41.4 – Employer Health Benefit Surcharge

TAB 2

Minutes of the Governance Committee July 17, 2025

The Governance Committee of the Board of Trustees of the Teacher Retirement System of Texas met on July 17, 2025, in the boardroom located on the Second Floor of TRS' offices located at 4655 Mueller Blvd, Austin, Texas, 78723.

Committee members present:

Mr. John Elliott, Chair
Ms. Brittny Allred
Ms. Laronda Graf
Mr. Robert H. Walls, Jr.

Other TRS Board Members present:

Mr. Michael Ball
Mr. John Rutherford
Mr. Elvis Williams

Others who participated:

Brian Guthrie, TRS
Caasi Lamb, TRS
Jase Auby, TRS
Heather Traeger, TRS
Amanda Jenami, TRS
Katy Hoffman, TRS
Barbie Pearson, TRS
Katrina Daniel, TRS
Roberto Cortes Moreno, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Josh Wilson, Mercer (Appeared virtually)

Governance Committee Chair, Mr. John Elliott, called the meeting to order at 6:10 p.m.

1. Call roll of Committee members.

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

2. Consider the approval of the proposed minutes of the April 2025 committee meeting – Chair.

On a motion by Ms. Graf, seconded by Ms. Allred, the committee unanimously voted to approve the proposed minutes for the April 2025 Governance Committee meeting as presented.

3. Discuss and review of Proposed Modifications to IMD and TRICOT's Performance Pay Plan (PPP) for the 2025 – 2026 Performance Period – Katy Hoffman.

Ms. Katy Hoffman previewed the proposed changes to the Investment Management Division (IMD) and TRICOT's performance pay plans. She noted the final proposal will be brought before the Governance Committee in September with memos from board advisors. She reported there were four proposed changes to the plans, the first is to consolidate some of the public markets' groups. The second proposal, she said, is to add a peer set for public markets. The third proposal removes a column from Addendum B, the calculations for performance relative to peers, due to an outside firm phasing out its benchmark. She reported the final proposal is regarding a conflict in how to handle an award when there is a separation caused by a death, disability or reduction in force, and the Trust is negative for the year. She said in working with legal and tax counsel, the proposal is that if the Trust is down the award is deferred for those individuals and will be forfeited after three negative years.

Josh Wilson with Mercer stated the proposed changes were for the right reasons and had no concerns. He said there was no noticeable effect to compensation one way or another.

4. Discuss and review the Executive Director's Areas of Focus for Fiscal Year 2025 and proposed for Fiscal Year 2026 – Brian Guthrie and Michelle Pagán.

Ms. Pagán provided background on the areas of focus and how they represent what the executive director will focus his attention on over the fiscal year. She said the areas of focus align to the key accountabilities for his performance. She reviewed the status of the fiscal year 2025 areas of focus.

Mr. Brian Guthrie said as for the fiscal year 2026, a lot of major projects are coming to an end, most significantly the implementation of the final phase of TEAM. He mentioned the pension study TRS is tasked to do by the legislature and the implementation of the investment modernization program as big items for the coming fiscal year. He concluded by stating this item will be brought back in September for adoption.

5. Consider recommending to the Board adoption of the proposed amendments to TRS Rule 25.131 in Subchapter J of Chapter 25 of Title 34, Part 3 of the Texas Administrative Code, related to Required Service – Heather Traeger and Nicholas Gonzalez.

Mr. Nick Gonzalez reviewed the proposed amendment to TRS Rule 25.131. He reported that the rule was published in the Texas Register on May 16 and no comments were received.

On a motion by Mr. Walls, seconded by Ms. Graf, the committee voted to recommend to the Board the adoption of the proposed amendments to TRS Rule 25. 131, as presented by staff.

6. Consider recommending to the Board adoption of the amendments to TRS Rule 41.12 in Chapter 41 of Title 34, Part 3 of the Texas Administrative Code, related to Eligibility for the Alternative Plan for Medicare-Eligible Participants – Heather Traeger and Roberto Cortez-Moreno:

Mr. Roberto Cortes provided an overview of the proposed amendment, noting the rule is to close new entrants from the alternative plan offered under TRS-Care effective on January 1, 2026. He reported those who enrolled prior to January 1, 2026 will be grandfathered and will be able to remain in the alternative plan. He also noted the proposed rule, when published, was mistakenly titled “Eligible Participants” instead of “Medicare-Eligible Participants.” He said no comments were received. Therefore, he recommended fixing this error in the submission of the adopted rule without reposting because it was not substantive change.

On a motion by Ms. Allred, seconded by Mr. Walls, the committee voted to recommend to the Board the adoption of the proposed amendments to TRS Rule 41.12, with the correction of the title, as presented by staff with Ms. Graf opposing.

- 7. Consider authorizing for publication in the Texas Register notice of proposed amendments to the following TRS Rules in Chapter 27 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and Nick Gonzalez:**
- a. 27.6 Reinstatement of an Account;**
 - b. 29.9 Survivor Benefits; and**
 - c. 29.56 Minimum Distribution Requirements.**

Mr. Nick Gonzalez provided background on the proposed rule amendments noting these three rules were identified for amendment in the 2022 four-year rule review project. He said the amendments were relatively straightforward, considered clean-ups by updating rules to comply with federal law or provide clarifying language.

On a motion by Mr. Walls, seconded by Ms. Allred, the committee unanimously voted to authorize publication in the Texas Register notice of proposed amendments to rules in Chapter 27, as presented by staff.

With no further business before the Committee, the meeting adjourned at 6:43 p.m.

Approved by the Governance Committee of the Board of Trustees of the Teacher Retirement System of Texas on September _____, 2025.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3



Governance

Proposed Executive Director's Areas of Focus FY 2026

Sept. 18, 2025

Brian Guthrie | Executive Director

Michelle Pagán | Director of Enterprise Risk, Strategy & Performance





Agenda



- Background
- Highlights
- Proposed FY 26 Areas of Focus
- Appendix

Background

Areas of Focus
align with TRS'
Key Accountabilities



Member Focused

AREAS OF FOCUS | FY 25

- Improve the customer service experience for participants and reporting employers. **(G2.01)**
- Increase the value of TRS-Care and TRS-ActiveCare benefits. **(G3.02)**

(G3.02)

if an AOF aligns with the Strategic Plan, you'll find a reference at the end, like this!

Areas of Focus
also align with TRS'
Strategic Plan

Highlights – Proposed FY 26 Areas of Focus



AREAS OF FOCUS

- 7 Strategic Plan Objectives
- 1 Communication-related
- 1 Legislative-related



SUCCESS MEASURES

- 37 Deliverables (qualitative) *(increased by 1)*
- 15 KPIs (quantitative) *(reduced by 1)*

Proposed FY 26 Areas of Focus – Changes from FY 25



**MEMBER
Focused**

Area of Focus (FY 26)	Deliverable/KPI	Change
Improve the customer service experience for participants and reporting employers. (G2.O1)	Complete leasing decisions, space build-out and hiring and training activities of initial staff in anticipation of for Rio Grande Valley regional office opening (fall 2026) by end of FY26 .	New
Increase the value of TRS-Care and TRS-ActiveCare benefits. (G3.O2)	Monitor, evaluate and expand innovative and effective savings initiatives such as member rewards.	Revised
	Lower premiums in 2025 for Medicare-eligible retirees while maintaining stability of TRS-Care fund.	Complete
	Award competitive procurements for enrollment vendor and medical plan administrators.	New
	Improve communication materials for TRS-ActiveCare and TRS-Care participants.	New

Proposed FY 26 Areas of Focus – Changes from FY 25



LEADERSHIP Effectiveness

Area of Focus (FY 26)	Deliverable/KPI	Change
Enhance stakeholder communication.	Increase senior leadership attendance at health fairs, association meetings and other member-related external events.	New
	Increase engagement with outreach plan communications products – Target: 20%	Revised
	Improve usability score of the TRS website related to task completion rates post redesign – Target: Speed completion rates by 30% or more	Deleted
	Improve overall usability of the TRS website post redesign. Target: System Usability Scale (SUS) score of 70 or above	Deleted

Proposed FY 26 Areas of Focus – Changes from FY 25



LEADERSHIP Effectiveness

Area of Focus (FY 26)	Deliverable/KPI	Change
Achieve the trust's actuarial assumed rate of return as measured on rolling 20-year periods. (G1.O1)	Oversee State Street's commitment to deliver technology and service enhancements as outlined in the Custody Agreement (August 2026).	New
	Successful onboarding of new investment advisor for the board of trustees (December 2026) .	New
	Completion of Proxy Policy review and Proxy Advisor Request for Proposal (RFP) (March 2027).	New
	Competitively procure board investment consultant services.	New
	Continue to hire and expand the Emerging Manager Program.	Complete
	Conduct strategic asset allocation study and report results to the board of trustees (October 2024).	Complete

Proposed FY 26 Areas of Focus – Changes from FY 25



TALENT Effectiveness

Area of Focus (FY 26)	Deliverable/KPI	Change
Attract, develop and retain top talent. (G4.O1)	Continue to evolve as an employer of choice to attract and retain best talent.	Revised
Revised	Improve diversity representation, as defined by Texas state law, at all levels of the organization, with primary focus on job qualifications and experience.	Deleted
	Maintain workforce planning strategies to align talent needs with organizational goals, enhance learning and development opportunities and expand succession planning initiatives to develop and retain future leaders. (G4.O1.S2)	Revised
	Execute on Return to Office plan and monitor implementation.	New
	Employees onsite vs. remote – Target: 85% on business days	New

Proposed FY 26 Areas of Focus – Changes from FY 25



OPERATIONAL Effectiveness

Area of Focus (FY 26)	Deliverable/KPI	Change
Enhance the information security program to effectively counter current and emerging threats and risks facing TRS. (G4.O3)	Procure and implement a long-term information security fraud prevention solution that aligns with organizational risk appetite and strategic objectives. Partner with Legal & Compliance and key business stakeholders to implement embed a fraud risk management into governance frameworks.	New
Execute on TRS facilities needs. (G4.O4)	Complete build-out and move-in activities for the new TRS headquarters buildings (Alpha and Bravo). (G4.O4.S1)	Complete
Implementation of legislation and statutorily required actuarial reviews.	Conduct pension benefit design studies and submit reports (September 2026).	New
	Successful completion of the Experience Study.	New

Proposed FY 26 Areas of Focus – Changes from FY 25



CONTINUOUS Improvement

Area of Focus (FY 26)	Deliverable/KPI	Change
Advance and enhance information technology (IT) systems and services. (G4.O2)	Initiation of final phase of the TEAM Program: Mainframe decommissioning.	New
	Automate the Retirement Application submitted through MyTRS (Maintenance & Enhancements).	New
	Begin optimization of TEAM Phase One code to enhance stability and performance (Technical Debt).	New
	Deliver first release of Web Self-Service for Health, improving accessibility and user engagement.	New
	Deliver dental and vision and limited time enrollment opportunity capabilities for Health.	Complete
Evaluate automation and technology solutions to enhance existing processes. (G4.O7)	Continue implementation of Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight. (G4.O7.S3)	Revised




Appendix: FY 2026 Proposed Areas of Focus



FY 2026 Proposed Areas of Focus



 Member Focused	
Areas of Focus	Success Measures
Improve the customer service experience for participants and reporting employers. (G2.O1)	Deliverables <ul style="list-style-type: none">• Expand member self-service options within the automated phone system and MyTRS.• Increase engagement with members/participants and reporting employers regarding TRS benefits. (G2.O1.S1)• <u>Expand our services to meet members where they are. (G2.O1.S2)</u>• <u>Complete leasing decisions, space build-out, and all hiring and training activities of initial staff in anticipation of for Rio Grande Valley regional office opening (fall 2026) by end of CY26.</u>
	KPIs <ul style="list-style-type: none">• Pension Benefit <u>Services</u> calls answered within 3 minutes – Target: 90%• Health Division calls answered within 3 minutes – Target: 90%• Retirees receiving first annuity payment on time – Target: 98%• Death claims payments issued within 31 days of receipt of all required paperwork – Target: 95%• Number of counseling appointments available in Austin – Target: 20,000• Number of counseling appointments available in El Paso – Target: 7,500• Attain a reported response time within 48 hours or sooner based on Reporting Employer Satisfaction Survey – Target: 90%
Increase the value of TRS-Care and TRS-ActiveCare benefits. (G3.O2)	Deliverables <ul style="list-style-type: none">• Reengineer TRS-ActiveCare to better meet employer needs. (G3.O2.S2)• <u>Monitor, and evaluate and expand innovative and effective savings initiatives such as member rewards, programs to reduce participants' out-of-pocket costs for specialty drugs.</u>• Lower premiums in 2025 for Medicare-eligible retirees while maintaining stability of the TRS-Care fund. (Complete; Delete)• <u>Award competitive procurements for enrollment vendor and medical plan administrators.</u>• <u>Implement new TRS-Care dental and vision plans for plan year 2025.</u>• <u>Improve communication materials for TRS-ActiveCare and TRS-Care participants.</u>
	KPIs <ul style="list-style-type: none">• Increase the percentage of TRS-ActiveCare enrollees in the primary care driven plans from prior year – Target: 3%• Member engagement metrics as measured by percentage of members who open <i>The Pulse</i> email – Target: 25%• Member engagement metrics as measured by percentage of members who open <i>The Pulse</i> email and then click to read articles – Target: 3%



FY 2026 Proposed Areas of Focus



Leadership Effectiveness

Areas of Focus	Success Measures
Enhance stakeholder communication.	Deliverables
	<ul style="list-style-type: none">• Serve as a trusted resource and engage with policymakers on pension funding and plan design. (G1.02.S1)• Serve as a trusted resource and engage with policymakers on health care funding and plan design. (G3.01.S1)• <u>Implement and monitor the Member and Employer Outreach Plan to better help members and employers fully know and utilize benefits, engage with TRS, plan for retirement, and remain informed postretirement. (G4.07. S2)</u>• <u>Increase senior leadership attendance at health fairs, association meetings and other member-related external events.</u>
	KPI
Achieve the trust's actuarial assumed rate of return as measured on rolling 20-year periods. (G1.01)	<ul style="list-style-type: none">• Increase engagement with number of visits/views of outreach plan communications products (e.g., videos, web pages) – Target: 20%• Improve usability score of the TRS website related to task completion rates post redesign – Target: Speed completion rates by 30% or more• Improve overall usability of the TRS website post redesign – Target: System Usability Scale (SUS) score of 70 or above
	Deliverables
	<ul style="list-style-type: none">• <u>Oversee State Street's commitment to deliver technology and service enhancements as outlined in the Custody Agreement (August 2026).</u>• <u>Successful onboarding of new investment advisor for the board of trustees (December 2026).</u>• <u>Completion of Proxy Policy review and Proxy Advisor Request for Proposal (RFP) (March 2027).</u>• <u>Competitively procure board investment consultant services.</u>• Continue to hire and expand the Emerging Manager Program. (Complete; Delete)• <u>Conduct strategic asset allocation study and report results to the board of trustees (October 2024). (Complete; Delete)</u>
	KPIs
	<ul style="list-style-type: none">• Trust rate of return measured on a rolling 20-year period – Target: 7.00%• Return in excess of the benchmark return for the total trust (3-year rolling) – Target: +100bp



FY 2026 Proposed Areas of Focus



Talent Effectiveness

Areas of Focus	Success Measures
Attract, retain and develop <u>and retain top talent</u> a diverse and highly competent staff. (G4.O1)	Deliverables
	<ul style="list-style-type: none">Continue to evolve as an employer of choice to attract and retain best talent, including exploring TRS becoming a multistate employer.Improve diversity representation, as defined by Texas state law, at all levels of the organization, with primary focus on job qualifications and experience.<u>Maintain workforce planning strategies to align talent needs with organizational goals, which provide continuous improvement for hybrid work, succession planning and enhance learning and development opportunities and expand succession planning initiatives to develop and retain future leaders. (G4.O1.S2)</u><u>Execute on Return to Office plan and monitor implementation.</u>
	KPIs
	<ul style="list-style-type: none">Employee engagement score – Target: 4.0 or greaterTRS voluntary turnover rate vs. state turnover rate – Target: A minimum of 25% below state averageEmployees onsite vs. remote – Target: 85% on business days

FY 2026 Proposed Areas of Focus


Operational Effectiveness

Areas of Focus	Success Measures
Enhance the information security program to effectively counter current and emerging threats and risks facing TRS. (G4.O3)	Deliverables <ul style="list-style-type: none"> Optimize security architecture and operational capabilities to thwart advanced threats and mitigate vulnerabilities. (G4.O3.S1) Expand the governance, risk and compliance (GRC) program to include security and privacy management, risk/fraud forecasting and education in cooperation with Legal & Compliance and appropriate business units. (G4.O3.S2) Procure and implement a long-term information security fraud prevention solution that aligns with organizational risk appetite and strategic objectives. Partner with Legal & Compliance and key business stakeholders to implement embed a fraud risk management into <u>governance frameworks.</u>
Execute on TRS facilities needs. (G4.O4)	Deliverable <ul style="list-style-type: none"> Complete build-out and move-in activities for the new TRS headquarters buildings (Alpha and Bravo). (G4.O4.S1) (Complete; Delete)
Implementation of legislation <u>and statutorily required actuarial reviews.</u>	Deliverable <ul style="list-style-type: none"> Plan and execute implementation of new legislation. Conduct pension benefit design studies and submit reports (September 2026). Successful completion of the Experience Study.



FY 2026 Proposed Areas of Focus



 Continuous Improvement	
Areas of Focus	Success Measures
Advance and enhance information technology (IT) systems and services. (G4.O2)	Deliverables
	<ul style="list-style-type: none">• Develop, maintain and enhance IT systems and infrastructure in support of TRS business needs. (G4.O2.S1)• Implement modern information systems across all lines of business divisions with priority on modernization of legacy systems and strategic digital transformation. (G4.O2.S4)• <u>Deliver Payroll, Benefit Account Adjustment and Tax Reporting (PBT) release per TEAM Roadmap.</u>• <u>Initiation of final phase of the TEAM Program: Mainframe decommissioning.</u>• <u>Automate the Retirement Application submitted through MyTRS (Maintenance & Enhancements).</u>• <u>Begin optimization of TEAM Phase One code to enhance stability and performance (Technical Debt).</u>• <u>Deliver first release of Web Self-Service for Health, improving accessibility and user engagement.</u>• Deliver dental and vision and limited time enrollment opportunity capabilities for Health. (Complete; Delete)
Evaluate automation and technology solutions to enhance existing processes. (G4.O7 8)	Deliverables
	<ul style="list-style-type: none">• Investigate best practices and feasibility of incorporating artificial intelligence into organizational processes. (G4.O78.S1)• Implement and support business-driven artificial intelligence technology solutions across TRS.• Identify opportunities for improved productivity, process efficiencies and performance monitoring. (G4.O78.S2)• <u>Continue implementation of</u> Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight. (G4.O78.S3)

TAB 4



TRS Performance Pay Plans

Shunne Powell, Chief Organizational Excellence Officer
Katy Hoffman, IMD Chief of Staff
September 2025





Introduction



- The board annually reviews the Performance Pay Plans (PPP) for the Executive Director (ED), Investment Management Division (IMD) and Teacher Retirement Investment Company of Texas (TRICOT)
- Marked and clean versions of the policies are provided for review as well as memos from Mercer and Fiduciary Counsel
- A formal proposal is presented today to the Governance Committee for consideration in making a recommendation to the board to adopt proposed changes

Executive Director Plan Updates

- Staff has proposed no substantive changes to the Executive Director Plan
- Changes include updates to performance plan year
- Plan title was changed to be consistent with other plans (e.g., Performance Pay Plan)

IMD and TRICOT Plan Updates

- Proposed changes to the IMD and TRICOT Plans were reviewed at the July Governance Committee and summarized on the following page



IMD and TRICOT Performance Pay Plan Updates



- IMD is proposing four modifications to the plans which were presented in July to the Governance Committee
 - These changes would be made in both IMD and TRICOT plans
 - Addendum A outlines the calculation methodology for benchmark performance measures
 - Addendum B outlines the calculation methodology for peer performance measures

Modification #	Proposed Modifications
1	Consolidate public market groups and portfolios in Addendum A
2	Add a peer set for the Public Markets All Country portfolio to Addendum B
3	Remove Trading Management peer set and adjust Trading team peer calculation in Addendum B
4	Conform language between the existing plan and legislation for participants that have died or have become disabled



IMD & TRICOT Modification #1

Consolidate Public Markets groups and portfolios in Addendum A



Proposal

- Consolidate three portfolios (Internal Fundamental, Quantitative Equity and External Public) for benchmark comparison purposes
- Separate Special Opportunities Absolute Return portfolio from overall Active Public Markets in the benchmark comparison calculation

Rationale

- The total public equity portfolio is managed as a single portfolio; a single benchmark comparison provides better alignment among the teams and on the trust's overall goal
 - Each of the teams investing in equities may implement strategies that do not map directly to policy asset classes (regional, target capitalization or niche strategies), introducing basis risk to the policy benchmark that resolves at the aggregate portfolio level
- A separate Absolute Return calculation provides a more direct incentive to the Special Opportunities team
 - The Special Opportunities team has limited influence on the equity portfolios



IMD & TRICOT Modification #2

Add a peer set for Public Markets All Country portfolio to Addendum B



Proposal

- Add “TUCS Total Equity Returns >\$10 Billion Universe” as a Peer Group comparison for the Public Markets All Country public equity portfolio

Rationale

- The All Country portfolio is a Global Portfolio and significant portion of Public Markets performance
- The TUCS Total Equity Returns >\$10 Billion Universe is a valid peer comparison with similar asset allocation to the All Country portfolio
 - The absence of China and Hong Kong from the All Country portfolio is a remaining difference
 - The peer universe is robust, averaging over 20 observations during the last three years

Background Information

- Employees in the Public Markets group have not historically had a Peer Group comparison in the plan because overall portfolio results were driven largely by regional allocations set at the IPS level
 - As a global portfolio, the All Country portfolio does not have those regional allocation distortions
- TUCS > \$10 Billion Universe is currently used for peer comparisons for Total Trust, Private Equity and Real Estate



IMD & TRICOT Modification #3

Remove Trading Management peer set and adjust Trading team calculation in Addendum B



Proposal

- Remove Trading Management peer set from Addendum B
- Update Trading team calculation for Addendum B as shown below:

	Trust	Trade Management	All Country	Private Equity	Real Estate	Risk Parity Portfolio
Current	30%	70%	N/A	0%	0%	0%
Proposed	30%	0%	30%	10%	10%	20%

Rationale

- Trading Management peer set benchmark provider (Virtu) is phasing out the existing benchmark and a new potential measure is still in development
- Proposed allocation for the Trading team peer calculation better matches their current involvement

Background Information

- Trading team assists Private Markets with their public stock distributions and hedging activities



IMD & TRICOT Modification #4

Conform plan language with legislation



Proposal

- Update existing 4.7d to align with legislation by delaying payment when trust return is below 0%
 - Currently the plan requires payment for participants that have separated due to death or disability or were let go in a Reduction in Force (RIF) regardless of trust return
 - New provision includes forfeiture of an award, in these cases, if the trust return is negative for three performance periods
- Remove reference to RIF from the plans

Rationale

- Revised language conforms to the law
- The new forfeiture provision delays tax liability for the participant until payment is made
- IMD has never used Reduction in Force

Background

- Payments associated with this provision require special handling by staff and involvement of the participant's estate



IMD & TRICOT Revised Addendum A



ADDENDUM A Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark

	Total Fund	Active Public Markets(1)	Special Opportunities Absolute Return(2)	Private Equity	Real Estate	Energy Natural Resources & Infrastructure	Total
Index	Total Fund Policy Composite Index	Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement	SOFR+4%	Custom State Street Private Equity Index	NCREIF ODCE	40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI	
Excess Return Target	75 bps	75 bps	150 bps	125 bps	150 bps	125 bps	
Executive	100%						100%
Risk and Portfolio Management	100%						100%
Public Markets (Ex-Special Opportunities)	30%	60%	10%				100%
Special Opportunities	30%	10%	60%				100%
Private Equity	30%			70%			100%
Real Estate	30%				70%		100%
Energy Natural Resources & Infrastructure	30%					70%	100%
Trade Management	60%	40%					100%
Investment Operations	100%						100%
IMD Legal & Compliance	100%						100%



IMD & TRICOT Existing & Revised Addendum B



ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison

Fund Level	Total Fund	Trade Management	Private Equity	Real Estate	Risk Parity Portfolio	Total
Index	TUCS Public Funds >\$10 Billion Universe	Virtu Financial	TUCS Private Equity > \$10 billion Universe	Real Estate vs. TUCS Real Estate > \$10 billion Universe	Risk Parity Benchmark	
Excess Return Target:	75 bps	9 bps	175 bps	150 bps	30 bps	
Executive	60%	10%	10%	10%	10%	100%
Risk and Portfolio Management	30%	10%	10%	10%	40%	100%
Public Markets	90%	10%				100%
Private Equity	30%		70%			100%
Real Estate	30%			70%		100%
Energy Natural Resources & Infrastructure	30%		35%	35%		100%
Trade Management	30%	70%				100%
Investment Operations	60%	10%	10%	10%	10%	100%
IMD Legal & Compliance	60%	10%	10%	10%	10%	100%

ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison

Fund Level	Total Fund	Public Markets All Country(1)	Private Equity	Real Estate	Risk Parity Portfolio	Total
Index	TUCS Public Funds >\$10 Billion Universe	TUCS Total Equity > \$10 Billion Universe	TUCS Private Equity > \$10 Billion Universe	TUCS Real Estate > \$10 Billion Universe	Risk Parity Benchmark	
Excess Return Target:	75 bps	75 bps	175 bps	150 bps	30 bps	
Executive	60%	10%	10%	10%	10%	100%
Risk and Portfolio Management	30%	10%	10%	10%	40%	100%
Public Markets	30%	70%				100%
Private Equity	30%		70%			100%
Real Estate	30%			70%		100%
Energy Natural Resources & Infrastructure	30%		35%	35%		100%
Trade Management	30%	30%	10%	10%	20%	100%
Investment Operations	60%	10%	10%	10%	10%	100%
IMD Legal & Compliance	60%	10%	10%	10%	10%	100%



Appendix



IMD Compensation Philosophy



“To remain competitive in its efforts to attract and retain high caliber investment division staff, TRS strives to offer a competitive compensation package.

Performance incentive pay is an industry standard practice in the private sector investment arena and is rapidly becoming a standard practice in the public sector. By offering both a competitive base salary and performance incentive pay, TRS enhances its ability to fulfill the mission to ‘prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principals.

Therefore, pursuant to the laws governing TRS, the TRS Board of Trustees has determined that establishing and expending funds for this Performance Incentive Pay Plan is required to perform the fiduciary duties of the board in administering the retirement system.”

- Investment Incentive Compensation Plan,
Plan Purpose and Authorization Adopted by
TRS Board of Trustees

- In 2007, the board approved a compensation philosophy for the IMD and created the IMD Performance Pay Plan
 - The board completed a comprehensive review of the philosophy in 2024 with no changes
 - IMD’s compensation philosophy is designed to attract and retain a talented investment organization
- Board Compensation Philosophy for IMD
 - Base Pay targets first quartile among leading public funds
 - Performance Pay targets fourth quartile among private sector firms
- Awards emphasize longer-term results and alignment with TRS members
 - 67% on three-year results/33% on one-year results
 - Paid only when Trust returns are positive
- Compensation evaluations occur on a regular schedule
 - Base Pay review is every two years
 - Performance Pay review is every five years



IMD & TRICOT Key Elements of Performance Pay Plan



- Maximum Award Obligation (MAO) is the maximum amount payable, expressed as a percent of base salary, if all targets are fully met

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Chief Investment Officer	175%
Senior Managing Director	175%
Managing Director	175%
Director	150%
Investment Manager	100%
Senior Associate	75%
Associate	65%
Senior Analyst	40%
Analyst	30%
Junior Analyst	15%
Administrative Assistants	5%

- Three main components to the award:
 - Performance relative to benchmarks
 - Performance relative to peers
 - Individual performance as assessed by manager
- Trust performance drives meaningful portion of the award (30% minimum) while promoting importance of asset class and team performance
- Longer term results prioritized with 67% of the award based on three-year results and 33% on one-year results
- Awards paid only when trust return is positive

welcome to brighter

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Mr. Robert H. Walls, Jr

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

August 15, 2025

Subject: Validation of Proposed Changes to TRS Performance Pay Plans (PPP)

Mr. Walls,

Mercer (US), LLC. ("Mercer") has been retained by the Board of Trustees of the Teachers' Retirement System of Texas (TRS) to review the proposed changes to the Performance Pay Plan (PPP). The Investment Management Division (IMD) has 200+ participants in the PPP and the plan was created 18 years ago, with many of the original design features still intact. The TRICOT plan began in 2001, while the Executive Director Plan was first implemented in 2018 and then revamped to its current structure in 2022.

Executive Summary:

In 2024, Mercer conducted a comprehensive study of the PPP, along with the plans covering TRICOT and the Executive Director position. In these studies, we compared the TRS incentive plans against similar public pension plans and other like-organizations to assess the plans on a host of criteria, such as eligibility, target awards, metrics and leverage. At a high level, Mercer's findings are that the plans are well designed, reflect best practice in the industry and support the overall mission of the organization.

The Board is being asked to approve the three plans for the 2025-2026 plan year. Mercer has reviewed the proposed changes and engaged a partner from our investment consulting practice, Kelly Henson, to provide feedback from an investment point of view. In our opinion, the proposed changes are natural evolutions of the plan along with administrative changes, and both are reasonable for the continued governance of the plans. None of the proposed changes meaningfully impact the difficulty in achieving plan goals, nor do they have any obvious impact on potential payouts, higher or lower.

Four Proposed Changes for IMD (and TRICOT) PPP: For the upcoming plan year, IMD is recommending four changes as follows:

- 1) Consolidate public market groups and portfolios
- 2) Add a peer set for the Public Markets All Country Portfolio
- 3) Remove Trading Management peer set and adjust Trading team peer calculation
- 4) Correct conflicting language between existing plan and legislation for participants that have died or have become disabled

These changes apply to the IMD and Tricot plans. For the Executive Director Plan, there are no substantive changes. Mercer will dive into each recommended change below.

1) Consolidate public market groups and portfolios

The proposal from IMD is to consolidate three portfolios (Internal Fundamental, Quantitative Equity and External Public) into one for benchmark comparison purposes. Following that, Special Opportunities Absolute Return Portfolio would be separated for the overall Active Public Markets portfolio in the benchmark. These suggested changes reflect how the portfolio is managed (as one rather than as three individual funds) and encourages more collaboration, teamwork and recognition of how the pieces make up the whole. Additionally, the Special Opportunities Absolute Return Portfolio is distinctly separate and apart from the other portfolios and therefore can be measured and rewarded independently while still ensuring appropriate collaboration and working towards a greater goal.

Mercer believes these changes are reasonable, are reflective of the natural evolution of incentive plan design and have no material impact on the difficulty of achieving targets or payout levels.

2) Add a peer set for the Public Markets All Country Portfolio

The proposal from IMD is to add the "TUCS Global Equity >\$10 Billion Universe" (TUCS) as a peer group comparison for benchmarking performance of the Public Markets All Country Portfolio. The TUCS benchmark aligns with other peer sets (Total Fund, Private Equity, and Real Estate all use the TUCS benchmark), and has a similar asset allocation as TRS' All Country Portfolio. Historically, the benchmarks have been regional in nature, and this evolution to a global comparison is reflective of the evolving nature of investments today.

Mercer believes these changes are logical, consistent with the rest of the portfolios and reflective of the global view of investing today. And the new peer set is not expected to have a material impact on the difficulty of achieving targets or payout levels.

3) Remove Trading Management peer set and adjust Trading team peer calculation

Currently, Trading Management uses a Virtu benchmark which is being phased out and as of yet, no replacement has been communicated. With this external change, IMD is proposing to better align colleague incentives with their current involvement by allocating focus on other areas (All Country, Private Equity, Real Estate, and Risk Parity).

Given the external changes to the benchmark, the lack of a suitable replacement, and the alignment of the colleagues to the areas they impact most, Mercer is comfortable that this proposal is reasonable, and does not materially impact the potential to achieve targets or impact payouts.

4) Correct conflicting language between existing plan and legislation for participants that have died or have become disabled

When the Trust return is below 0%, by law the fund cannot pay out an incentive. However, the plan document requires payment to participants who passed away or become disabled or were subject to a Reduction in Force (RIF) regardless of Trust return. IMD proposes to clean up the language, make it consistent, and eliminate the reference to RIFs since IMD has never had a RIF.

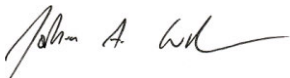
The changes to the plan document are administrative in nature and are designed to align the plan document to the legislation. Mercer believes the changes suggested are appropriate and reasonable.

All incentive plans are iterative plans that must be reviewed and revised as needed as the external and internal business environment evolves. The PPP has been in existence since 2007 and has retained the core elements of its original design, but has also evolved over the years to reflect TRS' growth and increased sophistication. And while TRS has evolved, so has the external landscape, from asset classes to benchmarks and competitors. The changes IMD has suggested for the 2025-2026 plan are reasonable and well thought out, and Mercer does not see these changes having an impact on the difficulty of achieving targets and therefore there is no impact on expected costs of the plan or compensation levels of participating staff. In the future, it may be helpful to involve Mercer as the recommendations are being developed rather than as they are being approved to be able to provide a third-party market perspective into the formulating analysis.

In 2024 we recommended that continued OE and outside consultant involvement in these processes is necessary to ensure appropriate separation of duties and risk management for IMD. Both OE and Mercer were involved in the McLagan survey benchmarking process earlier in the year, and both parties were given an opportunity to review PPP change recommendations.

If you have any questions, please do not hesitate to contact us.

Thank you



Josh Wilson
Partner



Susan Lemke
Senior Princip

MEMORANDUM

TO: Board of Trustees
Teacher Retirement System of Texas (“TRS”)

FROM: Suzanne M. Dugan
Fiduciary Counsel

DATE: August 28, 2025

RE: Proposed Changes to Performance Pay Plans

At its September 2025 meeting, the TRS Board will be asked to approve recommended changes to the Performance Pay Plans (collectively “PPP”)¹, effective for the performance period beginning on October 1, 2025, and ending September 30, 2026.

BACKGROUND

The Board adopted the PPP in 2007 after determining that expending funds for the PPP was consistent with and in furtherance of the Board’s fiduciary duties of loyalty and prudence in administering the retirement system. This decision was grounded in the understanding that by offering both a competitive base salary and performance pay, TRS enhances its ability to fulfill its mission to “prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.”

Compensation targets are recommended to the Board based on the results of investment management compensation studies conducted by IMD’s consultant, McLagan. These compensation evaluations occur on a regular schedule with base pay being reviewed every two years and performance pay every five years. Over two hundred employees participate in the PPP.

In 2023, the Board retained Mercer (US) LLC (“Mercer”) as a Board consultant to review the proposed changes to the PPP. Mercer opined that the proposed changes were logical and reasonable, and would help IMD be more competitive if performance continued to be strong. Mercer noted, however, that the scope of its review did not include an independent analysis of IMD’s determination, based on the data from the most recent McLagan study, that IMD salaries were below their competitive market and the PPP program lagged behind the market benchmark.

¹ There are three separate Performance Pay Plans – one applicable to employees of the Investment Management Division (“IMD”), one applicable to employees of TRICOT (the wholly owned subsidiary of TRS incorporated in the UK), and one applicable to the Executive Director.

In 2024, Mercer conducted a comprehensive study of the PPP, comparing the PPP against those of similar public pension plans and other like-organizations in order to assess the PPP on criteria including eligibility, target awards, metrics, and leverage. Mercer found that the PPP was well designed, reflected best practice in the industry, and supported the overall mission of the organization.

CURRENT REVIEW

This year's proposed changes to the PPP are set forth in detail and fully discussed in the Board package materials from both staff and Mercer. In brief, there are four proposed changes to the PPP: (1) consolidate public market groups and portfolios; (2) add a peer set for the Public Markets All Country Portfolio; (3) Remove Trading Management peer set and adjust Trading team peer calculation; and (4) correct conflicting language between existing plan and legislation.

Mercer has reviewed the proposed changes and engaged a partner from their investment consulting practice to provide feedback from an investment point of view. Mercer found that the proposed changes are administrative changes flowing from natural evolutions of the plan and are reasonable for the continued governance of the plan. Importantly, Mercer found that none of the proposed changes meaningfully impact the difficulty in achieving targets, and therefore there is no impact on expected costs of the plan, potential payouts, or compensation levels of participating staff.

In my role as Fiduciary Counsel to the Board of TRS, I have reviewed the process that was undertaken with regard to the proposed revisions to the PPP. Based on this review, in my opinion the Board has sufficient information before it from staff as well as the advice of its independent outside expert in order to enable it to engage in a rigorous decision making process in a manner consistent with the duties of prudence and loyalty that will allow the Board to demonstrate that it has exercised appropriate fiduciary oversight should it choose to adopt the proposed revisions to the PPP.

One additional note: in its 2024 review, Mercer found that while the compensation philosophy remained applicable and the approach to benchmarking resulted in reasonable market matches, continued involvement of both internal and external experts in these processes is necessary to ensure appropriate separation of duties and risk management for IMD. At that time, I had noted that from a fiduciary perspective, continued monitoring and the use of internal and outside independent experts are essential elements of prudence. Mercer advises that both their staff and internal staff from the Organizational Excellence Division were involved in the benchmarking process earlier this year.



Teacher Retirement System of Texas

**Executive Director Performance ~~Incentive~~ Pay
Plan**

Effective October 1, ~~2024~~2025

This Plan is effective for Leadership Performance Periods beginning on or after October 1, ~~2024~~2025, and for Investment Oversight Performance Periods beginning on or after October 1, ~~2024~~2025. Any ~~Incentive~~ Awards for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.

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Executive Director Performance ~~Incentive~~-Pay Plan

Effective October 1, ~~2024,2025~~ for Leadership Performance Period
and Investment Oversight Performance Period

I. Establishment

The Board of Trustees (the “Board”) has established this Executive Director Performance ~~Incentive~~-Pay Plan (the “Plan”) for the purposes described below. It is effective for Performance Periods beginning on or after October 1, ~~2024,2025~~. The Plan consists of two separate ~~incentive-compensation~~ components, namely Leadership Performance ~~Incentive~~-Compensation described in Section VI and Investment Oversight ~~Incentive~~-Compensation described in Section VII. Performance Periods for both components run from October 1, ~~2024-2025~~ to September 30, ~~2025,2026~~.

II. Plan Objectives

To remain competitive in its efforts to attract and retain high caliber executives, TRS strives to offer a competitive compensation package, including a competitive base salary and an opportunity to earn additional rewards through this Plan. The Plan is designed to reward the Executive Director for performance and is intended to:

- Focus on key objectives tied to the overall success of TRS
- Align ~~incentive-performance pay~~ potential to the achievement of TRS’s mission, goals, and objectives
- Tie rewards to measurable success related to completion of goals linked to TRS’s Strategic Plan and outlined in the Areas of Focus (AOF)
- Ensure TRS can attract, motivate, and retain top-performing executive leadership

III. Plan Authority and Responsibility

A. Plan Administration

The Plan is subject to the Board’s discretion. TRS’s Chief Organizational Excellence Officer, with direction from the Board, is responsible for administering the Plan, and the General Counsel and Chief Compliance Officer are responsible for interpreting the Plan. The Board is responsible for adopting Areas of Focus which outline goals and key performance indicators and deliverables prior to the start of each applicable Performance Period.

B. Plan Modification, Suspension and Termination

The Board shall have the right in its sole discretion to modify the Plan or any portion thereof at any time or to suspend or terminate the Plan entirely or any portion thereof at any time. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of the Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

C. Record Keeping and Reporting

All employee performance ~~and compensation, salary and incentive pay~~reward records for the Plan

shall be maintained by
TRS's Chief Organizational Excellence Officer.

D. Compliance with State and Federal Law

If the Board, General Counsel, or a court with appropriate jurisdiction determines that any provision of the Plan violates applicable state or federal law, that provision shall not be given effect. The remaining provisions of the Plan shall remain in full force and effect to the maximum extent possible, and any amendments or modifications that are necessary to give effect to the remaining provisions will be deemed to have been made to allow proper administration of the Plan.

IV. At-Will Employment

Nothing in the adoption of the Plan or the awarding of performance ~~incentive~~ pay alters the at-will nature of TRS employment, creates a contract between TRS and any TRS employee, confers on any TRS employee the right to continued employment with TRS or affects in any way the right of TRS to terminate the employment of employees at any time.

V. Eligibility and Participation

A. Eligible Positions

The Executive Director is the sole participant of the plan. The Board retains the right to add individual positions to or remove individual positions from the Plan at any time.

B. Termination of Participation

A Participant who terminates employment with TRS ceases to be a Participant on the date of termination. The date of termination is the Participant's last worked day and does not include any leave the Participant was allowed to use to extend his or her employment for payroll purposes.

C. Proration

A Participant who begins employment in an eligible position after the beginning of a Performance Period may receive a prorated ~~incentive-performance~~ payment based on the number of months worked during the Performance Period.

Notwithstanding the foregoing, a Participant must work at least three (3) months of the Performance Period to be eligible for a prorated share of the ~~incentive-performance~~ payment.

VI. Leadership Performance ~~Incentive~~ Compensation

A. Leadership Performance Period Cycle

Prior to the start of a Leadership Performance Period, the Board reviews and adopts Areas of Focus (AOF) for the Executive Director (see timeline below in Table A). These outline success measures including key performance indicators and deliverables that

are tied to TRS' Strategic Plan and are set forth in Appendix A. The Executive Director's maximum Leadership Performance Award opportunity is 50% of Base Salary.

Scoring for the Leadership Performance Award is determined by the Board based on their assessment of five Key Accountabilities which are linked to Areas of Focus and the TRS Strategic Plan. These accountabilities include:

- Member Focused
- Continuous Improvement
- Operational Effectiveness
- Leadership Effectiveness
- Talent Effectiveness

To assist the Board with its evaluation, following the end of the Leadership Performance Period, TRS staff will coordinate data collection on the following items:

- Updates on the progress towards completion of Areas of Focus throughout the year, including a final progress report after the close of the fiscal year. TRS' fiscal year runs from September 1 through August 31.
- Summary results of assessments from each individual Board member on key accountabilities tied to the Areas of Focus as set out in Appendix A.
- Summary results of 360 assessment surveys from members of the Executive Council, Direct Reports, or other TRS staff.
- Any additional reports, surveys, and other metrics not specifically outlined in the Areas of Focus, but necessary to complete this evaluation at the request of the Board.

At the end of the Leadership Performance Period, the Board will determine an overall score (0%-50%) and provide that information to the Chief Organizational Excellence Officer. That percentage will be used to calculate the Leadership Performance Award.

Table A: Leadership Performance Period Cycle					
Leadership Performance Period	Areas of Focus Adopted by the Board*	Leadership Performance Period Start Date	Leadership Performance Period Close Date	Evaluation Conducted*	Payment Date
2024-2025	September 20, 2024	October 1, 2024	September 30, 2025	September 2025	February 2026
2025-2026	September 2025*	October 1, 2025	September 30, 2026	September 2026	February 2027
*Dates to be determined based on scheduled board meetings					

B. Payment of Leadership Performance Awards

- (1) Leadership Performance Awards are processed with January payroll for payment on or about February 1 of the calendar year following the end of such Leadership Performance Period, but in no event later than February 15 of that calendar year.

- (2) Except as otherwise provided in this Plan, a Participant must be employed in an eligible position on January 1 following the end of a Leadership Performance Period to earn and receive payment of the Leadership Performance Award for such Leadership Performance Period.
- (3) If a Participant ceases to be employed before the end of a Leadership Performance Period due to termination of employment with TRS for any reason other than retirement, a Leadership Performance Award for that Leadership Performance Period will not be earned.
- (4) If a Participant ceases to be employed before the end of a Leadership Performance Period due to retirement, the Board may, in its sole discretion, approve a prorated Leadership Performance Award for the Leadership Performance Period in which such retirement occurs; provided, however, that if a Participant retires within the first three months of a Leadership Performance Period, the Participant will not be eligible for a prorated Leadership Performance Award for that Leadership Performance Period.
- (5) If a Participant ceases to be employed on or after January 1 following the end of a Leadership Performance Period due to retirement, with approval of the Board, the Participant shall be entitled to payment hereunder for such Leadership Performance Period to the same extent as if he or she had not retired.
- (6) If a Participant ceases to be employed due to retirement, any Leadership Performance Award for the Leadership Performance Period in which the Participant retires and all required Leadership Performance Award payments for earlier Leadership Performance Periods shall be processed and paid as soon as reasonably practicable, but not later than 2½ months after the end of the calendar year in which the Participant retires.
- (7) To establish an employee's eligibility for payment of Leadership Performance Awards for preceding Leadership Performance Periods as of the effective date of retirement, a Participant who wishes to retire must:
 - (a) notify the Board of the Participant's intent to retire on a specified proposed retirement date at least forty-five (45) days before such date;
 - (b) obtain written approval of the Board to retire as of the proposed retirement date;
 - (c) be eligible for payment of Leadership Performance Awards for the two most recent Leadership Performance Periods;
 - (d) establish eligibility, apply for, and submit the required documentation for retirement benefits under the TRS pension plan, or the Employees Retirement System of Texas (ERS) pension plan if the Participant transfers his/her TRS service to ERS; and
 - (e) retire as of the proposed effective retirement date.

VII. Investment Management Oversight ~~Incentive~~ Compensation

A. Purpose of Investment Oversight Performance Awards

A significant component of the Executive Director's responsibilities involves oversight of the

Investment Management Division. The Board has determined it appropriate that a portion of the Executive Director’s ~~incentive performance~~ compensation be determined pursuant to the criteria used for evaluating certain key employees of the Investment Management Division under the IMD Performance Pay Plan. The Executive Director’s Investment Oversight Performance Awards are calculated separately and independently from his or her Leadership Performance Awards.

B. Investment Oversight Performance Period Cycle

The annual Investment Oversight Performance Period cycle for the Investment Oversight Performance Awards is set forth in Section IX.

C. Determination of Investment Oversight Performance Awards

- (1) In addition to Leadership Performance Awards, the Executive Director is eligible for Investment Oversight Performance Awards for his or her oversight of the Investment Management Division. Such Investment Oversight Performance Awards are based on the percentage of target alpha achieved by the total investment fund, as follows:
- Investment performance is measured at the total fund level vs. TRS’s established passive total fund index. The total fund alpha target follows the methodology established in the IMD Performance Pay Plan, where the one-year and three-year alpha target equals 75 BPS (basis points).
 - Investment performance is measured for the Investment Oversight Performance Period in the same way it is measured under the IMD Performance Pay Plan.
- (2) The Executive Director’s maximum Investment Oversight Performance Award opportunity (MAO in Table D below) is 50% of Base Salary, and his or her earned Investment Oversight Performance Award for the Investment Oversight Performance Period is determined by multiplying the following: Base Salary, MAO, and the percentage of the target alpha achieved. In determining the Investment Oversight Performance Award amount, weighted averages are used, with 1/3 weighting allocated to one-year returns, and 2/3 weighting allocated to three-year returns, and the one and three-year return periods ending on the last day of the Investment Oversight Performance Period.

Table D: Calculation Example			
Investment Oversight Performance Award = Base Salary x MAO x percentage of target alpha achieved (PTAA)			
Base Salary	MAO	PTAA	Investment Oversight Performance Award
\$ 325,000	50.00%	12.50%	\$ 40,625

D. Payment of Investment Oversight Performance Awards

- (1) Investment Oversight Performance Awards are payable subject to the terms and conditions of this Section (VII)(D).
 - (a) Payment will generally be processed with January payroll for payment on or about February 1 of the calendar year following the end of such Investment Oversight Performance Period, but in no event later than February 15 of that calendar year.
- (2) Except as otherwise provided in this Plan, the Executive Director must be employed in an eligible position on January 1 following the end of an Investment Oversight Performance Period to earn and receive payment of the Performance Award for such Investment Oversight Performance Period.
- (3) Notwithstanding the provisions of Section VI(D)(1) and (2) above, no payment described above shall be paid during the year following an Investment Oversight Performance Period in which the Total Fund experiences a total return of zero or less. If this occurs, any amount that would otherwise have been paid pursuant to Section VI(D)(1) and (2) will be processed with January payroll for the first January following the first Investment Oversight Performance Period thereafter in which the Total Fund performance is greater than zero, and paid on or about the following February 1, provided, however, that the Executive Director is an employee on January 1 of such calendar year.
- (4) If the Executive Director ceases to be employed before the end of an Investment Oversight Performance Period due to termination of employment with TRS for any reason, an Investment Oversight Performance Award for that Investment Oversight Performance Period will not be earned. Potential Investment Oversight Performance Awards from earlier Investment Oversight Performance Periods that have not yet become earned will not become earned.

VIII. Other Plan Provisions

A. Non-assignment and Non-transferability of ~~Incentive-Performance~~ Awards

~~Incentive-Performance~~ Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind.

B. Plan Does Not Create a Property Interest, Trust, or Entitlement

- (1) Neither the establishment of the Plan or the calculation of the ~~Incentive-Performance~~ Awards shall be deemed to create a property interest, trust, or entitlement. The Plan is an unfunded, unsecured liability of TRS to make payments in accordance with the provisions of the Plan. Any amounts budgeted by TRS for ~~Incentive-Performance~~ Awards earned under the Plan are TRS assets, and no Participant, employee, or third party shall have any property,

security, or other interest in any assets of TRS by reason of the Plan.

- (2) Nothing in the Plan shall be deemed to create or confer any right, interest, or title to any specific property of TRS to any Participant or to any personal representative or beneficiary of a Participant.

C. Tax Withholding and Other Deductions

All payments under the Plan shall be subject to any deductions (1) for income tax withholding required by federal, state, or local law at the time of payment; and (2) for any and all amounts owed by the Participant to TRS at the time of payment. TRS is not obligated to advise a Participant before withholding of the existence of any tax or other amounts described in the preceding sentence.

D. Payments Not Eligible as Compensation for TRS Pension Plan Purposes

Any ~~Incentive-Performance~~ Award payments made pursuant to the Plan are not eligible compensation for TRS pension plan purposes.

E. Compliance with TRS Policies and Procedures

Participants in the Plan are responsible for complying with all TRS policies, including without limitation the Investment Policy Statement; Ethics Policy; and the Fraud, Waste and Abuse Policy. Violations of the Ethics Policy; Fraud, Waste and Abuse Policy; or other TRS policy by a Participant, as determined by the Board, can result in forfeiture of all ~~Incentive-Performance~~ Awards for the applicable Performance Period(s) in which the violation(s) occurred. Additionally, during the investigation of possible violations of law or policy, the Board may suspend earning and payment of ~~Incentive-Performance~~ Awards until the conclusion of the investigation. If the Board determines that no violation has occurred, the suspended ~~Incentive-Performance~~ Award shall be paid to the Participant within 30 days after such determination (or such later date on which the ~~Incentive-Performance~~ Award would have been payable absent the suspension), provided that the Participant has been continuously employed by TRS in an eligible position through such payment date.

IX. Definitions

Capitalized terms shall have the meanings given to them in the Plan document. In addition, the following terms shall be the meanings specified below:

"Base Salary" means, with respect to a Participant for a Performance Period, his or her annualized base salary on the first day of the Performance Period or, if later, the date on which the employee became a Participant.

"IMD Performance Pay Plan" means the Performance Pay Plan maintained for eligible employees of the Investment Management Division.

"~~Incentive-Performance~~ Award" means an "Investment Oversight Performance Award" and/or a "Leadership Performance Award," as applicable.

"Investment Oversight Performance Award" means an Award pursuant to Section VII of this Plan.

"Investment Oversight Performance Period" means the period beginning on October 1 and ending on the next following September 30.

"Leadership Performance Award" means an Award pursuant to Section VI of this Plan.

"Leadership Performance Period" means the period beginning on October 1 and ending on the next following September 30.

"Participant" means an individual who has become a participant in the Plan and whose participation has not ended.

"Performance Period" means the "Investment Oversight Performance Period" and/or the "Leadership Performance Period," as applicable.

"Total Fund" means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested to provide retirement, death, and disability benefits administered by the system, including cash and cash equivalents. For avoidance of doubt, for the purposes of the Plan the Total Fund does not include the assets of health plans administered by TRS and held in trust by the Board of Trustees.

Current effective date: October 1, ~~2024~~2025

First approved: November 19, 2015

Last reviewed September 18, ~~2024~~2025

Reviewers: Organizational Excellence and
Legal & Compliance

Review Cycle: Annual

Next review due: September ~~2025~~2026

Authorized by: Board of Trustees

Date authorized: September 19, ~~2024~~2025

**Acknowledgment of Official Version of the
Plan:**

By: _____

Shunne Powell,

Chief Organizational Excellence Officer

Member Focused	
Areas of Focus	Success Measures
Improve the customer service experience for participants and reporting employers. (G2.O1)	Deliverables <ul style="list-style-type: none"> Expand member self-service options within the automated phone system and MyTRS. Increase engagement with members/participants and reporting employers regarding TRS benefits. (G2.O1.S1) Expand our services to meet members where they are. (G2.O1.S2) KPIs <ul style="list-style-type: none"> Pension Benefit calls answered within 3 minutes —Target: 90% Retirees receiving first annuity payment on time —Target: 98% Death claims payments issued within 31 days of receipt of all required paperwork —Target: 95% Number of counseling appointments available in Austin. —Target: 20,000 Attain a reported response time within 48 hours or sooner based on Reporting Employer Satisfaction Survey. —Target: 90% Health Division calls answered within 3 minutes. —Target: 90% Number of counseling appointments available in El Paso. —Target: 7,500
Increase the value of TRS-Care and TRS-ActiveCare benefits. (G3.O2)	Deliverables <ul style="list-style-type: none"> Reengineer TRS-ActiveCare to better meet employer needs. (G3.O2.S2) Monitor and evaluate programs to reduce participants' out-of-pocket costs for specialty drugs. Lower premiums in 2025 for Medicare-eligible retirees while maintaining stability of the TRS-Care fund. Implement new TRS-Care dental and vision plans for plan year 2025. KPIs <ul style="list-style-type: none"> Increase the percentage of TRS-ActiveCare enrollees in the primary care-driven plans from prior year. —Target: 3% Member engagement metrics as measured by percentage of members who open The Pulse email. —Target: 25% Member engagement metrics as measured by percentage of members who open The Pulse email and then click to read articles. —Target: 3%
Leadership Effectiveness	
Areas of Focus	Success Measures
Enhance stakeholder communication.	Deliverables <ul style="list-style-type: none"> Serve as a trusted resource and engage with policymakers on pension funding and plan design. (G1.O2.S1) Serve as a trusted resource and engage with policymakers on health care funding and plan design. (G3.O1.S1) Implement and monitor the Member and Employer Outreach Plan to better help members and employers fully know and utilize benefits, engage with TRS, plan for retirement, and remain informed postretirement. (G4.O7.S2) KPIs <ul style="list-style-type: none"> Increase number of visits/views of outreach plan communications products (e.g., videos, web pages). —Target: 20% Improve usability score of the TRS website related to task completion rates post-redesign. —Target: Speed completion rates by 30% or more. Improve overall usability of the TRS website post redesign. —Target: System Usability Scale (SUS) score of 70 or above
Achieve the trust's actuarial assumed rate of return as measured on rolling 20-year periods. (G1.O1)	Deliverables <ul style="list-style-type: none"> Continue to hire and expand the Emerging Manager Program. Conduct strategic asset allocation study and report results to the board of trustees (October 2024). KPIs <ul style="list-style-type: none"> Trust rate of return measured on a rolling 20-year period. —Target: 7.00% Return in excess of the benchmark return for the total trust (3-year rolling). —Target: +100bp

Talent Effectiveness	
Areas of Focus	Success Measures
Attract, retain, and develop a diverse and highly competent staff. (G4.01)	Deliverables <ul style="list-style-type: none"> Continue to evolve as an employer of choice to attract and retain best talent, including exploring TRS becoming a multistate employer. Improve diversity representation, as defined by Texas state law, at all levels of the organization, with primary focus on job qualifications and experience. Maintain workforce planning strategies which provide continuous improvement for hybrid work, succession planning and learning and development initiatives. KPIs <ul style="list-style-type: none"> Employee engagement score. Target: 4.0 or greater TRS voluntary turnover rate vs. state turnover rate. Target: A minimum of 25% below state average
Operational Effectiveness	
Areas of Focus	Success Measures
Enhance the information security program to effectively counter current and emerging threats and risks facing TRS. (G4.03)	Deliverables <ul style="list-style-type: none"> Optimize security architecture and operational capabilities to thwart advanced threats and mitigate vulnerabilities. (G4.03.S1) Expand the governance, risk, and compliance (GRC) program to include security and privacy management, risk/fraud forecasting and education in cooperation with Legal & Compliance and appropriate business units. (G4.03.S2)
Execute on TRS facilities needs. (G4.04)	Deliverables <ul style="list-style-type: none"> Complete build-out and move-in activities for the new TRS headquarters buildings (Alpha and Bravo). (G4.04.S1)
Implementation of legislation.	Deliverables <ul style="list-style-type: none"> Plan and execute implementation of new legislation.
Continuous Improvement	
Areas of Focus	Success Measures
Advance and enhance information technology (IT) systems and services. (G4.02)	Deliverables <ul style="list-style-type: none"> Develop, maintain, and enhance IT systems and infrastructure in support of TRS business needs. (G4.02.S1) Implement modern information systems across all lines of business divisions with priority on modernization of legacy systems and strategic digital transformation. (G4.02.S4) Deliver Payroll, Benefit Account Adjustment and Tax Reporting release per TEAM Roadmap. Deliver dental and vision and limited time enrollment opportunity capabilities for Health.
Evaluate automation and technology solutions to enhance existing processes. (G4.08)	Deliverables <ul style="list-style-type: none"> Investigate best practices and feasibility of incorporating artificial intelligence into organizational processes. (G4.08.S1) Identify opportunities for improved productivity, process efficiencies and performance monitoring. (G4.08.S2) Implement Investment Data Modernization Program to improve trust asset monitoring and fiduciary oversight. (G4.08.S3) Implement and support business driven artificial intelligence technology solutions across TRS.



Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

Effective October 1, 202~~5~~⁴

This Plan is effective only for the Performance Period beginning on October 1, 202~~5~~⁴ and ending September 30, 202~~6~~⁵. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods. No modification of this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

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Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

To remain competitive in its efforts to attract and retain high caliber Investment Management Division (IMD) employees, TRS strives to offer a competitive compensation package. Awards of performance pay based on specified performance criteria are an industry standard practice in the private investment sector and in the public sector. By offering both a competitive base salary and performance pay, TRS enhances its ability to fulfill its mission to “prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.” The Board of Trustees (the “Board”) has determined that establishing, and expending funds for, this Performance Pay Plan (the “Plan”) is consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system.

2. PLAN OBJECTIVES AND STRATEGY

2.1 Plan Objectives

The Plan serves these objectives:

- To attract and retain IMD employees who demonstrate outstanding ability;
- To reinforce employees’ strong commitment to the long-term investment performance of the assets for which TRS is responsible; and
- To motivate investment professionals to focus on maximizing real, long-term returns for funds invested and managed by TRS while assuming appropriate levels of risk.

2.2 Plan Strategy

Implementation of the Plan strategy includes:

- Base salaries targeted to be competitive as determined by the Executive Director and the Board, with individual base salaries based on an employee’s experience, education, knowledge, skills, and overall job performance in an Eligible Position.
- Performance pay award opportunities, calculated as a percentage of an employee’s base salary, based on performance above pre-determined standards, and earned contingent upon continued employment in an Eligible Position through specified dates subject to deferral as set forth in Section 4.7(b).

3. BASE SALARY ADMINISTRATION

3.1 Salary Structure

- (a) Notwithstanding any other law, the Board approves the rates of compensation of all IMD employees. Under state law and the Board’s Bylaws, the Board authorizes the Executive Director, as part of the annual budget process, to

determine and propose base salary rates generally based on the salary schedules, position classifications, and salary administration practices in the TRS Compensation Plan and relevant legislation to the extent that the Executive Director determines that a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty, the Board's Bylaws or TRS policy.

- (b) Employees are assigned to a position title that is consistent with their TRS responsibilities. Initial base salary for each employee is set within the salary range of the assigned pay group, considering the employee's experience, education, knowledge and skills, and external competitiveness and internal equity.

3.2. *Salary Adjustments*

- (a) Employees may receive base salary adjustments for a number of reasons, including but not limited to promotions and merit increases for individual performance.
- (b) Notwithstanding Section 3.2(a), all base salary changes will be implemented in accordance with TRS salary administration procedures.

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIODS

4.1. *Purpose of the Plan; Effective Date; Performance Periods*

- (a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The Performance Period for this Plan begins on October 1, 202~~5~~⁴ and ends September 30, 202~~6~~⁵. An award for performance in prior performance periods can only become earned and payable subject to the terms and conditions stated in the relevant plan.

4.2. *Participation in the Plan; Proration*

- (a) Subject to Sections 4.2(c) and (d), an IMD employee who holds an Eligible Position as defined in Section 8 on the first day of the Performance Period is eligible to participate in the Plan. Secondes, non-TRS or contract workers, and other temporary workers are not TRS employees and are not eligible to participate in the Plan. An Eligible Position under this Plan is not automatically an eligible position under any successor or superseding performance pay plan or other plan of TRS or TRICOT.
- (b) Within thirty (30) days after the end of the Performance Period, the Chief Organizational Excellence Officer will certify to the Executive Director in writing the master "Participants List" setting forth all relevant information that is required for calculating each Participant's Potential Award and any proration required under this Section 4.2.
- (c) Notwithstanding Section 4.2(a), an employee who begins employment in an Eligible Position (through new hire, promotion or reassignment) after the beginning of the Performance Period will become a Participant as follows:
 - (i) If an employee begins employment in an Eligible Position after October 1 but on or before January 1, the employee will become a Participant on

- January 1 and the Participant's Potential Award will be prorated to 75% of the Potential Award calculated for the entire Performance Period.
- (ii) If an employee begins employment in an Eligible Position after January 1 but on or before April 1, the employee will become a Participant on April 1 and the Participant's Potential Award will be prorated to 50% of the Potential Award calculated for the entire Performance Period.
 - (iii) If an employee begins employment in an Eligible Position after April 1 but on or before July 1, the employee will become a Participant on July 1 and the Participant's Potential Award will be prorated to 25% of the Potential Award calculated for the entire Performance Period.
 - (iv) If an employee begins employment in an Eligible Position after July 1 of the Performance Period, the employee will become a Participant on the first day of the next Performance Period, provided that such employee is employed by TRS in an Eligible Position on such date.
- (d) If, during the Performance Period, a Participant moves from one Eligible Position to another Eligible Position (including by transitioning from a full-time to part-time position), the Participant's Potential Award and performance measurements for the Performance Period will be prorated between the Potential Award calculated for the vacated Eligible Position and the Potential Award calculated for the new Eligible Position as follows:
- (i) If a Participant moves to a new Eligible Position after October 1 but on or before January 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position for the period October 1 through December 31, and on the new Eligible Position beginning as of January 1.
 - (ii) If a Participant moves to a new Eligible Position after January 1 but on or before April 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through March 31, and on the new Eligible Position beginning as of April 1.
 - (iii) If a Participant moves to the new Eligible Position after April 1 but on or before July 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through June 30, and on the new Eligible Position beginning as of July 1.
 - (iv) If a Participant moves to a new Eligible Position after July 1 of the Performance Period, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through September 30.
- (e) If, during the Performance Period, a Participant moves from an Eligible Position to a non-Eligible Position within TRS without a break in service, the Participant's Potential Award for the partial Performance Period will be prorated based on the number of complete calendar quarters worked in an Eligible Position during the Performance Period. For the avoidance of doubt, a Participant will not be eligible for performance pay for any quarter during which

the Participant was not employed in an Eligible Position for the entire quarter.

- (f) An employee will cease to be a Participant in the Plan on the earliest to occur of:
 - (i) Except as specifically provided in Section 4.2(e) with respect to continued TRS employment, or Section 7.6 with respect to changing employment from TRS to TRICOT (or vice versa) without a break in service, the date the employee is no longer employed in an Eligible Position; or
 - (ii) The date the Plan terminates.

For purposes of this Plan, the employment termination date is deemed to be the employee's last day worked, not including any leave the employee takes to extend their final employment date for payroll purposes.

- (g) Section 7.6 addresses the proration calculation that applies if a Participant changes employment from TRS to TRICOT or vice versa.

4.3. *Performance Components; Potential Awards*

- (a) Participants' Potential Awards will be based on a combination of investment performance and qualitative performance measurement and rating components.
- (b) The investment performance components comprise two categories: 1) performance measured against pre-determined benchmarks and applicable excess return targets, and 2) performance measured against pre-determined peer groups.
 - (i) The benchmark index category of the investment performance component will determine 50% of the total Potential Award for Eligible Position Titles of Chief Investment Officer through Director. The benchmark index category of the investment performance component will determine 30% of the total Potential Award for Eligible Position Titles of Investment Manager through Administrative Assistant.
 - (ii) The peer group category of the investment performance component will determine 30% of the total Potential Award.
- (c) Notwithstanding that the Performance Period is October 1 through September 30, due to the delay in availability of final performance data for private markets assets, performance measurements for these Investment Areas will experience a one quarter time lag, such that all calculations requiring private markets performance will use data for the one and three year periods ending June 30.
- (d) Each Eligible Position will be assigned specific weightings for Total Fund and other investment benchmarks based on investment area performance as shown in Addendums A and B. Addendum A correlates benchmarks and excess return targets to Investment Areas listed in the first column, and allocates performance weights for each area to the relevant excess return targets and benchmarks. Addendum B correlates Investment Areas in the first column to peer group performance and relevant benchmarks and allocates performance weights among the excess return targets relative to the listed benchmarks.

- (i) To encourage a focus on the “big picture” and a sense of shared mission, the investment performance component (both benchmark and peer group categories) for all Eligible Positions will have a Total Fund weighting of at least 20%. Weightings for each investment area’s benchmarks and excess return targets will be divided among the Eligible Position’s primary investment area and other investment areas with which the Eligible Position has regular interaction.
- (ii) Where no investment area peer group performance measures are available, that investment area’s peer group performance weighting allocation is added to the Total Fund peer group performance weighting allocation.
- (e) The qualitative performance rating component will be measured systematically as part of each Participant’s annual performance appraisal process aimed at evaluating each Participant’s job performance and adherence to the core concepts and values of the IMD culture, using pre-determined, standard criteria. This may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success that are not directly measured or measurable in the investment performance component, such as interpersonal relationship skills, accountability, effective teamwork, etc.
 - (i) Regardless of a Participant’s qualitative performance rating, a Potential Award will include the qualitative performance component only if the Participant has attained at least the required threshold level for the investment performance component.
 - (ii) To encourage appropriate organizational behaviors, the qualitative performance rating component will be weighted at 20% of the Potential Award for Eligible Position Titles of Chief Investment Officer through Director and weighted at 40% of the Potential Award for Eligible Position Titles of Investment Manager through Administrative Assistant.
- (f) A Potential Award is the gross award amount calculated based on the final performance results for the relevant Performance Period, weighted as set forth in Addendums A and B. The Maximum Potential Award that can become an Earned Award with respect to the Performance Period may not exceed the percentage of a Participant’s Base Salary in an Eligible Position (subject to proration under Section 4.2) that is listed opposite the applicable Eligible Position Title in the table below. The Maximum Potential Award limits a Participant’s maximum Earned Award regardless of (x) the amount by which a Participant’s performance has exceeded the excess return targets or (y) the calculated value of the Potential Award.

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Chief Investment Officer	175%
Senior Managing Director	175%
Managing Director	175%

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Director	150%
Investment Manager	100%
Senior Associate	75%
Associate	65%
Senior Analyst	40%
Analyst	30%
Junior Analyst	15%
Administrative Assistants	5%

- (g) For each Investment Area, the portfolio weighting and excess return relative to each assigned excess return target will combine to determine the Potential Award for each Eligible Position.
- (i) The Potential Award includes a threshold, a maximum, and intermediate levels of Potential Award that correspond to specific levels of investment performance.
 - (ii) Intermediate levels of the Potential Award for investment performance are determined by linearly interpolating between the threshold and maximum.
 - (iii) For the qualitative performance rating component, intermediate levels of the Potential Award will be based on a system of annual performance evaluation approved by the Executive Director.

4.4. *Compliance with TRS Policies*

- (a) IMD employees exercise fiduciary investment responsibilities under applicable law and Board policies. Investment professionals manage the portfolio according to the Board's policies, advise and inform the Executive Director and the Board about investment management and performance, and recommend modifications to the Board's investment policies. All IMD employees are responsible for complying with TRS policies.
- (b) The Executive Director or designee has the authority to conduct an investigation of any potential violation of TRS policies or applicable laws. The Executive Director may suspend earning and payment of Potential Awards and Earned Awards (including deferred payments) until the conclusion of an investigation under this Section 4.4.
- (c) Excess performance by a Participant or Participants resulting from a failure to invest and manage TRS pension assets prudently and in compliance with investment and ethics policies and applicable law will result in disqualification of the Participant or Participants and forfeiture of any award for the relevant Performance Period. The Executive Director will make this determination on a case-by-case basis. The Executive Director's determination under this subsection is final and non-appealable.
- (d) If the Executive Director determines after investigation that a Participant violated TRS policy or applicable law and that such violation is sufficiently serious, the Participant will either (i) be disqualified and forfeit all Potential Awards and

Earned Awards for the Performance Periods in which the violation(s) occurred, including awards and payments deferred under Section 4.7(b), or (ii) such Potential Awards and Earned Awards will be reduced by a percentage or amount determined by the Executive Director in his or her sole discretion. If the Executive Director determines that no serious violation has occurred, a suspended Earned Award shall be paid to the Participant within 30 days after such determination (or such later date on which the award would have been payable absent the suspension), provided that the Participant has been continuously employed in an Eligible Position through such payment date, or, if later, the relevant January 1. The Executive Director's determination under this subsection is final and non-appealable.

4.5. *Performance Standards and Measurements*

- (a) Each one-year performance measurement period begins October 1 and ends September 30. For the purposes of this Plan, investment performance (for both benchmarks and peer group categories) is based on one- and three-year historical performance data, weighted at 33% for one-year performance (i.e., the performance measurement period ended as of the most recent September 30) and 67% for the historical three-year performance that includes the three performance measurement periods ended as of the most recent September 30. Investment performance is measured against the relevant pre-defined benchmarks in the asset allocation and benchmarks table, including applicable footnotes, in the Board's Investment Policy Statement ("IPS"). For the purposes of this Plan, changes to the IPS benchmarks during the Performance Period will be effective from and after the effective date of such changes in the IPS, subject to revisions to the Plan adopted by the Board of Trustees. In no event may benchmark changes be applied retroactively except as required to comply with applicable law, including federal tax laws and regulations.
- (b) For purposes of calculating the one- and three-year historical performance data under Section 4.5(a), the investment performance of any new portfolio will be calculated for purposes of the Plan as follows:
 - (i) The investment performance measurement of any new portfolio (for both benchmark and peer group categories) created during a performance measurement period will commence only on the next performance measurement period following October 1.
 - (ii) For a new portfolio's first full performance measurement period, the investment performance measurement will be based 100% on the portfolio's performance data for the first full performance measurement period.
 - (iii) For a new portfolio's second full performance measurement period, the investment performance measurement will be weighted (x) 50% on the portfolio's performance during the second full performance measurement period, and (y) 50% on the portfolio's two-year performance during the first and second full performance measurement periods.
 - (iv) For all performance measurement periods commencing after the second full performance measurement period, the investment performance of a new portfolio will be weighted (x) 33% on the portfolio's performance measurement during the one-year performance measurement period just

ended, and (y) 67% on the portfolio's three-year performance measurement during the three full performance measurement periods ending on September 30 of the Performance Period.

- (v) For the purposes of this Plan, no investment performance measurement will be calculated for a new portfolio unless it existed on October 1 of the Performance Period.
- (c) Notwithstanding Section 4.5(a), if during the Performance Period, investments managed by an Investment Area are moved to another investment area as a result of an IMD reorganization, then the performance measurements for the Performance Period and each affected Participant's Potential Award will be based on the pre-change criteria and the post-change criteria as follows:
 - (i) If the change described in this Section 4.5(c) is made after October 1 but on or before January 1, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria for the period October 1 through December 31, and on the post-change criteria beginning as of January 1.
 - (ii) If the change described in this Section 4.5(c) is made after January 1 but on or before April 1, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria through March 31, and on the post-change criteria beginning as of April 1.
 - (iii) If the change described in this Section 4.5(c) is made after April 1 but on or before July 1, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria through June 30, and on the post-change criteria beginning as of July 1.
 - (iv) If the change described in this Section 4.5(c) is made after July 1 of the Performance Period, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria through September 30.
- (d) The qualitative performance component is measured annually as part of each Participant's annual performance appraisal process using criteria established before the beginning of the Performance Period.

4.6. *Potential Award Calculations*

- (a) Following the end of the Performance Period, the Executive Director will review the reported performance of each Participant relative to the applicable investment and qualitative performance components.
- (b) Potential Awards are calculated based on the Participant's level of performance achieved in the applicable investment performance and qualitative performance components in the Performance Period.
- (c) Relative performance data and calculations may be reviewed by an external independent source selected by the Executive Director but final calculations must be approved by the Executive Director.

4.7. *Earning Performance Payments*

- (a) Notwithstanding the Executive Director's approval of Potential Award calculations, and except as otherwise provided in this Section 4.7 and Section 7.6, Potential Awards will only become an Earned Award if a Participant is employed by TRS on January 1 following the end of the Performance Period during which that employee was a Participant. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.

The payment dates of Earned Awards for the Performance Period shall be the same for all Participants.

- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards following a Performance Period in which the Total Fund experiences a return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become Earned Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until the January 1 following the next Performance Period in which the Total Fund has a return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.
- (c) If an employee ceases to be a Participant during the Performance Period due to termination of TRS employment for any reason other than involuntary termination of employment due to ~~a Reduction in Force~~, death, or disability within the meaning of Code Section 409A, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards under plans from previous performance periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during the Performance Period due to involuntary termination of TRS employment because of ~~a Reduction in Force~~, death, or disability within the meaning of Code Section 409A, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. However, Potential Awards under prior plans will become Earned Awards, notwithstanding Section 4.7(a) above, provided the Total Fund return is greater than zero. However, If the Total Fund return is not greater than zero, notwithstanding Sections 4.7(a) and (b), Potential Awards under from prior plans from previous performance will become Earned Awards the January 1 following the end of the next Performance Period in which the Total Fund has a return greater than zero unless the Total Fund return is not greater than zero for the subsequent two Performance Periods, at which point the Potential Award will be forfeited periods beginning October 1 and ending September 30 will immediately become Earned Awards. Payments under this subsection will be made as applicable to ~~the terminated employee~~, the estate of the deceased employee ~~or~~, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the ~~Reduction in Force~~, death or disability

occurred or 2 ½ months after the end of the calendar year in which the Total Fund return is greater than zero, as applicable.

- (e) A Participant who changes employment from TRS to TRICOT without a break in service pursuant to Section 7.6 (c) or (d) will be treated as employed by TRS for purposes of Potential Awards becoming Earned Awards under Section 4.7 of this Plan so long as the Participant remains continuously employed by TRICOT from the first day of employment with TRICOT through (i) the applicable January 1 for purposes of Sections 4.7(a) and (b) or (ii) the date of involuntary termination of TRICOT employment because of a Reduction in Force, death, or disability for purposes of Section 4.7(d).
- (f) If an employee ceases to be a Participant before the end of the Performance Period due to Plan termination, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. In such an event, however, Potential Awards from previous plans that have not yet become Earned Awards, can become Earned Awards and be paid under those plans if the Board determines that such payments would be consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system, and if such payments are not prohibited by applicable law.

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

The Board shall have the right in its sole discretion to modify the Plan or any portion thereof at any time. The Board shall have the right in its sole discretion to suspend or terminate the Plan, including payments of awards, entirely or any portion thereof at any time. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of this Plan or any performance criteria relating to this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

5.2 Plan Administration

The Executive Director has the sole discretion to administer and interpret the Plan in accordance with its terms and conditions. The Executive Director may adopt such procedures and practices as he or she considers advisable to carry out the purposes of the Plan in accordance with the Code.

5.3 Record Keeping and Reporting

A record of the master “Participants List,” including a list of staff of the IMD covered by this Plan and the data forming the basis for all Plan calculations shall be maintained by the Chief Organizational Excellence Officer.

5.4 Compliance with State and Federal Law

If the Executive Director or a court having jurisdiction determines that any provision of the Plan violates applicable state or federal law, that provision shall not be given effect. The remaining provisions of the Plan shall remain in full force and effect to the maximum extent possible, and any amendments or modifications that are necessary to give effect to the remaining provisions will be deemed to have been made to allow proper administration of the Plan.

6. AT-WILL EMPLOYMENT

Nothing in this Plan or the payment of Earned Awards alters the at-will nature of TRS employment, creates a contract between TRS and any TRS employee, confers on any TRS employee the right to continued employment with TRS, or affects in any way the right of TRS to terminate the employment of employees at any time.

7. OTHER PLAN PROVISIONS

7.1. Non-transferability of Awards

Potential Awards and Earned Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, pledge, lien, security interest, garnishment, attachment, or levy of any kind.

7.2 Plan Does Not Create a Property Interest, Trust, or Entitlement

- (a) Neither the establishment of the Plan or the calculation of Potential Awards or Earned Awards shall be deemed to create a property interest, trust or entitlement. The Plan is an unfunded, unsecured liability of TRS to make payments in accordance with the provisions of the Plan and applicable law. Any amounts budgeted for Earned Awards are TRS assets until properly disbursed in accordance with this Plan and applicable law, and no employee or third party shall have any property, security, expectancy, contractual right, lien, security interest, encumbrance, or other interest in any TRS assets by reason of the Plan.
- (b) Nothing in the Plan shall be deemed to create or confer any right, interest, expectancy, or title to any specific property of TRS to any Participant, or to any estate, trust, personal representative, heir, family member, or beneficiary of a Participant.

7.3 Tax and Other Deductions

All payments under the Plan shall be subject to any deductions at the time of payment (x) for tax and withholding required by federal (or other foreign jurisdiction), state, or local law and (y) for any and all amounts owed by the employee to TRS. TRS is not obligated to advise an employee of the existence of any tax or the tax treatment, reporting requirements, or required withholding in connection with the Plan.

7.4 Payments Not Eligible for Retirement Purposes

Any payments made pursuant to the Plan are fringe benefits and are not eligible compensation for TRS pension plan purposes.

7.5 Grievances

Except as expressly provided in this Plan, all grievances related to the Plan will be addressed according to the TRS Dispute Resolution Policy or any similar or successor policy, as amended from time to time.

7.6 TRS Secondes; Subsidiary Employee Eligibility

- (a) TRICOT is a wholly owned subsidiary of the Teacher Retirement System of Texas incorporated in the United Kingdom on August 28, 2015. TRICOT has its principal office in London, England. TRS organized TRICOT for the purpose of establishing a representative office in London to provide investment services to TRS relating to private investment opportunities in the United Kingdom and Europe, and TRICOT provides such services

exclusively to and on behalf of TRS. Employees directly hired by TRICOT are not eligible for performance pay under this Plan. From time to time, TRS seconded employees in the TRS Investment Management Division to TRICOT to provide services to TRICOT. Seconded employees participate in this Plan as part of their employment with TRS, including during the term of their secondment to TRICOT. TRS provides funding and services to TRICOT under an intercompany agreement.

(b) The Board has authorized TRICOT's adoption of a separate performance pay plan ("TRICOT Plan") that, to the extent legally permissible under UK law, is designed and intended to provide eligibility for performance pay awards comparable to that provided to TRS employees under this Plan (taking into account differing compensation rates, but not currency exchange rates), but there is no assurance that the TRICOT Plan will be comparable in all respects. TRS, as one of the services it provides to TRICOT, will administer the TRICOT Plan under the intercompany agreement and by and through the TRS Executive Director as the Shareholder Representative on behalf of TRICOT.

(c) TRS and TRICOT intend that any employee who transfers employment between TRS and TRICOT without a break in service, and who is eligible to participate in the TRS Plan while employed by TRS and in the TRICOT Plan while employed by TRICOT, shall be eligible for performance pay during the Performance Period in aggregate that the employee would have received had they not changed employers, taking into account any changes to the employee's employment position, but without any adjustments for currency exchange rates. In such event, the Participant's Potential Award and performance measurements for the Performance Period will be prorated between this Plan and the TRICOT Plan using the same approach as outlined in Section 4.2(d) above.

(d) If, during the Performance Period, a TRS Participant moves without a break in service from an Eligible Position under this Plan to a position with TRICOT that is not eligible under the TRICOT Plan, the Participant's Potential Award for the partial Performance Period under this Plan will be prorated based on the number of complete calendar quarters worked in an Eligible Position during the Performance Period. For the avoidance of doubt, a Participant under this Plan will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position under either this Plan or the TRICOT Performance Pay Plan for the entire quarter.

8. DEFINITIONS

Base Salary for use in the Plan is the Participant's annualized monthly salary as of October 1 of the applicable Performance Period (not including longevity or benefit replacement pay), or the annualized monthly salary of new Participants as of the date they first become a Participant, as certified by the Chief Organizational Excellence Officer.

Code means the United States Internal Revenue Code of 1986, as amended from time to time, or any successor U.S. federal income tax code.

Earned Award means a Potential Award that has become earned and payable because all of the terms, conditions, and requirements of this Plan have been satisfied. An Earned Award may be forfeited for misconduct, or suspended, canceled, or deferred as stated in this Plan. An Earned Award is not property.

Eligible Position means a title listed in Section 4.3(f) and, when the context refers to an Eligible Position with respect to a Participant's performance allocation and Potential

Award calculation, the Investment Area or areas to which a Participant is assigned or interacts with during the Performance Period and the relevant excess return targets and portfolio benchmarks in Addendum A. A Participant who is reassigned from one Investment Area to another during the Performance Period also changes Eligible Positions, whether or not the Participant's title changes.

Investment Areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and Addendum B, and which are used to calculate Potential Awards for Participants in Eligible Positions. In this Plan, Investment Areas are synonymous with IMD employee teams or groups.

Maximum Potential Award is defined in Section 4.3(f) and is a limit on the gross Potential Award that can become an Earned Award in an Eligible Position Title with respect to the Performance Period.

Participant is an employee in an Eligible Position on October 1 of the Performance Period, or who is first employed in an Eligible Position after the beginning of the Performance Period based on the proration schedules in Section 4.2, as certified by the Chief Organizational Excellence Officer.

Performance Period is the period beginning on October 1 of each year and ending on September 30 of the following year.

Potential Award is defined in Section 4.3(f) and is the amount calculated based on the Participant's performance achieved in the applicable investment performance and qualitative performance components. A Potential Award is contingent and no Earned Award may exceed the Maximum Potential Award, regardless of whether the Participant exceeds the stated excess return target.

~~**Reduction in Force** as used in this Plan refers to termination of an employee due to elimination of the employee's position caused by a required reduction in the number of TRS Full Time Equivalents (FTEs) or by a required reduction in expenses within the TRS operating budget. The Executive Director has sole discretion in determining whether an employee's termination is due to a Reduction in Force.~~

SPN means a Strategic Partner Network investment area. TRS has both private markets and public markets SPNs.

Total Fund means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested to provide retirement, death, and disability benefits administered by the system, including cash and cash equivalents. For avoidance of doubt, for the purposes of the Plan the Total Fund does not include the assets of health plans administered by TRS and held in trust by the Board of Trustees.

TRICOT means the Teacher Retirement Investment Company of Texas Ltd., a company limited by shares.

Administrative Policy

Current effective date:

October 1, 202⁵⁴*

First issued:

October 1, 2007

Reviewers: Executive Director, Chief
Investment Officer,
Organizational Excellence,
Legal & Compliance

Last reviewed

September 15, 202⁵⁴

Review Cycle: Annual

Next review due:

September 202⁶⁵

Authorized by: Board of Trustees

Date authorized:

September ~~18-19-20~~, 202⁵⁴**Approved:**

By: _____

Approved as of:

October 1, 202⁵⁴

Brian K. Guthrie,
Executive Director

*This Plan is effective only for the Performance Period beginning on October 1, 202⁵⁴ and ending September 30, 202⁶⁵.

ADDENDUM A
Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark

	Total Fund	Active Public Markets ⁽¹⁾	Internal Fundamental	External Public Markets	Multi-Asset Strategies Group	Special Opportunities	Private Equity	Real Estate	Energy Natural Resources Infrastructure	Total
Index	Total Fund Policy Composite Index	Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement					State Street Private Equity Index	NCREIF ODCE	40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI	
Excess Return Target	75 bps	75 bps	75 bps	75 bps	75 bps	150 bps	125 bps	150 bps	125 bps	
Executive	100%									100%
Risk and Portfolio Management	100%									100%
Internal Fundamental	30%	50%	20%							100%
External Public Markets	30%	50%		20%						100%
Multi-Asset Strategies Group	30%	50%			20%					100%
Special Opportunities	30%	50%				20%				100%
Private Equity	30%						70%			100%
Real Estate	30%							70%		100%
Energy Natural Resources & Infrastructure	30%								70%	100%
Trade Management	60%	40%								100%
Investment Operations	100%									100%
IMD Legal & Compliance	100%									100%

(1) Active Public Markets includes all Global Equity investments, hedge funds, absolute return portfolios, ARP/Innovation portfolios, and Public SPN portfolios managed by Public Markets.

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Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark

	<u>Total Fund</u>	<u>Active Public Markets(1)</u>	<u>Special Opportunities Absolute Return(2)</u>	<u>Private Equity</u>	<u>Real Estate</u>	<u>Energy Natural Resources & Infrastructure</u>	<u>Total</u>
<u>Index</u>	<u>Total Fund Policy Composite Index</u>	<u>Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement</u>	<u>SOFR+4%</u>	<u>Custom State Street Private Equity Index</u>	<u>NCREIF ODCE</u>	<u>40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI</u>	
<u>Excess Return Target</u>	<u>75 bps</u>	<u>75 bps</u>	<u>150 bps</u>	<u>125 bps</u>	<u>150 bps</u>	<u>125 bps</u>	
<u>Executive</u>	<u>100%</u>						<u>100%</u>
<u>Risk and Portfolio Management</u>	<u>100%</u>						<u>100%</u>
<u>Public Markets (Ex-Special Opportunities)</u>	<u>30%</u>	<u>60%</u>	<u>10%</u>				<u>100%</u>
<u>Special Opportunities</u>	<u>30%</u>	<u>10%</u>	<u>60%</u>				<u>100%</u>
<u>Private Equity</u>	<u>30%</u>			<u>70%</u>			<u>100%</u>
<u>Real Estate</u>	<u>30%</u>				<u>70%</u>		<u>100%</u>
<u>Energy Natural Resources & Infrastructure</u>	<u>30%</u>					<u>70%</u>	<u>100%</u>
<u>Trade Management</u>	<u>60%</u>	<u>40%</u>					<u>100%</u>
<u>Investment Operations</u>	<u>100%</u>						<u>100%</u>
<u>IMD Legal & Compliance</u>	<u>100%</u>						<u>100%</u>

(1) From 10/1/2025, Active Public Markets will include all Global Equity investments, hedge funds, and Public SPN portfolios managed by Public Markets other than absolute return portfolios managed by Special Opportunities.

(2) Special Opportunities Absolute Return has a performance inception date of 10/1/2023.

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ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison

<u>Fund Level</u>	<u>Total Fund</u>	<u>Public Markets All Country(1)</u>	<u>Private Equity</u>	<u>Real Estate</u>	<u>Risk Parity Portfolio</u>	<u>Total</u>
<u>Index</u>	<u>TUCS Public Funds >\$10 Billion Universe</u>	<u>TUCS Total Equity > \$10 Billion Universe</u>	<u>TUCS Private Equity > \$10 Billion Universe</u>	<u>TUCS Real Estate > \$10 Billion Universe</u>	<u>Risk Parity Benchmark</u>	
<u>Excess Return Target:</u>	<u>75 bps</u>	<u>75 bps</u>	<u>175 bps</u>	<u>150 bps</u>	<u>30 bps</u>	
<u>Executive</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>
<u>Risk and Portfolio Management</u>	<u>30%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>40%</u>	<u>100%</u>
<u>Public Markets</u>	<u>30%</u>	<u>70%</u>				<u>100%</u>
<u>Private Equity</u>	<u>30%</u>		<u>70%</u>			<u>100%</u>
<u>Real Estate</u>	<u>30%</u>			<u>70%</u>		<u>100%</u>
<u>Energy Natural Resources & Infrastructure</u>	<u>30%</u>		<u>35%</u>	<u>35%</u>		<u>100%</u>
<u>Trade Management</u>	<u>30%</u>	<u>30%</u>	<u>10%</u>	<u>10%</u>	<u>20%</u>	<u>100%</u>
<u>Investment Operations</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>
<u>IMD Legal & Compliance</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>

(1) Performance inception 10/1/2025.

<u>Fund Level</u>	<u>Total Fund</u>	<u>Trade-Management</u>	<u>Private-Equity</u>	<u>Real Estate</u>	<u>Risk Parity-Portfolio</u>	<u>Total</u>
<u>Index</u>	<u>TUCS Public-Funds >\$10-Billion Universe</u>	<u>Virtu Financial</u>	<u>TUCS-Private-Equity > \$10-Billion Universe</u>	<u>Real Estate vs.-TUCS Real-Estate > \$10-Billion Universe</u>	<u>Risk Parity-Benchmark</u>	
<u>Excess Return Target:</u>	<u>75 bps</u>	<u>9 bps</u>	<u>175 bps</u>	<u>150 bps</u>	<u>30 bps</u>	
<u>Executive</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>

Risk and Portfolio Management	30%	10%	10%	10%	40%	100%
Public Markets	90%	10%				100%
Private Equity	30%		70%			100%
Real Estate	30%			70%		100%
Energy Natural Resources & Infrastructure	30%		35%	35%		100%
Trade Management	30%	70%				100%
Investment Operations	60%	10%	10%	10%	10%	100%
IMD Legal & Compliance	60%	10%	10%	10%	10%	100%



Teacher Retirement Investment Company of Texas Ltd.

PERFORMANCE PAY PLAN

Effective October 1, 202⁵⁴

This Plan is effective only for the Performance Period beginning on October 1, 202⁵⁴ and ending September 30, 202⁶⁵. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.

No modification of this Plan may be given retroactive effect except as required to comply with applicable law, including United States or United Kingdom tax laws and regulations as appropriate.

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PERFORMANCE PAY PLAN

1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

The Teacher Retirement Investment Company of Texas Ltd., a company limited by shares (“TRICOT”) is a wholly owned subsidiary of the Teacher Retirement System of Texas (“TRS”) incorporated in the United Kingdom on August 28, 2015. TRICOT has its principal office in London, England. TRS organized TRICOT for the purpose of establishing a representative office in London to provide investment services to TRS relating to investment opportunities in the United Kingdom and Europe, and TRICOT provides such services exclusively to and on behalf of TRS.

To remain competitive in its efforts to attract and retain high caliber employees TRICOT strives to offer a competitive compensation package. Awards of performance pay based on specified performance criteria are an industry standard practice in the private investment sector and in the public sector. By offering both a competitive base salary and performance pay, TRICOT enhances its ability to fulfill its mission to assist TRS in prudently investing and managing the assets held in trust for TRS members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles. The TRS Board of Trustees (the “TRS Board”) has determined that establishing and expending funds through TRICOT for this Performance Pay Plan (“Plan”) for TRICOT employees is consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system.

The TRS Board has approved TRICOT’s adoption of the Plan. The TRS Board has adopted resolutions (a) relating to the governance, funding, budgeting, administration, and operations of TRICOT, and (b) designating the TRS Executive Director as the TRS shareholder representative (“Shareholder Representative”) for purposes of administering and interpreting this Plan. A person duly appointed to serve as the TRICOT Managing Director (the “TRICOT Managing Director”) will perform the duties specified in this Plan for the TRICOT Managing Director.

2. PLAN OBJECTIVES AND STRATEGY

2.1 Plan Objectives

The Plan serves these objectives:

- To attract and retain TRICOT employees who demonstrate outstanding ability;
- To reinforce employees’ strong commitment to the long-term investment performance of the assets for which TRS and TRICOT are responsible; and
- To motivate investment professionals to focus on maximizing real, long-term returns for funds invested and managed by TRS while assuming appropriate levels of risk.

2.2 Plan Strategy

Implementation of the Plan strategy includes:

- Base salaries targeted to be competitive as determined by the TRICOT Managing Director and the Shareholder Representative, with individual base salaries based on an employee’s

experience, education, knowledge, skills, and overall job performance in an Eligible Position.

- Performance pay award opportunities, calculated as a percentage of an employee's base salary, based on performance above pre-determined standards, and earned contingent upon continued employment in an Eligible Position through specified dates subject to deferral as set forth in Section 4.7(b).

3. BASE SALARY ADMINISTRATION

3.1 *Salary Structure*

- (a) Notwithstanding any other law, the Shareholder Representative approves the rates of compensation of all TRICOT employees. The TRICOT Managing Director shall, subject to the approval of the Shareholder Representative, propose in the annual TRICOT budget the base salary rates for TRICOT employees generally based on the salary schedules, position classifications, and salary administration practices that are reasonably comparable to those used for the TRS Investment Management Division employees, taking into account prevailing market conditions in the United Kingdom, which the Shareholder Representative determines are in the best interest of TRICOT and TRS, and which are not in conflict with applicable law, fiduciary duty, or policy.
- (b) The TRICOT Managing Director shall set the initial base salary for each newly hired TRICOT employee within the salary range approved by the Shareholder Representative, considering the employee's experience, education, knowledge and skills; external competitiveness; and internal compensation equity.

3.2 *Salary Adjustments*

- (a) TRICOT employees may receive base salary adjustments (increase or decrease) at the discretion of the TRICOT Managing Director within the base salary range approved by the Shareholder Representative in accordance with the terms of their employment contract, applicable law, and TRICOT policy.
- (b) Notwithstanding Section 3.2(a), all base salary adjustments will be implemented in accordance with the contract of employment and TRICOT salary administration procedures.

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIOD

4.1 *Purpose of the Plan; Effective Date; Performance Period*

- (a) The purpose of the Plan is to provide the opportunity for TRICOT employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The Performance Period for this Plan begins on October 1, 2025⁵⁴ and ends September 30, 2026⁵⁵. A potential award for performance in a prior plan's performance period can only become earned and payable subject to the terms and conditions stated in the relevant plan.

4.2 *Participation in the Plan; Proration*

- (a) Subject to Sections 4.2(c) and (d), a TRICOT employee who holds an Eligible Position on the first day of the Performance Period is eligible to participate in the Plan. Seconded, non-TRICOT or contract workers, and other temporary workers are not TRICOT employees and are not eligible to participate in the Plan. An Eligible Position under this

Plan is not automatically an Eligible Position under any successor or superseding performance pay plan or other plan of TRICOT or TRS.

- (b) Within thirty (30) days after the end of the Performance Period, the TRS Chief Organizational Excellence Officer will certify to the Shareholder Representative in writing the master “Participants List” for this Plan, setting forth all relevant information that is required for calculating each Participant’s Potential Award and any proration required under this Section 4.2.
- (c) Notwithstanding Section 4.2(a), an employee who begins employment in an Eligible Position (through new hire, promotion or reassignment) after the beginning of the Performance Period will become a Participant as follows:
 - (i) If an employee begins employment in an Eligible Position after October 1 but on or before January 1, the employee will become a Participant on January 1 and the Participant’s Potential Award will be prorated to 75% of the Potential Award calculated for the entire Performance Period.
 - (ii) If an employee begins employment in an Eligible Position after January 1 but on or before April 1, the employee will become a Participant on April 1 and the Participant’s Potential Award will be prorated to 50% of the Potential Award calculated for the entire Performance Period.
 - (iii) If an employee begins employment in an Eligible Position after April 1 but on or before July 1, the employee will become a Participant on July 1 and the Participant’s Potential Award will be prorated to 25% of the Potential Award calculated for the entire Performance Period.
 - (iv) If an employee begins employment in an Eligible Position after July 1 of the Performance Period, the employee will become a Participant on the first day of the next Performance Period, provided that such employee is employed by TRICOT in an Eligible Position on such date.
- (d) If, during the Performance Period, a Participant moves from one Eligible Position to another Eligible Position (including by transitioning from a full-time to part-time status), the Participant’s Potential Award and performance measurements for the Performance Period will be prorated between the Potential Award calculated for the vacated Eligible Position and the Potential Award calculated for the new Eligible Position as follows:
 - (i) If a Participant moves to a new Eligible Position after October 1 but on or before January 1, the Participant’s Potential Award and performance measurements will be based on the previous Eligible Position for the period October 1 through December 31, and on the new Eligible Position beginning as of January 1.
 - (ii) If a Participant moves to a new Eligible Position after January 1 but on or before April 1, the Participant’s Potential Award and performance measurements will be based on the previous Eligible Position through March 31, and on the new Eligible Position beginning as of April 1.
 - (iii) If a Participant moves to the new Eligible Position after April 1 but on or before July 1, the Participant’s Potential Award and performance measurements will be based on the previous Eligible Position through June 30, and on the new Eligible Position beginning as of July 1.

- (iv) If a Participant moves to a new Eligible Position after July 1 of the Performance Period, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through September 30.
- (e) If a Participant leaves an Eligible Position during the Performance Period and begins TRICOT employment in a non-Eligible Position, the Participant's Potential Award for the partial Performance Period will be prorated based on the number of complete calendar quarters worked in an Eligible Position during the Performance Period. For the avoidance of doubt, a Participant will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position for the entire quarter.
- (f) Section 7.6 addresses the proration calculation that applies if a Participant changes employment from TRICOT to TRS or vice versa.
- (g) An employee will cease to be a Participant in the Plan on the earliest to occur of:
 - (i) Except as specifically provided in Section 4.2(e) with respect to continued TRICOT employment or Section 7.6 with respect to changing employment from TRICOT to TRS, or vice versa, without a break in service, the date the employee is no longer employed in an Eligible Position;
 - (ii) The date this Plan terminates.

For purposes of the Plan, the employment termination date is deemed to be the employee's last day worked, not including any leave the employee takes to extend their employment termination date for payroll purposes.

4.3 *Performance Components; Potential Awards*

- (a) Participants' Potential Awards will be based on a combination of investment performance and qualitative performance measurement and rating components.
- (b) The investment performance components comprise two categories: 1) performance measured against pre-determined benchmarks and applicable excess return targets, and 2) performance measured against pre-determined peer groups.
 - (i) The benchmark index category of the investment performance component will determine 50% of the total Potential Award for Eligible Position Titles of Senior Managing Director through Director. The benchmark index category of the investment performance component will determine 30% of the total Potential Award for Eligible Position Titles of Investment Manager through Administrative Assistant.
 - (ii) The peer group category of the investment performance component will determine 30% of the total Potential Award.
- (c) Notwithstanding that the Performance Period is October 1 through September 30, due to the delay in availability of final performance data for private markets assets performance measurements for these Investment Areas will experience a one quarter time lag, such that all calculations requiring private markets performance will use data for the one and three year periods ending each June 30.
- (d) Each Eligible Position will be assigned specific weightings for Total Fund and other investment benchmarks based on investment area performance as shown in Addendums A and B. Addendum A correlates benchmarks and excess return targets to Investment Areas

listed in the first column, and allocates performance weights for each area to the relevant excess return targets and benchmarks. Addendum B correlates Investment Areas in the first column to peer group performance and relevant benchmarks and allocates performance weights among the excess return targets relative to the listed benchmarks.

- (i) To encourage a focus on the “big picture” and a sense of shared mission, the investment performance component (both benchmark and peer group categories) for all Eligible Positions will have a Total Fund weighting of at least 20%. Weightings for each investment area’s benchmarks and excess return targets will be divided among the Eligible Position’s primary investment area and other investment areas with which the Eligible Position has regular interaction.
 - (ii) Where no investment area peer group performance measures are available, that investment area’s peer group performance weighting allocation is added to the Total Fund peer group performance weighting allocation.
- (e) The qualitative performance rating component will be measured systematically as part of each Participant’s annual performance appraisal process aimed at evaluating each Participant’s job performance and adherence to the core concepts and values of the TRICOT culture and interactions with TRS IMD personnel in performing TRICOT’S services, using pre-determined, standard criteria. This may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success that are not directly measured or measurable in the investment performance component, such as interpersonal relationship skills, accountability, effective teamwork, etc.
- (i) Regardless of a Participant’s qualitative performance rating, a Potential Award will include the qualitative performance component only if the Participant has attained at least the required threshold level for the investment performance component (determined separately for each Eligible Position if a Participant changes Eligible Positions within TRICOT during the Performance Period).
 - (ii) To encourage appropriate organizational behaviors, the qualitative performance rating component will be weighted at 20% of the Potential Award for Eligible Position Titles of Senior Managing Director through Director and weighted at 40% of the Potential Award for Eligible Position Titles of Investment Manager through Administrative Assistant.
- (f) A Potential Award is the gross award amount calculated based on the final performance results for the Performance Period, weighted as set forth in Addendums A and B. The Maximum Potential Award that can become an Earned Award with respect to the Performance Period may not exceed the percentage of a Participant’s Base Salary in an Eligible Position (subject to proration under Section 4.2) that is listed opposite the applicable Eligible Position Title in the table below. The Maximum Potential Award limits a Participant’s maximum Earned Award regardless of (x) the amount by which a Participant’s performance has exceeded the excess return targets or (y) the calculated value of the Potential Award.

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Senior Managing Director	175%
Managing Director	175%
Director	150%

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Investment Manager	100%
Senior Associate	75%
Associate	65%
Senior Analyst	40%
Analyst	30%
Junior Analyst	15%
Administrative Assistants	5%

- (g) For each Investment Area, the portfolio weighting and excess return relative to each assigned excess return target will combine to determine the Potential Award for each Eligible Position.
- (i) The Potential Award includes a threshold, a maximum, and intermediate levels of Potential Award that correspond to specific levels of investment performance.
 - (ii) Intermediate levels of the Potential Award for investment performance are determined by linearly interpolating between the threshold and maximum.
 - (iii) For the qualitative performance rating component, intermediate levels of the Potential Award will be based on a system of annual performance evaluation approved by the Shareholder Representative.

4.4 Compliance with TRICOT and TRS Policies

- (a) TRICOT is a TRS asset. In providing services to TRS on behalf of TRICOT, employees exercise fiduciary responsibilities under applicable law and policies. By accepting TRICOT employment investment professionals agree to give advice about the TRS portfolio according to and in compliance with applicable TRICOT and TRS policies, advise and inform the IMD, the Shareholder Representative, and the TRS Board about TRICOT's services relating to investment management and performance of TRS investments, and recommend modifications to the TRS Board's investment policies. All TRICOT employees are responsible for complying with TRICOT and TRS policies in accordance with their employment contracts.
- (b) The Shareholder Representative on behalf of the TRS Board, acting as the sole TRICOT shareholder, has the authority to conduct an investigation of any potential violation of TRICOT or TRS policies or applicable laws. The Shareholder Representative may suspend earning and payment of Potential Awards and Earned Awards (including deferred payments) until the conclusion of an investigation under this Section 4.4.
- (c) Excess performance by a Participant or Participants resulting from a failure to manage TRS pension assets prudently and in compliance with investment and ethics policies and applicable law will result in disqualification of the Participant or Participants and forfeiture of any award for the Performance Period. The Shareholder Representative will make this determination in his sole discretion on a case-by-case basis. The Shareholder Representative's determination under this subsection is final and non-appealable.
- (d) If the Shareholder Representative determines after investigation that a Participant violated TRICOT or TRS policy or applicable law and that such violation is sufficiently serious, the Participant will either (i) be disqualified and forfeit all Potential Awards and Earned

Awards for the Performance Periods in which the violation(s) occurred, including awards and payments deferred under Section 4.7(b), or (ii) such Potential Awards and Earned Awards will be reduced by a percentage or amount determined by the Shareholder Representative in his or her sole discretion. If the Shareholder Representative determines that no serious violation has occurred, a suspended Earned Award shall be paid to the Participant within 30 days after such determination (or such later date on which the award would have been payable absent the suspension), provided that the Participant has been continuously employed in an Eligible Position through such payment date or, if later, the relevant January 1. The Shareholder Representative's determination under this subsection is final and non-appealable.

4.5 *Performance Standards and Measurements*

- (a) Each one-year performance measurement period begins October 1 and ends September 30. For the purposes of this Plan, investment performance allocated or credited to TRICOT by TRS in its sole discretion (for both benchmarks and peer group categories) is based on one- and three-year historical performance data, weighted at 33% for one-year performance (i.e., the performance measurement period ended as of the most recent September 30) and 67% for the historical three-year performance that includes the three performance measurement periods ended as of the most recent September 30. Investment performance is measured against the relevant pre-defined benchmarks in the asset allocation and benchmarks table, including applicable footnotes, in the TRS Board's Investment Policy Statement ("IPS"). For the purposes of this Plan, changes to the IPS benchmarks during the Performance Period will be effective from and after the effective date of such changes in the IPS, subject to revisions to the Plan adopted by TRICOT and approved by the TRS Board. In no event may performance allocated or credited to TRICOT or benchmark changes relevant to TRICOT be applied retroactively except as required to comply with applicable law, including United States and United Kingdom tax laws and regulations as appropriate.
- (b) For purposes of calculating the one- and three-year historical performance data under Section 4.5(a), the investment performance of any new portfolio allocated by TRS in whole or part to TRICOT will be calculated for purposes of the Plan using performance measurement periods beginning October 1 and ending September 30 as follows:
 - (i) The investment performance measurement of any new portfolio (for both benchmark and peer group categories) created during a performance measurement period will commence only on the next performance measurement period following October 1.
 - (ii) For a new portfolio's first full performance measurement period, the investment performance measurement will be based 100% on the portfolio's performance data for that performance measurement period.
 - (iii) For a new portfolio's second full performance measurement period, the investment performance measurement will be weighted (x) 50% on the portfolio's performance during the second full performance measurement period, and (y) 50% on the portfolio's two-year performance during the first and second full performance measurement periods.
 - (iv) For all performance measurement periods commencing after the second full performance measurement period, the investment performance of a new portfolio will be weighted (x) 33% on the portfolio's performance measurement during the

one-year performance measurement period just ended, and (y) 67% on the portfolio's three-year performance measurement during the three full performance measurement periods ending on September 30 of the Performance Period.

- (v) For the purposes of this Plan, no investment performance measurement will be calculated for a new portfolio unless it existed on October 1 of the Performance Period.
- (c) Notwithstanding Section 4.5(a), if during the Performance Period, investments managed by an Investment Area are moved to another investment area as a result of an IMD or TRICOT reorganization, then the performance measurements for the Performance Period and each affected Participant's Potential Award will be based on the pre-change criteria and the post-change criteria as follows:
 - (i) If the change described in this Section 4.5(c) is made after October 1 but on or before January 1, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria for the period October 1 through December 31, and on the post-change criteria beginning as of January 1.
 - (ii) If the change described in this Section 4.5(c) is made after January 1 but on or before April 1, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria through March 31, and on the post- change criteria beginning as of April 1.
 - (iii) If the change described in this Section 4.5(c) is made after April 1 but on or before July 1, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria through June 30, and on the post- change criteria beginning as of July 1.
 - (iv) If the change described in this Section 4.5(c) is made after July 1 of the Performance Period, the performance measurements and each affected Participant's Potential Award calculation will be based on the pre-change criteria through September 30.
- (d) The qualitative performance component is measured annually as part of each Participant's annual performance appraisal process using criteria established before the beginning of the Performance Period.

4.6 *Potential Award Calculations*

- (a) Following the end of the Performance Period, the Shareholder Representative will review the reported performance of each Participant relative to the applicable investment and qualitative performance components.
- (b) Potential Awards are calculated based on the Participant's level of performance achieved in the applicable investment performance and qualitative performance components in the Performance Period.
- (c) Relative performance data and calculations may be reviewed by an external independent source selected by the Shareholder Representative but final calculations must be approved by the Shareholder Representative.

4.7 *Earning Performance Payments*

- (a) Notwithstanding the Shareholder Representative's approval of Potential Award calculations, and except as otherwise provided in this Section 4.7 and Section 7.6, Potential Awards will only become an Earned Award if a Participant is employed by TRICOT on January 1 following the end of the Performance Period during which that employee was a Participant. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.

The payment dates of Earned Awards for the Performance Period shall be the same for all Participants.

- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards following a Performance Period in which the Total Fund experiences a return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become Earned Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until the January 1 following the next Performance Period in which the Total Fund has a return greater than zero, subject to the requirement that the employee be employed by TRICOT on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.
- (c) If an employee ceases to be a Participant during the Performance Period due to termination of TRICOT employment for any reason other than involuntary termination of employment due to ~~a Reduction in Force~~, death, or Disability, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during the Performance Period due to involuntary termination of TRICOT employment because of ~~a Reduction in Force~~, death, or Disability, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. However, ~~notwithstanding Sections 4.7(a) and (b)~~, Potential Awards under prior plans from previous performance periods beginning October 1 and ending September 30 will ~~immediately~~ become Earned Awards, notwithstanding Section 4.7(a) above, provided the Total Fund return is greater than zero. If the Total Fund return is not greater than zero, Potential Awards from prior plans will become Earned Awards the January 1 following the end of the next Performance Period in which the Total Fund has a return greater than zero unless the Total Fund return is not greater than zero for the subsequent two Performance Periods, at which point the Potential Award will be forfeited. Payments under this subsection will be made as applicable to the ~~terminated employee, the estate of the deceased employee or~~, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the ~~Reduction in Force~~, death or Disability occurred or 2 ½ months after the end of the calendar year in which the Total Fund return is greater than zero, as applicable.
- (e) A Participant who changes employment from TRICOT to TRS without a break in service pursuant to Section 7.6 (c) or (d) will be treated as employed by TRICOT for purposes of Potential Awards becoming Earned Awards under Section 4.7 under this Plan so long as

the Participant remains continuously employed by TRS from the first date of employment with TRS through (i) the applicable January 1 for purposes of Sections 4.7(a) or (b) or (ii) the date of involuntary termination of TRS employment because of a Reduction in Force, death, or disability for purposes of Section 4.7(d).

- (f) If an employee ceases to be a Participant before the end of the Performance Period due to Plan termination, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. In such an event, however, Potential Awards from previous plans' performance periods that have not yet become Earned Awards can become Earned Awards and be paid under those plans if the TRS Board determines that such payments would be consistent with and in furtherance of the fiduciary duties of the TRS Board in administering the retirement system, and if such payments are not prohibited by applicable law.

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

TRICOT shall have the right in its discretion to modify the Plan or any portion thereof at any time, subject to TRS Board approval. TRICOT shall have the right in its discretion to suspend or terminate the Plan, including payments of awards, entirely or any portion thereof at any time, with approval of the TRS Board; provided, however, that the Plan shall terminate, including payment of awards, if the TRS Board does not approve the expenditure of funds by TRICOT for performance pay under the Plan, or the TRS Plan is terminated. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of this Plan or any performance criteria relating to this Plan may be given retroactive effect except as required to comply with applicable law.

5.2 Plan Administration

The TRS Board has delegated administration under this Plan to the Shareholder Representative. The Shareholder Representative has sole discretion to administer and interpret the Plan in accordance with its terms and conditions. The Shareholder Representative may adopt such procedures and practices as he or she considers advisable to carry out the purposes of the Plan.

5.3 Record Keeping and Reporting

A record of the master "Participants List," including a list of TRICOT employees covered by this Plan and the data forming the basis for all Plan calculations shall be maintained by the TRS Chief Organizational Excellence Officer.

5.4 Compliance with Applicable Law

If the Shareholder Representative or a court having jurisdiction determines that any provision of the Plan violates applicable law, that provision shall not be given effect. The remaining provisions of the Plan shall remain in full force and effect to the maximum extent possible, and any amendments or modifications that are necessary to give effect to the remaining provisions will be deemed to have been made to allow proper administration of the Plan.

6. EMPLOYMENT

Nothing in this Plan or the payment of Earned Awards creates a contract between TRICOT and any TRICOT employee, confers on any TRICOT employee the right to continued employment with TRICOT, or affects in any way the right of TRICOT to terminate the employment of employees, subject to their employment contracts, TRICOT policies, and applicable law.

7. OTHER PLAN PROVISIONS

7.1 *Non-transferability of Awards*

Potential Awards and Earned Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, pledge, lien, security interest, garnishment, attachment, or levy of any kind.

7.2 *Plan Does Not Create a Property Interest, Trust, or Entitlement*

- (a) Neither the establishment of the Plan nor the calculation of Potential Awards or Earned Awards shall be deemed to create a property interest, trust or entitlement. The Plan is an unfunded, unsecured liability of TRICOT to make payments in accordance with the provisions of the Plan and applicable law. Any amounts budgeted for performance pay under the Plan are TRICOT assets until properly disbursed in accordance with, this Plan, and applicable law, and no employee or third party shall have any property, security, expectancy, contractual right, lien, security interest, encumbrance, or other interest in any TRICOT assets by reason of the Plan.
- (b) Nothing in the Plan shall be deemed to create or confer any right, interest, expectancy, or title to any specific property of TRICOT or TRS to any Participant, or to any estate, trust, personal representative, heir, family member, or beneficiary of a Participant.

7.3 *Tax and Other Deductions*

All payments under the Plan shall be subject to any deductions at the time of payment (x) for tax and withholding required by law and (y) to the extent permitted by law, for any and all amounts owed by the employee to TRICOT if applicable. Neither TRICOT nor TRS, as TRICOT's sole shareholder, is obligated to advise an employee of the existence of any tax or the tax treatment, reporting requirements, or required withholding in connection with the Plan.

7.4 *Payments Not Eligible for Retirement Purposes*

Any payments made pursuant to the Plan are fringe benefits and are not eligible compensation for pension plan purposes.

7.5 *Grievances*

Except as expressly provided in this Plan, all grievances related to the Plan will be addressed according to the TRICOT Grievance Procedure in the Employee Handbook or any similar or successor policy, as amended from time to time.

7.6 *TRS Secondes; Subsidiary Employee Eligibility*

- (a) Only employees directly hired by TRICOT are eligible for performance pay under this Plan. From time to time, TRS seconded employees in the TRS Investment Management Division to TRICOT to provide services to TRICOT. Seconded employees participate in the TRS Performance Pay Plan as part of their employment with TRS, including during the term of their secondment to TRICOT, and are not eligible for awards under this Plan. TRS provides funding and services to TRICOT under an intercompany agreement and administers this Plan under that agreement.
- (b) The Board has authorized TRICOT's adoption of a separate performance pay plan that, to the extent legally permissible under UK law, is designed and intended to provide eligibility for performance pay awards comparable to that provided to TRS employees under this Plan (taking into account differing compensation rates, but not currency exchange rates), but there is no assurance that the TRICOT Plan will be comparable in all respects. TRS, as

one of the services it provides to TRICOT, will administer the TRICOT-adopted plan by and through the TRS Executive Director as the Shareholder Representative on behalf of TRICOT.

- (c) TRS and TRICOT intend that any employee who transfers employment between TRS and TRICOT without a break in service, and who is eligible to participate in the TRS Plan while employed by TRS and in the TRICOT Plan while employed by TRICOT, shall be eligible for performance pay during the Performance Period in aggregate that the employee would have received had they not changed employers, taking into account any changes to the employee's employment position, but without any adjustments for currency exchange rates. In such event, the Participant's Potential Award and performance measurements for the Performance Period will be prorated between this Plan and the TRS Plan using the same approach as outlined in Section 4.2(d) above.
- (d) If, during the Performance Period, a TRICOT Participant moves without a break in service from an Eligible Position under the this Plan to a position with TRS that is not eligible under the TRS Plan, the Participant's Potential Award for the partial Performance Period under this Plan will be prorated based on the number of complete calendar quarters worked in an Eligible Position during the Performance Period. For the avoidance of doubt, a Participant under this Plan will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position under either this Plan or the TRS Performance Pay Plan for the entire quarter.

8. DEFINITIONS

Base Salary for use in the Plan is the Participant's annualized monthly salary as of October 1 of the applicable Performance Period (not including longevity or benefit replacement pay), or the annualized monthly salary of new Participants as of the date they first become a Participant, as certified by the TRS Chief Organizational Excellence Officer.

Disability generally means the inability of the employee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

Earned Award means a Potential Award that has become earned and payable because all of the terms, conditions, and requirements of this Plan have been satisfied. An Earned Award may be forfeited for misconduct, or suspended, canceled, or deferred as stated in this Plan. An Earned Award is not property.

Eligible Position means a title listed in Section 4.3(f) and, when the context refers to an Eligible Position with respect to a Participant's performance allocation and Potential Award calculation, the Investment Area or areas to which a Participant is assigned or interacts with during the Performance Period and the relevant excess return targets and portfolio benchmarks in Addendum A. A Participant who is reassigned from one Investment Area to another during the Performance Period also changes Eligible Positions, whether or not the Participant's title changes.

Investment Areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and Addendum B, and which are used to calculate Potential Awards for Participants in Eligible Positions. In this Plan, Investment Areas are synonymous with employee teams or groups.

Maximum Potential Award is defined in Section 4.3(f) and is a limit on the gross Potential Award that can become an Earned Award in an Eligible Position Title with respect to the Performance Period.

Participant is a TRICOT employee in an Eligible Position on October 1 of the Performance Period, or who is first employed in an Eligible Position after the beginning of the Performance Period based on the proration schedules in Section 4.2, as certified by the TRS Chief Organizational Excellence Officer.

Performance Period is the period beginning on October 1 of each year and ending on September 30 of the following year.

Potential Award is defined in Section 4.3(f) and is the amount calculated based on the Participant's performance achieved in the applicable investment performance and qualitative performance components. A Potential Award is contingent and no Earned Award may exceed the Maximum Potential Award, regardless of whether the Participant exceeds the stated excess return target.

~~**Reduction in Force** as used in this Plan refers to termination of an employee's TRICOT employment due to elimination of the employee's position caused by a reduction in the number of TRICOT's employees or by a reduction in authorized expenditures under the TRICOT operating budget. Either the Shareholder Representative or the TRICOT Managing Director has discretion to determine whether an employee's termination is due to a Reduction in Force.~~

SPN means a Strategic Partner Network investment area. TRS has both private markets and public markets SPNs.

Total Fund means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested to provide retirement, death, and disability benefits administered by the system, including cash and cash equivalents. For avoidance of doubt, for the purposes of the Plan the Total Fund does not include the assets of health plans administered by TRS and held in trust by the TRS Board.

Administrative PolicyCurrent effective date: October 1, 2025⁴*

Reviewers: TRS Executive Director (as First adoption: October 1, 2021
Shareholder Representative), TRICOT
Managing Director, TRS Organizational
Excellence, TRS Legal & Compliance

Review Cycle: Annual

Next review due: September 2026⁵Authorized by: TRS Board of
TrusteesDate adopted : September 18-19—
20, 2025⁴**Approved:**

By:

Approved as of: October 1, 2025⁴

Brian K. Guthrie,

*This Plan is effective only for the Performance Period beginning on October 1, 2025⁴ and ending
September 30, 2026⁵.

ADDENDUM A

Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark

	<u>Total Fund</u>	<u>Active Public Markets(1)</u>	<u>Special Opportunities Absolute Return(2)</u>	<u>Private Equity</u>	<u>Real Estate</u>	<u>Energy Natural Resources & Infrastructure</u>	<u>Total</u>
<u>Index</u>	<u>Total Fund Policy Composite Index</u>	<u>Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement</u>	<u>SOFR+4%</u>	<u>Custom State Street Private Equity Index</u>	<u>NCREIF ODCE</u>	<u>40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI</u>	
<u>Excess Return Target</u>	<u>75 bps</u>	<u>75 bps</u>	<u>150 bps</u>	<u>125 bps</u>	<u>150 bps</u>	<u>125 bps</u>	
<u>Executive</u>	<u>100%</u>						<u>100%</u>
<u>Risk and Portfolio Management</u>	<u>100%</u>						<u>100%</u>
<u>Public Markets (Ex-Special Opportunities)</u>	<u>30%</u>	<u>60%</u>	<u>10%</u>				<u>100%</u>
<u>Special Opportunities</u>	<u>30%</u>	<u>10%</u>	<u>60%</u>				<u>100%</u>
<u>Private Equity</u>	<u>30%</u>			<u>70%</u>			<u>100%</u>
<u>Real Estate</u>	<u>30%</u>				<u>70%</u>		<u>100%</u>
<u>Energy Natural Resources & Infrastructure</u>	<u>30%</u>					<u>70%</u>	<u>100%</u>
<u>Trade Management</u>	<u>60%</u>	<u>40%</u>					<u>100%</u>
<u>Investment Operations</u>	<u>100%</u>						<u>100%</u>
<u>IMD Legal & Compliance</u>	<u>100%</u>						<u>100%</u>

(1) From 10/1/2025, Active Public Markets will include all Global Equity investments, hedge funds, and Public SPN portfolios managed by Public Markets other than absolute return portfolios managed by Special Opportunities.

(2) Special Opportunities Absolute Return has a performance inception date of 10/1/2023.

	Total Fund	Active Public Markets (1)	Internal Fundamental	External Public Markets	Multi-Asset Strategies Group	Special Opportunities	Private Equity	Real Estate	Energy Natural Resources Infrastructure	Total
Index	Total Fund Policy Composite Index	Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement					State Street Private Equity Index	NCREIF ODCE	40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI	
Excess Return Target	75 bps	75 bps	75 bps	75 bps	75 bps	150 bps	125 bps	150 bps	125 bps	
Executive	100%									100%
Risk and Portfolio Management	100%									100%
Internal Fundamental	30%	50%	20%							100%
External Public Markets	30%	50%		20%						100%
Multi-Asset Strategies Group	30%	50%			20%					100%
Special Opportunities	30%	50%				20%				100%
Private Equity	30%						70%			100%
Real Estate	30%							70%		100%
Energy Natural Resources & Infrastructure	30%								70%	100%
Trade Management	60%	40%								100%
Investment Operations	100%									100%
IMD Legal & Compliance	100%									100%

(1) Active Public Markets includes all Global Equity investments, hedge funds, absolute return portfolios, ARP/Innovation portfolios, and Public SPN portfolios managed by Public Markets.

ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison

<u>Fund Level</u>	<u>Total Fund</u>	<u>Public Markets All Country(1)</u>	<u>Private Equity</u>	<u>Real Estate</u>	<u>Risk Parity Portfolio</u>	<u>Total</u>
<u>Index</u>	<u>TUCS Public Funds >\$10 Billion Universe</u>	<u>TUCS Total Equity > \$10 Billion Universe</u>	<u>TUCS Private Equity > \$10 Billion Universe</u>	<u>TUCS Real Estate > \$10 Billion Universe</u>	<u>Risk Parity Benchmark</u>	
<u>Excess Return Target:</u>	<u>75 bps</u>	<u>75 bps</u>	<u>175 bps</u>	<u>150 bps</u>	<u>30 bps</u>	
<u>Executive</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>
<u>Risk and Portfolio Management</u>	<u>30%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>40%</u>	<u>100%</u>
<u>Public Markets</u>	<u>30%</u>	<u>70%</u>				<u>100%</u>
<u>Private Equity</u>	<u>30%</u>		<u>70%</u>			<u>100%</u>
<u>Real Estate</u>	<u>30%</u>			<u>70%</u>		<u>100%</u>
<u>Energy Natural Resources & Infrastructure</u>	<u>30%</u>		<u>35%</u>	<u>35%</u>		<u>100%</u>
<u>Trade Management</u>	<u>30%</u>	<u>30%</u>	<u>10%</u>	<u>10%</u>	<u>20%</u>	<u>100%</u>
<u>Investment Operations</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>
<u>IMD Legal & Compliance</u>	<u>60%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>100%</u>

(1) Performance inception 10/1/2025.

<u>Fund Level</u>	<u>Total Fund</u>	<u>Trade-Management</u>	<u>Private-Equity</u>	<u>Real Estate</u>	<u>Risk Parity Portfolio</u>	<u>Total</u>
<u>Index</u>	<u>TUCS Public Funds >\$10-Billion Universe</u>	<u>Virtu Financial</u>	<u>TUCS Private Equity > \$10-billion Universe</u>	<u>Real Estate vs. TUCS Real Estate > \$10-billion Universe</u>	<u>Risk Parity Benchmark</u>	
<u>Excess Return Target</u>	<u>75 bps</u>	<u>9 bps</u>	<u>175 bps</u>	<u>150 bps</u>	<u>30 bps</u>	

Executive	60%	10%	10%	10%	10%	100%
Risk and Portfolio Management	30%	10%	10%	10%	40%	100%
Public Markets	90%	10%				100%
Private Equity	30%		70%			100%
Real Estate	30%			70%		100%
Energy Natural Resources & Infrastructure	30%		35%	35%		100%
Trade Management	30%	70%				100%
Investment Operations	60%	10%	10%	10%	10%	100%
IMD Legal & Compliance	60%	10%	10%	10%	10%	100%

TAB 5



Memorandum

Investment Management Division

To: Investment Management Committee of the Board of Trustees

From: Katy Hoffman, Chief of Staff

Date: September 2025

Copy: Board of Trustees

Re: Investment Policy Statement Required Review

Pursuant to the Policy Review Schedule, the review of the Investment Policy Statement ("IPS") is due.

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.

At this time, the Investment Management Division is not proposing any changes to the policy. Staff previously presented changes to the Investment Policy Statement which were adopted at the Board meeting held June 3, 2025. These changes captured all the input we received as part of our internal review process and no additional changes have emerged.

TAB 6



Memorandum

TRS Compliance

To: Board of Trustees

From: Heather Traeger, General Counsel & Chief Compliance Officer

Cc: Brian Guthrie, Executive Director

Date: September 18, 2025

Re: Revisions to the TRS General Authority Resolution

The TRS General Authority Resolution (“GAR”) evidences the Board’s delegation of approval authority to certain TRS employees with respect to investment and related matters. The GAR is also the framework from which we build a detailed series of transaction approvals, workflows and controls to effect investment purchases and sales as well as other investment-related matters such as contracts. Finally, the GAR is the document that external parties (such as custody banks, counterparties, external managers, and brokers) use to authenticate TRS transactions.

The GAR includes various categories of authorization based on employees’ TRS roles and functions. These include: Investment Group, Financial Group, Executive Group, Investment Operations Group, Trading Group, FICC Trading Group, and Compliance Group.

TRS staff is proposing the following changes to the GAR:

1. Replace any reference to “working titles” with “positions” to avoid confusion between TRS working titles and incentive compensation titles.
2. Remove the title “Senior Director” from the Investment Group and Investment Operations Group, as the Board approved the removal of this title in September 2023.
3. Remove the title “Assistant Deputy Director” from the Executive Group as this title has been eliminated.
4. Remove the title “Director of Accounting Operations” from the Financial Group as this title has been eliminated.
5. Add the title “Senior Managing Director” to the Trading Group and Investment Operations Group.
6. Add the title “Investment Manager” to the Investment Operations Group providing additional resources for the authorization of certain Investment Operations functions.
7. Add the title “Director” to the Compliance Group.
8. Minor “clean-up” changes.



Board of Trustees

~~Revised~~ General Authority Resolutions

~~Adopted September 15, 2023~~

Revised September 18, 2025

Investment Group

Resolved, That Investment Division employees holding the following TRS ~~positions~~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~~positions:

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~~positions: Executive Director, and 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~~positions: Senior Managing Director, 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~~positions: 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~~positions: Senior Managing Director, Managing Director, ~~Senior Director, and~~ Director, and Investment Manager.

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~~ titlespositions: Chief Compliance Officer, Director, 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.



Board of Trustees

General Authority Resolution

Revised September 18, 2025

Investment Group

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

Chief Investment Officer
Senior Managing Director

Managing Director
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:

- A1** Buy, sell, or give orders or instructions for transactions in currencies and securities, and any amendments or modifications of such orders or instructions.
- A2** 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.
- A3** Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of securities transactions.
- A4** 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 positions:

Chief Financial Officer

Manager of Investment Accounting

Deputy Chief Financial Officer

Director of Budget and Financial Analysis

Senior Director of Investment Accounting

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 positions: Executive Director and 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 positions: Senior Managing Director, 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 positions: 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 positions: Senior Managing Director, Managing Director, Director, and Investment Manager.

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 positions: Chief Compliance Officer, Director, 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.

TAB 7



Memorandum

DATE: September 18, 2025

TO: TRS Governance Committee

FROM: Katherine H. Farrell, Board Secretary

Through: Brian Guthrie, Executive Director

RE: Policy Review Schedule Update

ACTION REQUESTED

Staff asks the Governance Committee to:

- Conduct the review of TRS Board policy review schedule and adopt the proposed updates.

BACKGROUND AND DISCUSSION

TRS Board Bylaws Subsection 3.1.5(e) provides that the Governance Committee (Committee) is to adopt and follow a plan of review for each fiscal year to ensure that all written TRS Board policies are reviewed periodically. To accomplish this requirement, the Committee adopts the Policy Review Schedule (Schedule), which provides for the regular review of all written board policies and is to be adopted every September.

Included in your materials are “redlined” and “clean” copies of the Schedule. At the Committee meeting, staff will propose for the Committee to adopt the following updates to the Schedule. For policies reviewed during FY 2025 the corresponding dates for the last and next review of the policy were updated. Additionally, the name of the Committee and division names were updated for changes that occurred during the past fiscal year.

The Schedule is only adopted at the Governance Committee level. Therefore, at the September meeting, the Governance Committee will consider updating the Schedule but will not make a recommendation on the matter to the full Board.

TEACHER RETIREMENT SYSTEM OF TEXAS
POLICY REVIEW SCHEDULE
APPROVED BY THE POLICY GOVERNANCE COMMITTEE SEPTEMBER 198, 20242025

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
ADMINISTRATIVE					
Authorization to Approve and Sign Vouchers	Financial; Legal	3 years	April <u>2022</u> <u>2025</u>	December 2018	April <u>2025</u> <u>2028</u>
Performance Incentive Pay Plan	Executive Director; OE; Legal	1 year	September <u>2024</u> <u>2025</u>	September <u>2024</u> <u>2025</u>	September <u>2025</u> <u>2026</u>
	Investments; OE; Legal		September <u>2024</u> <u>2025</u>	September <u>2024</u> <u>2025</u>	September <u>2025</u> <u>2026</u>
Resolution Regarding Correction of Errors and Other Edits	Executive Director	5 years	September 2022	September 2012	September 2027
Rules of the Board of Trustees – Rule Review, Chapters 21–51	Legal; Finance; Benefits <u>Pension</u> ; HIB <u>Health</u>	4 years ⁱⁱⁱ	September 2022	December 2022	April 2026 ^{iv}
Litigation Policy	Legal	3 years	May 2024	May 2024	April 2027
Policy on Negotiated Rulemaking and Alternative Dispute Resolution	Executive Director; Legal	5 years	July 2023	July 2023	July 2028
Procurement Policy	Legal	3 years	July 2024	July 2024	July 2027

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
At Will Employment	OE; Legal	10 years	September 2023	September 2023	September 2033
Member Engagement Policy	Communications	4 years	December 2020 2024	December 2020 2024	December 2024 2028
Benefit Counseling Policy	Benefits Pension	2 years	September 2024	September 2024	September 2026
Outreach Plan ^v	Communications; Benefits Pension	5 years	July 2021	July 2021	July 2026
Inactive Accounts Policy ^{vi}	Benefits Pension	4 years	December 2021	December 2021	December 2025
BOARD GOVERNANCE & ETHICS					
Bylaws of the Board of Trustees	Legal	4 years	September 2022	December 2023	September 2026
Board Training Policy	Executive Director; OE	4 years	December 2022	December 2022	December 2026
Trustees External Communication Policy	Communica- tions	5 years	May 2024	May 2024	April 2029
Trustee Ethics Policy and Position Description	Legal	4 years	December 2021	December 2021	December 2025
Medical Board Policy	Benefits Pension; Legal	3 years	May 2024	May 2024	May 2027
TRS-Care Retirees Advisory Committee Policy	Health; Legal	3 years	May 2024	May 2024	May 2027

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW ⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW ⁱⁱ
Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026
EMPLOYEE & VENDOR ETHICS					
Designation of Key Employees	Executive Director	2 years	December 2023	December 2023	December 2025
Employee Ethics Policy (Including Conflict of Interest Disclosure Statement; Ethics Compliance Statement for Employees and Disciplinary Action Disclosure Statement)	Legal	4 years	December 2021	December 2021	December 2025
Code of Ethics for Contractors (Including Contractor Annual Ethics Compliance Statement, Expenditure Reporting Memorandum and Form, and Disclosure Statement for Brokers and Financial Advisors and Financial Providers)	Legal	4 years	April 2023	April 2023	April 2027
INVESTMENTS					
General Authority Resolution (GAR)	Financial, <u>Legal</u> ; Investments	2 years	September 2023 <u>2025</u>	September 2023 5	September 2025 <u>2027</u>
Investment Policy Statement	Investments	2 years	September 2023 <u>2025</u>	September <u>2023 June 2025</u>	September 2025 <u>2027</u>

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
Commission Credit Policy	Investments	3 years	December 2022	December 2019	December 2025
Proxy Voting Policy	Investments	3 years	December 2022	December 2022	December 2025
Securities Lending Policy	Financial; Investments	3 years	December 2022	December 2022	December 2025

ⁱ Reviews scheduled or rescheduled to begin and to end at the meeting when the current Policy Review Schedule is approved are assumed to have been completed at that meeting, so that date is shown in this column, "Date of Last ~~Policy Governance~~ Committee Comprehensive Review."

ⁱⁱ Initial review and discussion of the applicable policy occurs at the Board committee level on or about the date listed. Reviews may continue throughout one or more subsequent meetings.

ⁱⁱⁱ Texas Gov't Code § 2001.039 requires a comprehensive rule review every four years.

^{iv} The last review of the rules in Chapters 21-51 was completed on July 14, 2022. Subsequent Rule amendments and repeals recommended based upon this review.

^v The Outreach Plan is required by statute to be reviewed and updated every five years. The plan provides for Communications to annually update the Board on the implementation of the plan.

^{vi} ~~Benefit-Pension~~ Services shall report on an annual basis regarding the outreach efforts including the number of notification letters sent and the number of accounts that have refunded or rolled over as a result of the efforts.

**TEACHER RETIREMENT SYSTEM OF TEXAS
POLICY REVIEW SCHEDULE
APPROVED BY THE GOVERNANCE COMMITTEE SEPTEMBER 18, 2025**

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
ADMINISTRATIVE					
Authorization to Approve and Sign Vouchers	Financial; Legal	3 years	April 2025	December 2018	April 2028
Performance Incentive Pay Plan	Executive Director; OE; Legal	1 year	September 2025	September 2025	September 2026
	Investments; OE; Legal		September 2025	September 2025	September 2026
Resolution Regarding Correction of Errors and Other Edits	Executive Director	5 years	September 2022	September 2012	September 2027
Rules of the Board of Trustees – Rule Review, Chapters 21–51	Legal; Finance; Pension; Health	4 years ⁱⁱⁱ	September 2022	December 2022	April 2026 ^{iv}
Litigation Policy	Legal	3 years	May 2024	May 2024	April 2027
Policy on Negotiated Rulemaking and Alternative Dispute Resolution	Executive Director; Legal	5 years	July 2023	July 2023	July 2028
Procurement Policy	Legal	3 years	July 2024	July 2024	July 2027

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
At Will Employment	OE; Legal	10 years	September 2023	September 2023	September 2033
Member Engagement Policy	Communications	4 years	December 2024	December 2024	December 2028
Benefit Counseling Policy	Pension	2 years	September 2024	September 2024	September 2026
Outreach Plan ^v	Communications; Pension	5 years	July 2021	July 2021	July 2026
Inactive Accounts Policy ^{vi}	Pension	4 years	December 2021	December 2021	December 2025
BOARD GOVERNANCE & ETHICS					
Bylaws of the Board of Trustees	Legal	4 years	September 2022	December 2023	September 2026
Board Training Policy	Executive Director; OE	4 years	December 2022	December 2022	December 2026
Trustees External Communication Policy	Communica- tions	5 years	May 2024	May 2024	April 2029
Trustee Ethics Policy and Position Description	Legal	4 years	December 2021	December 2021	December 2025
Medical Board Policy	Pension; Legal	3 years	May 2024	May 2024	May 2027
TRS-Care Retirees Advisory Committee Policy	Health; Legal	3 years	May 2024	May 2024	May 2027
Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
EMPLOYEE & VENDOR ETHICS					
Designation of Key Employees	Executive Director	2 years	December 2023	December 2023	December 2025
Employee Ethics Policy (Including Conflict of Interest Disclosure Statement; Ethics Compliance Statement for Employees and Disciplinary Action Disclosure Statement)	Legal	4 years	December 2021	December 2021	December 2025
Code of Ethics for Contractors (Including Contractor Annual Ethics Compliance Statement, Expenditure Reporting Memorandum and Form, and Disclosure Statement for Brokers and Financial Advisors and Financial Providers)	Legal	4 years	April 2023	April 2023	April 2027
INVESTMENTS					
General Authority Resolution (GAR)	Financial, Legal; Investments	2 years	September 2025	September 2025	September 2027
Investment Policy Statement	Investments	2 years	September 2025	June 2025	September 2027
Commission Credit Policy	Investments	3 years	December 2022	December 2019	December 2025

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
Proxy Voting Policy	Investments	3 years	December 2022	December 2022	December 2025
Securities Lending Policy	Financial; Investments	3 years	December 2022	December 2022	December 2025

ⁱ Reviews scheduled or rescheduled to begin and to end at the meeting when the current Policy Review Schedule is approved are assumed to have been completed at that meeting, so that date is shown in this column, "Date of Last Governance Committee Comprehensive Review."

ⁱⁱ Initial review and discussion of the applicable policy occurs at the Board committee level on or about the date listed. Reviews may continue throughout one or more subsequent meetings.

ⁱⁱⁱ Texas Gov't Code § 2001.039 requires a comprehensive rule review every four years.

^{iv} The last review of the rules in Chapters 21-51 was completed on July 14, 2022. Subsequent Rule amendments and repeals recommended based upon this review.

^v The Outreach Plan is required by statute to be reviewed and updated every five years. The plan provides for Communications to annually update the Board on the implementation of the plan.

^{vi} Pension Services shall report on an annual basis regarding the outreach efforts including the number of notification letters sent and the number of accounts that have refunded or rolled over as a result of the efforts.

TAB 8



TRS Rules 25.21, 31.3 & 41.4 – HB 2 implementation

Sept. 18, 2025

Presented By:
Heather Traeger & Nick Gonzalez



House Bill 2 – Changes for TRS



House Bill 2 (HB 2): a broad public education bill passed by the 89th Legislature. Most of its provisions only impact TRS indirectly if at all.

*Two HB 2 changes
directly impacting
TRS statutes:*

Gov't. Code 822.201 - Teacher Retention Allotment (TRA) and Support Staff Retention Allotment (SSRA)

Gov't. Code 825.4092(f) – Repeal of TRS pension and health surcharge “pass through prohibition”



Proposed Amendments: TRS Rules 25.21, 31.3 and 41.4



Proposed Amended TRS Rule 25.21: TRA & SSRA

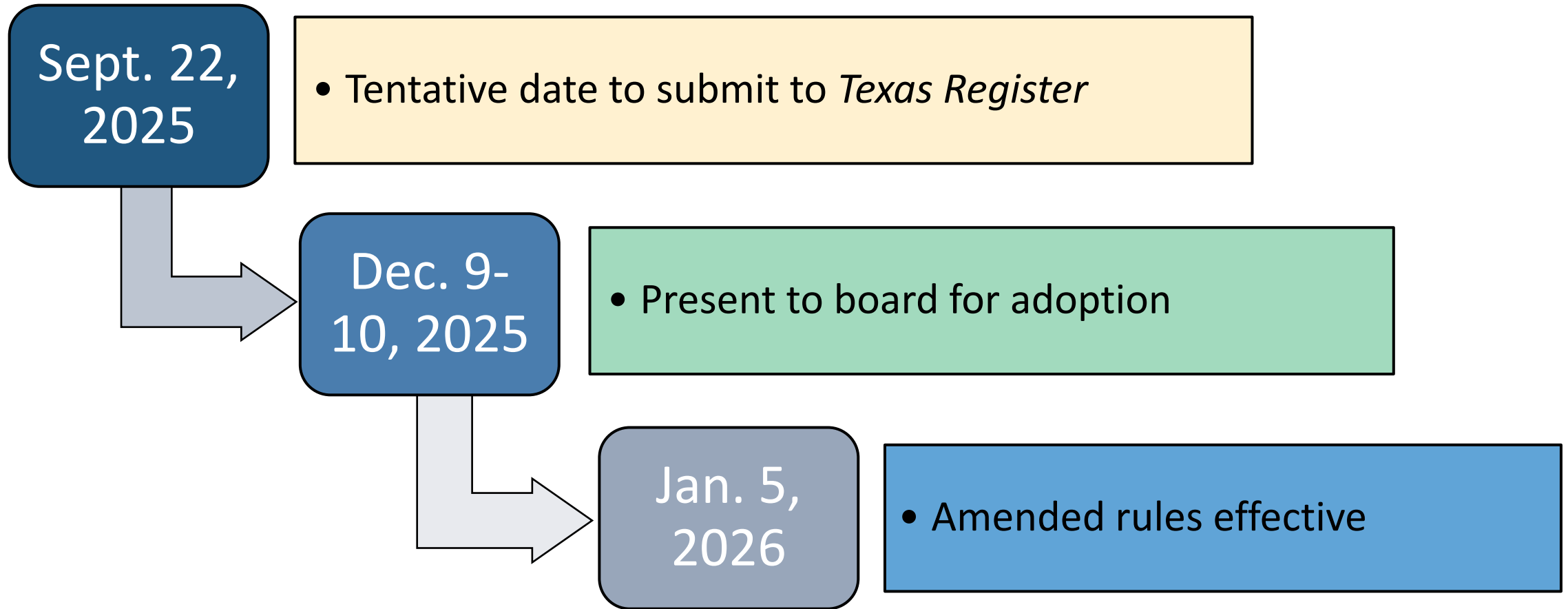
- TRA & SSRA provide raises to classroom teachers and other public school employees.
- To ensure raises are creditable, HB 2 amended Gov't Code 822.201 to expressly provide that they are.
- Staff proposes to amend TRS Rule 25.21 to conform with this change.

Proposed Amended TRS Rules 31.3 and 41.4: Gov't. Code 825.4092(f) repeal

- In 2021, SB 202 added the surcharge “pass through prohibition,” meaning employers cannot pass the cost of pension or health surcharges onto retirees they employ.
- HB 2 repeals this prohibition, and staff proposes to amend TRS Rules 31.3 and 41.4 to conform with this change.



Next Steps





Legal & Compliance

Memorandum

DATE: Sept. 18, 2025

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

FROM: Heather Traeger, General Counsel & Chief Compliance Officer

COPY: Brian Guthrie, Executive Director

RE: Proposed Amended Rules: TRS Rule §§ 25.21, 31.3, and 41.4

Requested Action

TRS staff asks the Policy Committee to authorize for publication in the *Texas Register* the following proposed amended rules:

§ 25.21 - Compensation Subject to Deposit and Credit.

§ 31.3 - Return-to-work Employer Pension Surcharge.

§ 41.4 - Employer Health Benefit Surcharge.

Background and Reasons for Proposed Amended Rules

TRS is proposing to amend TRS Rules §§ 25.21, 31.3 and 41.4 in order to conform with legislation passed during the regular session of the 89th Legislature. Specifically, House Bill 2 (HB2) made two changes to TRS laws that require TRS to amend its existing rules.

First, HB2 amended Government Code § 822.201 to provide that any increased compensation paid to an employee by a school district using funds received by the district from the teacher retention allotment (TRA) or support staff retention allotment (SSRA) is creditable compensation. HB2 added these allotments to the Education Code to provide compensation increases for classroom teachers and other district employees. In addition, HB2 amended Section 822.201 to ensure that regardless of how districts distributed these increases to teachers and other employees, the increases would be creditable for TRS purposes. Based on these changes, TRS

proposes to amend TRS Rule § 25.21 to similarly provide that any compensation paid by a district to an employee from the TRA or SSRA is creditable compensation.

HB2 also repealed Government Code § 825.4092(f). This subsection was originally added to TRS law in 2021 by House Bill 202. It prohibits TRS employers from directly or indirectly passing on the cost of pension or health care surcharges to TRS retirees they employ. In response, TRS added this “pass-through prohibition” to TRS Rule §§ 31.3 and 41.4. Because HB2 has now repealed this provision, TRS staff proposes to repeal this provision from both rules.

The draft language of the three proposed amended rules is attached as Appendix 1, and a redline version of the proposed amendments is attached as Appendix 2.

Conclusion

If the Governance Committee authorizes publication, the proposed amended rules will be published in the *Texas Register* for public comment for at least 30 days before presentation to the Policy Committee and TRS Board of Trustees for final adoption.

APPENDIX 1

§25.21. Compensation Subject to Deposit and Credit

(a) The contributions required from a member to the Teacher Retirement System of Texas are generally based upon the member's annual compensation. Benefits paid by the retirement system are also generally based in whole or in part upon the annual compensation credited to a member for certain school years. A member's annual compensation for any particular school year has the meaning given by the law and rules applicable for that year. Beginning with the 1981-1982 school year, and for school years thereafter, annual compensation consists of the salary and wages that are paid or payable to a member for employment which is eligible for membership in the retirement system during that school year.

(b) Some payments made by an employer to a member are not salary or wages, even though the payments may be otherwise considered as compensation under the employment contract or federal tax laws. In general salary and wages creditable and subject to deposit are those types of monetary compensation that are recurring base pay for periods of employment and that:

(1) are earned or accrue proportionally as the work is performed, so that a member terminating employment between pay periods is entitled to a proportional amount of the compensation based on either length of employment or amount of work performed;

(2) are paid or payable at fixed intervals, generally at the end of each pay period; and

(3) are not specifically excluded under subsection (d) of this section.

(c) The following types of monetary compensation are to be included in annual compensation:

(1) amounts deducted from regular pay for the state-deferred compensation program, for a tax-sheltered annuity, or for a deferred compensation arrangement qualifying under the United States Internal Revenue Code, §401(k);

(2) normal payroll deductions which are not tax-exempt or tax-deferred;

(3) additional compensation paid for additional duties, for longevity, for overtime worked as required by law, or for service in a particular location or specialty the employer determines requires additional compensation compared to other employees of that employer, provided that these payments clearly meet the requirements of subsection (b) of this section;

(4) delayed payments of lump-sum amounts which by law or contract should have been paid at fixed intervals and which otherwise meet the requirements of subsection (b) of this section provided the amounts are credited to the payroll period in which they were earned;

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(5) amounts withheld from regular pay under a cafeteria plan as provided by §25.22 of this title (relating to Contributions to Cafeteria Plans and Deferred Compensation);

(6) performance pay provided it meets the requirements of §822.201(b)(4), Government Code and §25.24 of this title (relating to Performance Pay);

(7) compensation received under the relevant parts of the educator excellence awards program under Subchapter O, Chapter 21, Education Code, or a mentoring program under §21.458, Education Code, that authorize compensation for service, and compensation earned under the awards for student achievement program under Subchapter N of Chapter 21, Education Code, prior to the repeal of statutory provisions authorizing that program;

(8) a merit salary increase made under §51.962, Education Code;

(9) amounts deducted from regular pay for a qualified transportation benefit under §659.202, Government Code;

(10) compensation designated as health care supplementation by an employee under Subchapter D, Chapter 22, Education Code;

(11) workers' compensation paid as temporary wage replacement pay and reported or verified to TRS and with member contributions paid on the amount of workers' compensation, by the end of the school year following the year in which it was paid. Workers' compensation paid as temporary wage replacement pay and not reported or verified to TRS with member contributions paid on the workers' compensation in the time period provided may be verified and purchased as provided in §25.45 of this title (relating to Verification of Unreported Compensation or Service) and §25.43 of this title (relating to Cost for Unreported Service or Compensation) no later than the end of the fifth year following the school year in which it may be reported or verified under this paragraph; and

(12) increased compensation paid by a school district using funds received by the district under:

(A) the teacher incentive allotment under §48.112, Education Code;

(B) the teacher retention allotment under §48.158, Education Code; or

(C) the support staff retention allotment under §48.1581.

(d) The following are excluded from annual compensation:

(1) allowances, including housing, car, cell phone, and expense allowances;

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(2) reimbursements for expenses;

(3) payments for accrued compensatory time for overtime worked or for accrued sick leave or vacation, except that continued payments of normal compensation when vacation, sick, administrative, or emergency leave or compensatory time is actually taken by an employee will be included in annual compensation to the extent otherwise permitted by this section;

(4) benefits, except as provided in subsection (c)(1) of this section, which either are not subject to federal income tax or which will be subject to federal income tax in a future year;

(5) bonus and incentive payments, including signing or retention bonuses that are offered to entice a person to enter into an employment arrangement or to stay for a period of time in an employment arrangement, whether paid under Subchapter O, Chapter 21, the Education Code, or other authority, unless state law expressly provides that a type of bonus or incentive payment is to be considered TRS-creditable compensation;

(6) employer payments for fringe benefits, including direct cash payments in lieu of fringe benefits, except as provided in §25.22 of this title (relating to Contributions to Cafeteria Plans and Deferred Compensation);

(7) payments, except as provided in subsection (c)(1), (2), (5), and (9) of this section, made to third parties for the benefit of a member;

(8) payments for work as an independent contractor or consultant;

(9) all nonmonetary compensation;

(10) active employee health coverage or compensation supplementation or any other amount received by an employee under former Article 3.50-8, Insurance Code; former Chapter 1580, Insurance Code; Subchapter D, Chapter 22, Education Code, as that subchapter existed on January 1, 2006; or Rider 9, page III-39, Chapter 1330, Acts of the 78th Legislature, Regular Session, 2003 (the General Appropriations Act), regardless of whether the employee receives the amount in cash, uses it for payment of health care coverage, or uses it for any other option available by law;

(11) any other fringe benefit;

(12) payments that an employer intentionally does not include in salary and wages because they are not expected to be permanently recurring in each pay period of employment or because they are not considered base pay and that, for the protection of the actuarial soundness of the retirement system, the type of payment should not be

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included in the calculation of a lifetime retirement benefit intended to replace a percentage of the member's base pay at retirement;

(13) payments for terminating employment or paid as an incentive to terminate employment. Examples of such payments include payments for contract buy-outs, amounts paid pursuant to an agreement in which the employee agrees to terminate employment or to waive or release rights to future employment, and amounts paid pursuant to early retirement incentive programs or other programs intended to increase the compensation paid to the employee upon receipt of the resignation of the employee or the waiver or release of rights to future employment. Increased compensation paid in the final year of employment prior to retirement that exceeds increases approved by the employer for all employees or classes of employees is presumed to be payment for terminating employment;

(14) payments received under relevant parts of the educator excellence awards program under Subchapter O, Chapter 21, Education Code that do not represent payments for service rendered by the member;

(15) except as provided in §25.28(e) of this title (relating to Payroll Report Dates), amounts paid pursuant to a settlement agreement except that compensation paid to an employee while on paid leave of any type, including paid administrative or emergency leave under the terms of a settlement agreement is creditable under paragraph (3) of this subsection; and

(16) differential pay that is less than 50% of the compensation for service in a full-time position. Differential pay is pay by an employer to a member who leaves membership eligible employment to serve in the military and the pay represents all or some of the difference between what the member earned in the TRS covered employment and what he or she is earning in the military job. Differential pay that is at least 50% of the compensation for full-time service in the membership eligible position may be reported to TRS and deposits submitted at the discretion of the employer.

(e) The maximum amount of compensation of any member that may be taken into account under the retirement system shall not exceed \$150,000 for plan years commencing on or after September 1, 1996. For plan years commencing on or after January 1, 2002, the maximum amount of compensation shall not exceed the limit contained in the Internal Revenue Code §401(a)(17)(A), 26 United States Code §401(a)(17)(A). For plan years beginning before January 1, 1997, in determining the compensation of any member for any year, the family aggregation rules of the Internal Revenue Code §414(q)(6), 26 United States Code §414(q)(6) shall apply except the term "family" shall include only the spouse of the member and any lineal descendants of the member who have not attained age 19 before the end of the year. The limits set forth in the first two sentences of this subsection shall be increased from time to time, to reflect cost of living increases, in accordance with the Internal Revenue Code §401(a)(17), 26 United States Code §401(a)(17). The dollar limitation

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prescribed in the first two sentences of this subsection shall not apply to limit the compensation of any person who first becomes a member before September 1, 1996. Furthermore, that limitation shall not apply for any period during which such limitation is repealed or is not enforced by the Internal Revenue Service with regard to governmental plans. In applying the limits described in this section, a plan year is September 1 through August 31.

(f) TRS may rely upon employer certifications in determining creditable compensation or may conduct an investigation to determine whether any ineligible compensation has been reported. At the request of TRS, employers will provide copies of any records or information the retirement system requests. Such records may include, but are not limited to, copies of contracts, work agreements, salary schedules or addenda, board minutes, payroll records, or other materials that will assist the retirement system in making a determination.

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§31.3. Return-to-Work Employer Pension Surcharge

(a) For each report month a retiree is employed by an employer for more than 92 hours in a calendar month and that retiree is not exempt from surcharge under subsection (b) of this section, the employer shall pay to TRS a surcharge based on the compensation paid to the retiree during that report month. The criteria used to determine if a retiree is working more than 92 hours in a calendar month are the same as the criteria for determining one-half time employment under §31.13 of this title (relating to One-half Time Employment) even if the retiree's employment also qualifies for an exception under §31.14 of this title (relating to Full-time Employment after 12 Consecutive Month Break in Service), or §31.15 of this title (relating to Tutors under Education Code §33.913).

(b) Employers are not required to submit employer surcharges based on the employment of a retiree during a calendar month if:

(1) the retiree works 92 hours or less during the applicable report month;

(2) the retiree retired prior to September 1, 2005;

(3) the retiree is employed solely as a substitute and that employment meets all the requirements §31.12 of this title (relating to Substitute Service) even if the retiree's substitute employment also qualifies for another exception under Subchapter B of this chapter (relating to Employment After Retirement Exceptions);

(4) the retiree is employed in multiple positions during the calendar month and does not exceed the limits for such combined employment under §31.19 of this title (relating to Combining EAR Exceptions and Employer Surcharges); or

(5) the retiree's employment is in a position that qualifies as a federally-funded COVID-19 position under §31.16 of this title (relating to Federally-funded COVID-19 Personnel) and Government Code §824.6021.

(c) The amount of the employer surcharge that an employer must contribute to TRS for each retiree subject to surcharge under this section is equal to the sum of the compensation paid to the retiree during the report month multiplied by the member contribution rate in effect for the report month plus the compensation paid to the retiree during the report month multiplied by the state contribution rate in effect for that report month.

(d) If a retiree is employed concurrently in more than one position, the employer surcharge is owed if the combined employment exceeds the monthly limits described by §31.19 of this title. If the employment is with more than one employer, the employer surcharge is owed by each employer.

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§41.4 Employer Health Benefit Surcharge

(a) When used in this section, the term "employer" has the meaning given in §821.001(7), Government Code.

(b) For each report month a retiree is enrolled in TRS-Care and working for an employer for more than 92 hours in that calendar month, the employer that reports the employment of the retiree on the Employment of Retired Members Report to TRS shall pay monthly to the Retired School Employees Group Insurance Fund (the Fund) a surcharge established by the Board of Trustees of TRS.

(c) The criteria used to determine if the retiree is working more than 92 hours in that calendar month are the same as the criteria for determining one-half time employment under §31.13 of this title (relating to One-half Time Employment) even if the retiree's employment also qualifies for an exception under §31.14 of this title (relating to Full-time Employment after 12 Consecutive Month Break in Service) or §31.15 of this title (relating to Tutors under Education Code §33.913).

(d) The surcharge is also owed by the employer on any retiree who is enrolled in TRS-Care, is working for a third party entity but is working for more than 92 hours in that calendar month and who is considered an employee of that employer under §824.601(d) of the Government Code.

(e) The surcharge under this section is not owed:

(1) by an employer for any retiree who retired from TRS before September 1, 2005; or

(2) by an employer for a retiree reported as working under the exception for substitute service as provided in §31.12 of this title (relating to Substitute Service) unless that retiree combines substitute service under §31.12 of this title with other non-substitute employment with the same or another employer or third party entity in the same calendar month;

(3) by an employer for any retiree that is employed in multiple positions during a calendar month and does not exceed the limits for such combined employment under §31.19 of this title (relating to Combining EAR Exceptions and Employer Surcharges); or

(4) by an employer for any service retiree that is employed in a position that qualifies as a federally-funded COVID-19 position under §31.16 of this title (relating to Federally-funded COVID-19 Personnel) and Government Code §824.6021.

(f) If more than one employer reports the employment of a retiree who is enrolled in TRS-Care to TRS during any part of a month, the surcharge under this section required to be paid into

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the Fund by each reporting employer for that month is the total amount of the surcharge due that month divided by the number of reporting employers. The pro rata share owed by each employer is not based on the number of hours respectively worked by the retiree for each employer, nor is it based on the number of days respectively worked during the month by the retiree for each employer.

(g) If a retiree who is enrolled in TRS-Care is employed concurrently by one or more employers in more than one position, the surcharge is owed if the combined employment exceeds the limits for such combined employment under §31.19 of this title.

(h) The employer shall maintain the confidentiality of any information provided to the employer under this section and shall use the information only as needed to carry out the purposes stated in this section and related applicable rules or statutes.

APPENDIX 2

§25.21. Compensation Subject to Deposit and Credit

(a) The contributions required from a member to the Teacher Retirement System of Texas are generally based upon the member's annual compensation. Benefits paid by the retirement system are also generally based in whole or in part upon the annual compensation credited to a member for certain school years. A member's annual compensation for any particular school year has the meaning given by the law and rules applicable for that year. Beginning with the 1981-1982 school year, and for school years thereafter, annual compensation consists of the salary and wages that are paid or payable to a member for employment which is eligible for membership in the retirement system during that school year.

(b) Some payments made by an employer to a member are not salary or wages, even though the payments may be otherwise considered as compensation under the employment contract or federal tax laws. In general salary and wages creditable and subject to deposit are those types of monetary compensation that are recurring base pay for periods of employment and that:

(1) are earned or accrue proportionally as the work is performed, so that a member terminating employment between pay periods is entitled to a proportional amount of the compensation based on either length of employment or amount of work performed;

(2) are paid or payable at fixed intervals, generally at the end of each pay period; and

(3) are not specifically excluded under subsection (d) of this section.

(c) The following types of monetary compensation are to be included in annual compensation:

(1) amounts deducted from regular pay for the state-deferred compensation program, for a tax-sheltered annuity, or for a deferred compensation arrangement qualifying under the United States Internal Revenue Code, §401(k);

(2) normal payroll deductions which are not tax-exempt or tax-deferred;

(3) additional compensation paid for additional duties, for longevity, for overtime worked as required by law, or for service in a particular location or specialty the employer determines requires additional compensation compared to other employees of that employer, provided that these payments clearly meet the requirements of subsection (b) of this section;

(4) delayed payments of lump-sum amounts which by law or contract should have been paid at fixed intervals and which otherwise meet the requirements of subsection (b) of this section provided the amounts are credited to the payroll period in which they were earned;

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(5) amounts withheld from regular pay under a cafeteria plan as provided by §25.22 of this title (relating to Contributions to Cafeteria Plans and Deferred Compensation);

(6) performance pay provided it meets the requirements of §822.201(b)(4), Government Code and §25.24 of this title (relating to Performance Pay);

(7) compensation received under the relevant parts of the educator excellence awards program under Subchapter O, Chapter 21, Education Code, or a mentoring program under §21.458, Education Code, that authorize compensation for service, and compensation earned under the awards for student achievement program under Subchapter N of Chapter 21, Education Code, prior to the repeal of statutory provisions authorizing that program;

(8) a merit salary increase made under §51.962, Education Code;

(9) amounts deducted from regular pay for a qualified transportation benefit under §659.202, Government Code;

(10) compensation designated as health care supplementation by an employee under Subchapter D, Chapter 22, Education Code;

(11) workers' compensation paid as temporary wage replacement pay and reported or verified to TRS and with member contributions paid on the amount of workers' compensation, by the end of the school year following the year in which it was paid. Workers' compensation paid as temporary wage replacement pay and not reported or verified to TRS with member contributions paid on the workers' compensation in the time period provided may be verified and purchased as provided in §25.45 of this title (relating to Verification of Unreported Compensation or Service) and §25.43 of this title (relating to Cost for Unreported Service or Compensation) no later than the end of the fifth year following the school year in which it may be reported or verified under this paragraph; and

(12) increased compensation paid by a school district using funds received by the district under:

(A) the teacher incentive allotment under §48.112, Education Code;

(B) the teacher retention allotment under §48.158, Education Code; or

(C) the support staff retention allotment under §48.1581.

(d) The following are excluded from annual compensation:

(1) allowances, including housing, car, cell phone, and expense allowances;

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(2) reimbursements for expenses;

(3) payments for accrued compensatory time for overtime worked or for accrued sick leave or vacation, except that continued payments of normal compensation when vacation, sick, administrative, or emergency leave or compensatory time is actually taken by an employee will be included in annual compensation to the extent otherwise permitted by this section;

(4) benefits, except as provided in subsection (c)(1) of this section, which either are not subject to federal income tax or which will be subject to federal income tax in a future year;

(5) bonus and incentive payments, including signing or retention bonuses that are offered to entice a person to enter into an employment arrangement or to stay for a period of time in an employment arrangement, whether paid under Subchapter O, Chapter 21, the Education Code, or other authority, unless state law expressly provides that a type of bonus or incentive payment is to be considered TRS-creditable compensation;

(6) employer payments for fringe benefits, including direct cash payments in lieu of fringe benefits, except as provided in §25.22 of this title (relating to Contributions to Cafeteria Plans and Deferred Compensation);

(7) payments, except as provided in subsection (c)(1), (2), (5), and (9) of this section, made to third parties for the benefit of a member;

(8) payments for work as an independent contractor or consultant;

(9) all nonmonetary compensation;

(10) active employee health coverage or compensation supplementation or any other amount received by an employee under former Article 3.50-8, Insurance Code; former Chapter 1580, Insurance Code; Subchapter D, Chapter 22, Education Code, as that subchapter existed on January 1, 2006; or Rider 9, page III-39, Chapter 1330, Acts of the 78th Legislature, Regular Session, 2003 (the General Appropriations Act), regardless of whether the employee receives the amount in cash, uses it for payment of health care coverage, or uses it for any other option available by law;

(11) any other fringe benefit;

(12) payments that an employer intentionally does not include in salary and wages because they are not expected to be permanently recurring in each pay period of employment or because they are not considered base pay and that, for the protection of the actuarial soundness of the retirement system, the type of payment should not be

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included in the calculation of a lifetime retirement benefit intended to replace a percentage of the member's base pay at retirement;

(13) payments for terminating employment or paid as an incentive to terminate employment. Examples of such payments include payments for contract buy-outs, amounts paid pursuant to an agreement in which the employee agrees to terminate employment or to waive or release rights to future employment, and amounts paid pursuant to early retirement incentive programs or other programs intended to increase the compensation paid to the employee upon receipt of the resignation of the employee or the waiver or release of rights to future employment. Increased compensation paid in the final year of employment prior to retirement that exceeds increases approved by the employer for all employees or classes of employees is presumed to be payment for terminating employment;

(14) payments received under relevant parts of the educator excellence awards program under Subchapter O, Chapter 21, Education Code that do not represent payments for service rendered by the member;

(15) except as provided in §25.28(e) of this title (relating to Payroll Report Dates), amounts paid pursuant to a settlement agreement except that compensation paid to an employee while on paid leave of any type, including paid administrative or emergency leave under the terms of a settlement agreement is creditable under paragraph (3) of this subsection; and

(16) differential pay that is less than 50% of the compensation for service in a full-time position. Differential pay is pay by an employer to a member who leaves membership eligible employment to serve in the military and the pay represents all or some of the difference between what the member earned in the TRS covered employment and what he or she is earning in the military job. Differential pay that is at least 50% of the compensation for full-time service in the membership eligible position may be reported to TRS and deposits submitted at the discretion of the employer.

(e) The maximum amount of compensation of any member that may be taken into account under the retirement system shall not exceed \$150,000 for plan years commencing on or after September 1, 1996. For plan years commencing on or after January 1, 2002, the maximum amount of compensation shall not exceed the limit contained in the Internal Revenue Code §401(a)(17)(A), 26 United States Code §401(a)(17)(A). For plan years beginning before January 1, 1997, in determining the compensation of any member for any year, the family aggregation rules of the Internal Revenue Code §414(q)(6), 26 United States Code §414(q)(6) shall apply except the term "family" shall include only the spouse of the member and any lineal descendants of the member who have not attained age 19 before the end of the year. The limits set forth in the first two sentences of this subsection shall be increased from time to time, to reflect cost of living increases, in accordance with the Internal Revenue Code §401(a)(17), 26 United States Code §401(a)(17). The dollar limitation

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prescribed in the first two sentences of this subsection shall not apply to limit the compensation of any person who first becomes a member before September 1, 1996. Furthermore, that limitation shall not apply for any period during which such limitation is repealed or is not enforced by the Internal Revenue Service with regard to governmental plans. In applying the limits described in this section, a plan year is September 1 through August 31.

(f) TRS may rely upon employer certifications in determining creditable compensation or may conduct an investigation to determine whether any ineligible compensation has been reported. At the request of TRS, employers will provide copies of any records or information the retirement system requests. Such records may include, but are not limited to, copies of contracts, work agreements, salary schedules or addenda, board minutes, payroll records, or other materials that will assist the retirement system in making a determination.

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§31.3. Return-to-Work Employer Pension Surcharge

(a) For each report month a retiree is employed by an employer for more than 92 hours in a calendar month and that retiree is not exempt from surcharge under subsection (b) of this section, the employer shall pay to TRS a surcharge based on the compensation paid to the retiree during that report month. The criteria used to determine if a retiree is working more than 92 hours in a calendar month are the same as the criteria for determining one-half time employment under §31.13 of this title (relating to One-half Time Employment) even if the retiree's employment also qualifies for an exception under §31.14 of this title (relating to Full-time Employment after 12 Consecutive Month Break in Service), or §31.15 of this title (relating to Tutors under Education Code §33.913).

(b) Employers are not required to submit employer surcharges based on the employment of a retiree during a calendar month if:

(1) the retiree works 92 hours or less during the applicable report month;

(2) the retiree retired prior to September 1, 2005;

(3) the retiree is employed solely as a substitute and that employment meets all the requirements §31.12 of this title (relating to Substitute Service) even if the retiree's substitute employment also qualifies for another exception under Subchapter B of this chapter (relating to Employment After Retirement Exceptions);

(4) the retiree is employed in multiple positions during the calendar month and does not exceed the limits for such combined employment under §31.19 of this title (relating to Combining EAR Exceptions and Employer Surcharges); or

(5) the retiree's employment is in a position that qualifies as a federally-funded COVID-19 position under §31.16 of this title (relating to Federally-funded COVID-19 Personnel) and Government Code §824.6021.

(c) The amount of the employer surcharge that an employer must contribute to TRS for each retiree subject to surcharge under this section is equal to the sum of the compensation paid to the retiree during the report month multiplied by the member contribution rate in effect for the report month plus the compensation paid to the retiree during the report month multiplied by the state contribution rate in effect for that report month.

(d) If a retiree is employed concurrently in more than one position, the employer surcharge is owed if the combined employment exceeds the monthly limits described by §31.19 of this title. If the employment is with more than one employer, the employer surcharge is owed by each employer.

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~~[(e) Employers shall not directly or indirectly pass the cost of the employer surcharge under this section on to the retiree through payroll deduction, by imposition of a fee, or by any other means designed to recover the cost.]~~

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§41.4 Employer Health Benefit Surcharge

(a) When used in this section, the term "employer" has the meaning given in §821.001(7), Government Code.

(b) For each report month a retiree is enrolled in TRS-Care and working for an employer for more than 92 hours in that calendar month, the employer that reports the employment of the retiree on the Employment of Retired Members Report to TRS shall pay monthly to the Retired School Employees Group Insurance Fund (the Fund) a surcharge established by the Board of Trustees of TRS.

(c) The criteria used to determine if the retiree is working more than 92 hours in that calendar month are the same as the criteria for determining one-half time employment under §31.13 of this title (relating to One-half Time Employment) even if the retiree's employment also qualifies for an exception under §31.14 of this title (relating to Full-time Employment after 12 Consecutive Month Break in Service) or §31.15 of this title (relating to Tutors under Education Code §33.913).

(d) The surcharge is also owed by the employer on any retiree who is enrolled in TRS-Care, is working for a third party entity but is working for more than 92 hours in that calendar month and who is considered an employee of that employer under §824.601(d) of the Government Code.

(e) The surcharge under this section is not owed:

(1) by an employer for any retiree who retired from TRS before September 1, 2005; or

(2) by an employer for a retiree reported as working under the exception for substitute service as provided in §31.12 of this title (relating to Substitute Service) unless that retiree combines substitute service under §31.12 of this title with other non-substitute employment with the same or another employer or third party entity in the same calendar month;

(3) by an employer for any retiree that is employed in multiple positions during a calendar month and does not exceed the limits for such combined employment under §31.19 of this title (relating to Combining EAR Exceptions and Employer Surcharges); or

(4) by an employer for any service retiree that is employed in a position that qualifies as a federally-funded COVID-19 position under §31.16 of this title (relating to Federally-funded COVID-19 Personnel) and Government Code §824.6021.

(f) If more than one employer reports the employment of a retiree who is enrolled in TRS-Care to TRS during any part of a month, the surcharge under this section required to be paid into

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the Fund by each reporting employer for that month is the total amount of the surcharge due that month divided by the number of reporting employers. The pro rata share owed by each employer is not based on the number of hours respectively worked by the retiree for each employer, nor is it based on the number of days respectively worked during the month by the retiree for each employer.

(g) If a retiree who is enrolled in TRS-Care is employed concurrently by one or more employers in more than one position, the surcharge is owed if the combined employment exceeds the limits for such combined employment under §31.19 of this title.

(h) The employer shall maintain the confidentiality of any information provided to the employer under this section and shall use the information only as needed to carry out the purposes stated in this section and related applicable rules or statutes.

~~[(i) Employers shall not directly or indirectly pass the cost of the surcharge under this section on to the retiree through payroll deduction, by imposition of a fee, or by any other means designed to recover the cost.]~~