

**December 2025**

# GUIDING PRINCIPLES

**Governance Committee Meeting**

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

*All or part of the December 4, 2025, meeting of the TRS Policy Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **4655 Mueller Blvd, 2<sup>nd</sup> Floor, Boardroom.***

*The open portions of the December 4, 2025, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at [www.trs.texas.gov](http://www.trs.texas.gov). A recording of the meeting will be available at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA  
December 4, 2025 – 1:00 p.m.**

1. Call roll of Committee members.
2. Review and consider the approval of the proposed minutes of the September 2025 committee meeting – Committee Chair.
3. Review and consider recommending to the Board adoption of the proposed amendments to the Inactive Accounts Policy – Barbie Pearson.
4. Review and consider recommending to the Board adoption of the proposed amendments to the Commission Credit Policy – Kendall Courtney and Stephen Machicek.
5. Review and consider recommending to the Board adoption of the proposed amendments to the Securities Lending Policy – James Nield.
6. Review and consider recommending to the Board adoption of the proposed amendments to the Proxy Voting Policy – Dale West and Brad Gilbert.
7. Review and consider recommending to the Board proposed amendments to the Designation of Key Employees – Heather Traeger and Elena Barreiro.
8. Review and consider recommending to the Board proposed amendments to the Employee Ethics Policy - Heather Traeger and Elena Barreiro.

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.

9. Review and consider recommending to the Board proposed amendments to the Board of Trustees Ethics Policy and Position Description – Heather Traeger.
10. Review and consider recommending to the Board adoption of the proposed amendments to the following TRS Rules in Chapter 27 and Chapter 29 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and Nicholas Gonzalez:
  - A. § 27.6 – Reinstatement of an Account
  - B. § 29.9 – Survivor Benefits
  - C. § 29.56 – Minimum Distribution Requirements
11. Review and consider recommending to the Board adoption 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 Nicholas Gonzalez:
  - A. § 25.21 – Compensation Subject to Deposit and Credit
  - B. § 31.3 – Return-to-work Employer Pension Surcharge
  - C. § 41.4 – Employer Health Benefit Surcharge

## **Minutes of the Governance Committee September 18, 2025**

The Governance Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 18, 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.  
Mr. Elvis Williams

### **Other TRS Board Members present:**

Mr. Michael Ball  
Mr. David Corpus  
Mr. John Rutherford

### **Others who participated:**

|                               |                     |
|-------------------------------|---------------------|
| Brian Guthrie, TRS            | Josh Wilson, Mercer |
| Caasi Lamb, TRS               | Susan Lemke, Mercer |
| Jase Auby, TRS                |                     |
| Heather Traeger, TRS          |                     |
| Amanda Jenami, TRS            |                     |
| Katy Hoffman, TRS             |                     |
| Michelle Pagán, TRS           |                     |
| Shunne Powell, TRS            |                     |
| Elena Barreiro, TRS           |                     |
| Nick Gonzalez, TRS            |                     |
| Katherine Farrell, TRS        |                     |
| Suzanne Dugan, Cohen Milstein |                     |

Governance Committee Chair, Mr. John Elliott, called the meeting to order at 11:50 a.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 July 2025 committee meeting – Chair.**

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

**3. Discuss and review the Executive Director’s proposed Areas of Focus 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 at the July meeting the proposed fiscal year 2026 were shared for review and input. She reviewed the proposed changes to some of the deliverables and one to the KPIs since the July meeting.

Mr. Brian Guthrie said his focus remains steadfast on completing the TEAM program successfully and the implementation of PBT along with being laser focused on the pension design study tasked by the legislature.

**4. Consider recommending to the Board continuation and adoption of the following performance pay plans for the 2025 – 2026 performance period – Shunne Powell and Katy Hoffman:**

- a. Executive Director’s Performance Pay Plan**
- b. Investment Management Division and TRICOT’s Performance Pay Plans**

Ms. Shunne Powell reviewed the proposed changes to the Executive Director’s performance pay plan. She noted the proposed changes are non-material such as updating the dates to make the plan current for this plan year and to include the new areas of focus just reviewed by Ms. Pagán.

Ms. Katy Hoffman stated the proposed changes to the IMD and TRICOT performance plans were presented at the July meeting. She reviewed the four proposed changes. Mr. Josh Wilson said the proposed changes were administrative and technical changes that Mercer supports. Ms. Suzanne Dugan stated she had no concerns.

On a motion by Mr. Walls, seconded by Ms. Allred, the committee unanimously voted to recommend to the Board the proposed resolution continuing and adopting the Executive Director’s Performance Pay Plan, as presented by staff.

**TEACHER RETIREMENT SYSTEM OF TEXAS BOARD RESOLUTION  
READOPTING EXECUTIVE PERFORMANCE PAY PLAN**

**Whereas**, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (“Board”) shall approve the rate of compensation of all persons it employs;

**Whereas**, Subsection 1.7(h) of the Board’s bylaws provides that the Board shall establish a system for the equitable and effective compensation of employees;

**Whereas**, To remain competitive in its efforts to attract and retain high caliber executives, the Board desires to offer a competitive compensation package that includes, not only a competitive base salary, but also an opportunity to earn additional rewards through an Executive Performance Pay Plan (“Plan”);

**Whereas**, Consistent with that desire, on November 19, 2015, the Board adopted the Plan, which rewards select executive management for performance and:

- Focuses on key objectives tied to the overall success of TRS;
- Aligns performance pay potential to the achievement of TRS' mission, goals, and objectives;
- Ties rewards to measurable success related to completion of goals linked to TRS's Strategic Plan and outlined in the Areas of Focus;
- Ensures TRS can attract, motivate, and retain top-performing executive leadership; and

**Whereas**, The Board desires to continue the Plan and readopt performance categories, category weights, performance goals, and key performance indicators for the Plan year beginning October 1, 2025; now, therefore be it

**Resolved**, That effective September 19, 2025, the Board hereby readopts the Executive Performance Pay Plan, as presented by Staff, including the key accountabilities and areas of focus.

**Resolved**, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.

On a motion by Mr. Williams, seconded by Mr. Walls, the committee voted to recommend to the Board the proposed resolution continuing and adopting the Investment Management Division's Performance Pay Plan, as presented by staff.

#### **RESOLUTION ADOPTING INVESTMENT MANAGEMENT DIVISION'S PERFORMANCE PAY PLAN**

**Whereas**, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (Board) shall approve the rate of compensation of all persons it employs;

**Whereas**, Subsection 1.7(h) of the Board's bylaws provides that the Board shall establish a system for the equitable and effective compensation of Investment Management Division (IMD) employees;

**Whereas**, To remain competitive in attracting and retaining high caliber IMD employees, the Board has determined that it is in TRS's best interest to offer a compensation package that includes a competitive base salary and an opportunity to earn additional compensation through an IMD Performance Pay Plan (Plan);

**Whereas**, Consistent with those objectives, the Board adopted the initial version of the Plan in 2007; Now therefore, be it

**Resolved**, That effective for the annual performance period beginning October 1, 2025, the Board hereby adopts the amended Plan as presented by staff.

**Resolved**, That nothing in the adoption of this resolution alters the at-will nature of TRS employment for any employee, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including any employee holding a position in the Schedule of Exempt Positions.

On a motion by Mr. Corpus, seconded by Ms. Allred, the committee voted to recommend to the Board the proposed resolution continuing and adopting the TRICOT's Performance Pay Plan, as presented by staff.

**RESOLUTION ADOPTING TEACHER RETIREMENT INVESTMENT COMPANY OF TEXAS LTD'S PERFORMANCE PAY PLAN**

**Whereas**, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (Board) shall approve the rate of compensation of all persons it employs;

**Whereas**, Subsection 1.7(h) of the Board's bylaws provides that the Board shall establish a system for the equitable and effective compensation of Teacher Retirement Investment Company of Texas Ltd. (TRICOT) employees;

**Whereas**, To remain competitive in attracting and retaining high caliber TRICOT employees, the Board has determined that it is in TRS's best interest to offer a compensation package that includes a competitive base salary and an opportunity to earn additional compensation through a TRICOT Performance Pay Plan (Plan);

**Whereas**, Consistent with those objectives, the Board adopted the initial version of the Plan in 2021; Now therefore, be it

**Resolved**, That effective for the annual performance period beginning October 1, 2025, the Board hereby adopts the amended Plan as presented by staff.

**Resolved**, That nothing in the adoption of this resolution alters the nature of TRICOT employment for any employee, creates a contract between TRS and any TRICOT employee, or otherwise alters the employment contract between TRICOT and TRICOT employees.

**5. Review and consider recommending to the Board adoption of the proposed amendments to the Investment Policy Statement – Katy Hoffman.**

Ms. Katy Hoffman stated the Investment Policy Statement was last updated during the recent June Board meeting and no other proposed changes were recommended.

On a motion by Ms. Allred, seconded by Mr. Walls, the committee unanimously voted to recommend to the Board adoption of the Investment Policy Statement without changes, as presented by staff.

**6. Consider recommending to the Board proposed amendments to the General Authority Resolution – Heather Traeger and Elena Barreiro.**

Ms. Elena Barreiro provided background on the General Authority Resolution (GAR). She reviewed the proposed changes which included changing the term “working titles” with “work positions” to avoid any confusion between working titles and performance pay titles. She said the other changes pertained to employee titles being eliminated or added to the document.

On a motion by Ms. Graf, seconded by Ms. Allred, the committee unanimously voted to recommend to the Board the approval of the proposed amendments to the General Authority Resolution, as presented by staff.

**7. Consider updates to the Policy Review Schedule – Katherine Farrell.**

Ms. Katherine Farrell noted the bylaws direct the Governance Committee to adopt the Policy Review Schedule ensuring that each policy of the Board is reviewed in a timely manner. She said the proposed updates to the Policy Review Schedule included a refresh of the dates of the policies that were reviewed over the past fiscal year and updating names to align with recent committee and division name changes.

On a motion by Mr. Williams, seconded by Ms. Allred, the Committee voted unanimously to approve the Policy Review Schedule, as presented by staff.

**8. Consider authorizing for publication in the Texas Register notice of 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**

Mr. Nick Gonzalez provided background on the proposed rule amendments noting these three rules were being amended to implement House Bill 2. He said House Bill 2, which passed during this last legislative session and primarily addressed educational matters, but did impact a few of TRS statutes. He said the retention allotment for classroom and support staff specifically designated these raises to be credible compensation in TRS’ system. He noted another amendment was repealing the pass-through prohibition relating to employment after retirement surcharges, which would remove provisions in TRS rules prohibiting the pass through.

On a motion by Ms. Graf, seconded by Mr. Williams, the committee unanimously voted to authorize publication in the Texas Register notice of proposed amendments to rules in Chapter 25, 31 and 41, as presented by staff.

With no further business before the Committee, the meeting adjourned at 12:15 p.m.

Approved by the Governance Committee of the Board of Trustees of the Teacher Retirement System of Texas on September \_\_\_\_, 2026.



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Katherine H. Farrell  
Secretary of the TRS Board of Trustees

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Date

**TAB 3**



# **Inactive Account Outreach Policy Update**

Presentation Date: **Dec. 4, 2025**

Presented By: **Barbie Pearson**



# Inactive Account Outreach Policy Background



Based on Sunset recommendation, HB 1585 requires the board of trustees to adopt a written policy under Tex. Gov't Code §825.502(c) related to notifying a member or, if appropriate, the member's heirs of their entitlement to a return of accumulated contributions when a member is absent from service.



## Key Provisions

- Provide notification to members and heirs
- Provide information about rollover eligibility
- Send notifications via certified mail, return receipt
- Conduct internet searches to locate individuals
- Develop a matrix to determine degree of additional outreach





# Inactive Account Outreach Policy Summary



## Summary of Policy Changes

Originally adopted in December  
2021

Update to new division name

New policy format

## TRS Policy

## Inactive Account Outreach Policy

### Purpose:

To adopt a written policy under Tex. Gov't Code §825.502(c) related to notifying a member or, if appropriate, the member's heirs of their entitlement to a return of accumulated contributions when a member is absent from service.

### Values:

This policy ties to the value of Member Focus because it sets forth TRS' dedication to ensuring non-vested or non-contributing members are notified of their account and entitlement to their contributions when they are no longer working or not planning on returning to a TRS covered employer.

### Reference:

- Tex. Gov't Code §822.203 – Termination of Membership
- Tex. Gov't Code §822.005 – Withdrawal of Contributions
- Tex. Gov't Code §825.502 – Payment of Contributions to a Member Absent From Service

### Applies to:

- TRS Trustees
- Pension Services Division

### Definitions:

**Non-Vested, Non-contributing Member:** A member that is not currently contributing to TRS and has less than five years of service credit.

**Inactive Account:** An account of a member that has less than five years of service credit, has not qualified for service credit for five consecutive years, and is not currently employed by a TRS covered employer.

**Pension Services Division:** TRS business area responsible for customer service activities for the TRS Pension Fund.

**Board of Trustees:** The Board of Trustees of the Teacher Retirement System of Texas as defined by Tex. Gov't Code §821.001(5).

## Policy Statement:

### Background:

Tex. Gov't Code §822.203 provides that a person with less than five years of service credit terminates membership in TRS by not qualifying for service credit for five consecutive years. The termination is effective on the first September 1 that occurs after the non-qualifying years.

TRS has historically notified members in the year prior to their account status changing to inactive. The notification advised them that they will no longer receive interest and that their membership will terminate at the end of the fiscal year. Based on Sunset Commission recommendations and changes to Tex. Gov't Code §825.502 from HB 1585 passed during the 87th regular session of the Texas Legislature, TRS will enhance outreach efforts related to inactive accounts.

### Member Communication:

- **Loss of Membership Advanced Notification** - To enhance member outreach efforts, Pension Services will notify non-vested, non-contributing members with less than five years of service credit that their account will go inactive starting in the fourth year prior to the transition to inactive status. The advanced notification letters will be sent via regular first-class mail.
- **Loss of Membership Final Notification** - To comply with Tex. Gov't Code §825.502, Pension Services will mail notifications to members via USPS certified mail, return receipt request beginning with the notification that is mailed in the year prior to the account transitioning to inactive status. The notification letter will inform members or the member's heirs that they may withdraw the accumulated contributions and provide information on how to rollover the account to another eligible retirement plan. Subsequent letters will also be sent via USPS certified mail, return receipt.

### Locating Members:

Pension Services will send the Loss of Membership Final Notification letter to the last known address of the member. If a member does not have a current address or TRS receives returned mail related to outreach efforts, TRS will conduct Internet searches using a commercial locating service and/or consumer reporting agencies to determine a current and accurate mailing address of the member or the member's heir and send a notification letter via certified mail, return receipt requested. Additionally, TRS records will be searched for beneficiary contact information.

Pension Services will be responsible for developing a matrix to be used to determine the degree and type of additional outreach efforts. The matrix will consider the member's account balance, age, required beginning date for minimum distributions as defined in §401(a)(9)(c) of the Internal Revenue Code, and years since going inactive. Pension

Services shall periodically review the matrix and make updates based on the outcomes of the outreach efforts.

**Reporting:**

Pension Services shall report to the Board of Trustees 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.

**Violations: N/A**

**Cross Reference/Related Documents: N/A**

|   |   |
|---|---|
| Policy Type: Board of Trustees                                | First Issued: December 2021             |
| Contact: Jennifer Gasior                                      | Last Review: December 2021              |
| Division Sponsor(s): Barbie Pearson                           | Next Review Due Date: December 2029     |
| Reviewing Department(s): Pension Services, Legal & Compliance | Version Number: V2 – December 2025      |
| Review Cycle: Every four years                                | Version Approved Date: December 4, 2025 |
| Intranet Location: TRS internal policy SharePoint page        |   |

*This policy does not constitute a contract, a promise or guarantee of employment, or a guarantee of access to TRS premises or information resources, as applicable, and may be modified, superseded, or eliminated by TRS without notice to the employee.*



**TAB 4**

# Commission Credits Policy Proposals

Stephen Machicek, Investment Manager  
Kendall Courtney, Managing Director

December 2025



# Executive Summary

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- Commission Credit Policy is reviewed every 3 years
- The last review in 2022 did not have any substantive changes
- We are recommending minor changes to the Commission Credit Policy
- The slides that follow provide a summary of the program and expenditures

# Commission Credits Overview

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- TRS has been using commission credits for many years
- TRS has two types of arrangements:
  - **Commission sharing arrangements (CSA)** - Credits are generated on eligible internally traded equities and futures, which are then remitted to State Street Bank (STT) by TRS execution brokers, futures commission merchants
  - **Commission recapture agreements (CRA)** - Credits are generated on eligible externally traded equities and futures, which are then remitted to STT by external investment managers
- TRS uses commission credits to make investment related purchases

# Commission Credit Policy Guidelines

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The Commission Credit Policy outlines principles and guidelines to ensure that:

1. Best efforts are made to obtain optimal trade execution
2. Incurred commission credits are reasonable in light of the goods or services obtained
3. Trades are not undertaken solely to generate commission credits
4. Purchases using commission credits support the investment decision-making function of TRS
5. Commission credit arrangements are properly documented and reviewed by Legal and Compliance, Financial Services and the Investment Division, as applicable

TRS references the U.S. Securities and Exchange Commission's "safe harbor" for guidance on the use of Commission Credits

# Commission Credit Controls

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- CRA and CSA Budgets are approved annually by TRS Board of Trustees
- CRA and CSA expenditures follow same TRS procurement policies and procedures
- CRA and CSA payments are reviewed both at TRS as well as State Street Bank
- TRS Legal and Compliance test on an annual basis and review expenditures on an ad hoc basis
- TRS is not able to exceed approved budgets if there are insufficient funds in the State Street Bank accounts

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# Summary of Administrative Changes

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## **Removing duplicative language:**

- Removed 3.1a. as duplicative with Commission Credits Budget Section 3.3
- Removed language in 3.3c. that was reporting related and included those components in 3.3d

## **Outdated references:**

- Changed 3.1c. requirement that internal guidelines be presented in each annual budget to be posted on the board management site in the Resource Center under Commission Credit Policy
- Changed reporting in 3.3d. from providing statements and reports to providing electronic access to the same data

## **Other Edits:**

- Changed reference from Legal Services to Legal and Compliance





DEPARTMENT OF FINANCE


THE UNIVERSITY OF TEXAS AT AUSTIN

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## MEMORANDUM

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

From: Keith C. Brown   
Advisor to the TRS Board

Re: Review of the TRS Commission Credits Policy

Date: October 31, 2025

As part of its triennial evaluation of TRS' various operating policies, the Investment Management Division (IMD) staff has evaluated the Commission Credits Policy and has determined that no substantive changes to the policy are necessary. I have reviewed both the existing policy statement and IMD's rationale for its recommendation. *I concur with the judgment that no material modifications to this policy are needed at this time.*

Commission credits represent the portion of the brokerage commissions TRS pays to execute its security trades that can be applied to the acquisition of other goods and services supporting investment management operations. In essence, the asset owner (i.e., TRS) "overpays" for the execution of the trade itself and this overpayment is then credited back to TRS' account to be used for purchasing research and information services, computer hardware and software, etc. The two main types of commission credits arrangements used at TRS are Commission Sharing Arrangements (CSA) for internal trades and Commission Recapture Agreements (CRA) for external trades.

The main features of the TRS policy are that (i) security trades should always be executed in an optimal manner and in the best interest of the Trust (i.e., trades should not be made just to generate credits), and (ii) the resulting credits from any trades must always be used to support the investment decision-making function. These are by now common foundations of all prudent soft dollar policies that have emerged in the asset management industry over the past few decades. (For example, the CFA Institute's standards for using soft dollar arrangements were created in 1999 and last updated in 2011.) Accordingly, the principles for how these programs should be governed are well established and do not require additional adjustments at the present time.

Finally, it is worth mentioning that while IMD is not proposing any major changes to the policy on commission credits usage, they do intend to request some minor modifications to the document. Specifically, in addition to introducing some clarifying changes (e.g., removing duplicative language, updating reporting references), the new Section 3.1c details that the internal guidelines for how the policy is applied (as allowed for in the policy itself) will be available for Board inspection on an ongoing basis on the board management site in the Resource Center, instead of just being included in each annual budget. This alteration should improve transparency into how the commission credits program operates.

## MEMORANDUM

**TO:** Teacher Retirement System of Texas Board of Trustees  
**FROM:** Mika Malone, Colin Bebee, Meketa Investment Group  
**CC:** Jase Auby, Chief Investment Officer; Katy Hoffman, Chief of Staff  
**DATE:** December 4, 2025  
**RE:** Concurrence Memo – Commission Credits Policy Revision

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### Summary and Recommendation

It is the practice of the Teacher Retirement System of Texas (“TRS”) to review the Commission Credit Policy every three years. It was last reviewed in 2022. In October 2025, the Investment Management Division (“IMD”) requested on behalf of the TRS Board of Trustees that Meketa Investment Group (“Meketa”) review proposed changes to the Commission Credit Policy for the TRS. After meeting with IMD, legal counsel, and Dr. Brown, providing feedback, and independently evaluating the proposed changes and memo, ***Meketa concurs with the proposed changes suggested by IMD.*** The proposed changes are relatively minor in nature.

### Discussion

The Commission Credit Policy covers two arrangements; commission sharing arrangements (applies to internally traded portfolios through State Street Bank), and commission recapture agreements (which are applicable to externally traded portfolios and remitted to State Street Bank by the external managers). The income from these credits is used by TRS to make investment related purchases, as allowable by “safe harbor” guidance from the SEC.

The policy rightfully highlights that optimal execution is an objective, that trades do not take place solely to generate commission credits, that the purchases support the investment decision making of IMD on behalf of TRS, and that all these things are documented appropriately.

The budgets for these two programs are approved annually by the TRS Board of Trustees, as well as reviewed at TRS and State Street Bank.

The expected budget for fiscal year 2026 is \$5.5 million, a reduction of \$2 million since last year.

The administrative changes proposed do not change the function of the policy and are reference and grammatical adjustments. Meketa has no concerns with any of the changes proposed.

IMD has taken a comprehensive approach to its review of the Commission Credits Policy and has received feedback from Meketa and others in the process. ***Meketa concurs with the proposed changes suggested by IMD.***

We look forward to discussing these changes at the Board meeting, if desired.

MLM/CB/mp



Suzanne M. Dugan  
(202) 408-4600  
sdugan@cohenmilstein.com

## MEMORANDUM

**TO:** Board of Trustees  
Teacher Retirement System of Texas ("TRS")

**FROM:** Suzanne M. Dugan  
Fiduciary Counsel

**DATE:** November 3, 2025

**RE:** 2025 Review of Commission Credits Policy

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At the December 2025 meeting, TRS staff will be presenting to the TRS Board a review of the Commission Credits Policy. When it was last reviewed in 2022, no substantive changes were made to the Policy. This year, there are again only minor changes being proposed. The materials before the Board for its review and consideration include background on commission credits, a discussion of the proposed changes to the Commission Credits Policy recommended by the Investment Management Division (IMD), a redline version of the Commission Credits Policy, and a copy of the Commission Credits Guidelines.

From my perspective as Fiduciary Counsel, the most significant of the proposed changes is that the Commission Credits Guidelines that accompany the Commission Credits Policy will now be posted to the Board management site in the Resource Center as opposed to being provided to the Board as part of the TRS annual budget process, providing the Board with easier access to the Guidelines. I note that the Policy itself provides that under fiduciary prudence, TRS employees must determine in good faith that commissions incurred are reasonable in light of the value of the goods, services, and research that will be received under the arrangement; TRS will realize their benefits; and the generation of any commission credits shall be incidental to the brokerage transactions originating such credits.

In our respective roles as independent Advisors to the Board, Meketa, Dr. Brown, and I have each reviewed the proposal and provided feedback to IMD staff in the process of the preparation of the proposal, as well as this input to the Board regarding its consideration of the proposal. Both Meketa and Dr. Brown concur with the proposed changes suggested by staff.

Fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process help to demonstrate prudence. In reviewing the process that was undertaken with regard to the review of the Commission Credits Policy, it appears that the Board has sufficient information before it from staff as well as the advice of independent outside experts in order to enable it to engage in a rigorous decision-making process in a manner consistent with procedural prudence. In addition, at its meeting the Board has opportunity to utilize in-house and outside experts to obtain answers to any questions the Board may have. Following this process allows the Board to demonstrate that it has exercised appropriate fiduciary oversight.



# COMMISSION CREDITS POLICY

(rev. effective ~~December 51, 2025~~January 51, 2025)

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## 1. Introduction

The Board hereby approves the expenditure of commissions and credits (including soft dollars, commission sharing agreements and cash recapture agreements (together “Commission Credits”) based on this Policy.

For purposes of this Policy, (a) “soft dollars” refers to the use of a credited portion of brokerage commissions incurred for securities or futures trade execution to obtain goods, services, or research through a securities or futures broker or futures commission merchant (each, a “broker”), (b) commission recapture arrangements (“CRAs”) refer to an institutional brokerage discount resulting from a negotiated rebate of commissions and (c) “commission sharing arrangements” (“CSAs”) are a category of soft dollars that refers to the use of a cash account administered by a TRS custodian or broker which is funded from a portion of its brokerage commissions so that such custodian or broker may obtain, at TRS’ instruction, investment research services from such broker or custodian, an executing broker or other third parties.

Fiduciary prudence requires that TRS employees, when deciding whether to use Commission Credits, must determine in good faith that the commissions that will be incurred are reasonable in light of the value of the goods, services, and research (as applicable) that will be received under the arrangement and that TRS will realize their benefits. The generation of any Commission Credits shall be incidental to the brokerage transactions originating such credits.

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## 2. General Principles

**2.1. Background.** Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)”) provides a “safe harbor” for investment advisers who incur higher commissions for discretionary client accounts they manage in order to receive brokerage and research services that may or may not benefit those clients. Since Section 28(e) is a safe harbor, it cannot be violated. Although TRS invests only for its own account and does not manage accounts for others, it must still take care to receive best value and execution when trading securities and futures. Thus, Section 28(e) and SEC releases and publications under Section 28(e) provide useful guidance (see also Section 3.1(b)).

**2.2. General Principles.** Purchases using Commission Credits must support the investment decision-making function of TRS. Section 28(e) guidance provides examples of “brokerage and research services” that may qualify for the safe harbor. Under Section 28(e)(3), brokerage and research services generally include (see also Section 3.2):

- a. Analysis and advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in or purchasing or selling securities, or the availability of securities or purchasers or sellers of securities;

- b. Analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; or
- c. Services affecting securities transactions and performing functions pertaining to securities transactions (such as clearance, settlement and custody) or required in connection with securities transactions by rules of the SEC or a self-regulatory organization such as a stock exchange.

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### 3. COMMISSION CREDITS GUIDELINES

#### 3.1. Requirements

- ~~a.~~ ~~Commission Credits acquisitions must be budgeted in separate items in an addendum to the TRS annual budget or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution.~~
- ~~b.~~
  - ~~a.~~ In determining what purchases may be made using Commission Credits, the investment staff shall be mindful of SEC guidance under Section 28(e). Legal and Compliance Services will assist in analyzing specific questions regarding eligibility under SEC guidance. Departures from the SEC guidance with respect to Commission Credits from securities transactions are permitted only when they are consistent with fiduciary requirements and the best interests of TRS, applicable law, and TRS policies and procedures. In addition, TRS will apply Section 28(e) guidance to futures transactions, with any appropriate adjustments.
  - ~~e.~~
    - ~~b.~~ Trades may not be created solely to generate Commission Credits and best trade execution must not be sacrificed with respect to Commission Credits. Employees must use their best efforts to ensure that all TRS transactions are executed in such a manner that the total cost or proceeds (including market impact costs and the value of any research to be acquired) in each transaction is the most favorable under the circumstances and benefits TRS. When selecting brokers, employees must take into account trade characteristics, the full range and quality of the broker's services, including but not limited to the broker's execution capabilities, the value of the research, services or goods to be acquired (if any), commission rates, financial responsibility, and the broker's responsiveness to TRS.
    - ~~e.~~ Commission Credit arrangements will be documented and approved in accordance with policies, guidelines and procedures approved by the Executive Director or his designee. Commission Credits allocations and disbursements shall be made in accordance with internal guidelines and procedures approved by the Chief Financial Officer (or, in the absence of the CFO, the Executive Director or his designee). The Investment Division shall ~~post~~ provide copies of the internal guidelines and procedures for Commission Credits to Diligentthe board management site in the Resource Center under the Commission Credit Policy. ~~the Board as part of TRS's annual budget process.~~
    - ~~f.~~
      - ~~d.~~ Whenever possible, any acquisition using Commission Credits for which TRS normally employs competitive procedures will be handled using the procedures that will ensure that TRS will obtain the best value, taking all factors into account, including trade execution.
      - ~~g.~~ All Commission Credits expenditures shall be documented in written agreements consistent with contracting guidelines.



### 3.2. Examples of Eligible Research, Goods and Services

Notwithstanding any other provision of this Policy, Commission Credits may be expended for any eligible research, goods, or services under this Policy, including the following:

- a. **Investment Research:** furnished either directly by a broker's investment research department, through subscription-based publications, or by an independent research or advisory firm. Investment research includes advice as to the value of securities or futures; the advisability of investing in, purchasing or selling securities or futures; the availability of securities or futures or purchasers or sellers of securities or futures; and analyses and reports concerning issuers, industries, securities, futures, economic factors and trends, portfolio strategy, and portfolio performance.
- b. **Data Services, Magazines, Journals, Reference Materials:** subscriptions to electronic data feeds, exchanges, data services, databases, magazines (including popular magazines relevant to securities analysis), professional journals and reference materials.
- c. **Seminars/Conferences:** fee-paid attendance at investment seminars or conferences and other fees or study materials for investment staff, provided, that soft dollars may not be used for travel and lodging.
- d. **Portfolio Management Assistance, Professional Services, and Institutional Memberships:** third-party services or institutional memberships that support TRS investment processes and portfolio management by providing TRS with direct advice, assistance or support, including without limitation pricing or valuation services and performance measurement services.
- e. **Information Systems:** communications equipment or access (including high bandwidth services) that supports the investment decision-making process or portfolio management, including trading and investment accounting systems.
- f. Any other items useful in aiding in the investment decision-making process.

### 3.3. Annual Commission Credits Budget

- a. **Annual Budget:** An annual Commission Credits budget will be developed and presented to the Board for approval with the TRS annual budget [or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution](#). Soft dollar, CRA and CSA uses shall each be stated separately in the annual budget. The CSA and CRA budget line items may aggregate the total estimated amount to be expended for research during the applicable fiscal year.
- b. **Commission Credits Balances:** Credit balances may be used as needed in accordance with the annual Commission Credits budget. Only one CSA and one CRA account may be established to hold Commission Credits and to expend funds for eligible research, goods, or services authorized in accordance with this Policy. No other funds may be commingled with the CSA or CRA funds in the CSA or CRA account, nor may such funds be used for any other purpose.
- c. **Expenditure Internal Accounting & Control:** Commission Credit expenditures will be made under the same general internal controls as operating budget expenditures.

~~The broker or account administrator must forward copies of invoices for the goods and services acquired and a monthly statement of account including commissions received, expenditures made, and the commission allocations balance to the Investment Division.~~

- d. **Reporting and Disclosure:** The custodian or administrator of the CSA or CRA account or an authorized TRS broker shall provide electronic access to commissions received, deliver monthly and annual statements to the Investment Division and the Investment Accounting group indicating the account balances, deposits, disbursements/expenditures and disbursements since the last statement, and an aging report of past due deposits. A report of expenditures will be included with all financial and budget information presented to the Board. The Comprehensive Annual Financial Report will disclose fiscal year Commission Credits expenditures.



# COMMISSION CREDITS POLICY

(rev. effective December 5, 2025)

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## 1. Introduction

The Board hereby approves the expenditure of commissions and credits (including soft dollars, commission sharing agreements and cash recapture agreements (together “Commission Credits”) based on this Policy.

For purposes of this Policy, (a) “soft dollars” refers to the use of a credited portion of brokerage commissions incurred for securities or futures trade execution to obtain goods, services, or research through a securities or futures broker or futures commission merchant (each, a “broker”), (b) commission recapture arrangements (“CRAs”) refer to an institutional brokerage discount resulting from a negotiated rebate of commissions and (c) “commission sharing arrangements” (“CSAs”) are a category of soft dollars that refers to the use of a cash account administered by a TRS custodian or broker which is funded from a portion of its brokerage commissions so that such custodian or broker may obtain, at TRS’ instruction, investment research services from such broker or custodian, an executing broker or other third parties.

Fiduciary prudence requires that TRS employees, when deciding whether to use Commission Credits, must determine in good faith that the commissions that will be incurred are reasonable in light of the value of the goods, services, and research (as applicable) that will be received under the arrangement and that TRS will realize their benefits. The generation of any Commission Credits shall be incidental to the brokerage transactions originating such credits.

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## 2. General Principles

**2.1. Background.** Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)”) provides a “safe harbor” for investment advisers who incur higher commissions for discretionary client accounts they manage in order to receive brokerage and research services that may or may not benefit those clients. Since Section 28(e) is a safe harbor, it cannot be violated. Although TRS invests only for its own account and does not manage accounts for others, it must still take care to receive best value and execution when trading securities and futures. Thus, Section 28(e) and SEC releases and publications under Section 28(e) provide useful guidance (see also Section 3.1(b)).

**2.2. General Principles.** Purchases using Commission Credits must support the investment decision-making function of TRS. Section 28(e) guidance provides examples of “brokerage and research services” that may qualify for the safe harbor. Under Section 28(e)(3), brokerage and research services generally include (see also Section 3.2):

- a. Analysis and advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in or purchasing or selling securities, or the availability of securities or purchasers or sellers of securities;

- b. Analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; or
- c. Services affecting securities transactions and performing functions pertaining to securities transactions (such as clearance, settlement and custody) or required in connection with securities transactions by rules of the SEC or a self-regulatory organization such as a stock exchange.

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### **3. COMMISSION CREDITS GUIDELINES**

#### **3.1. Requirements**

- a. In determining what purchases may be made using Commission Credits, the investment staff shall be mindful of SEC guidance under Section 28(e). Legal and Compliance will assist in analyzing specific questions regarding eligibility under SEC guidance. Departures from the SEC guidance with respect to Commission Credits from securities transactions are permitted only when they are consistent with fiduciary requirements and the best interests of TRS, applicable law, and TRS policies and procedures. In addition, TRS will apply Section 28(e) guidance to futures transactions, with any appropriate adjustments.
- b. Trades may not be created solely to generate Commission Credits and best trade execution must not be sacrificed with respect to Commission Credits. Employees must use their best efforts to ensure that all TRS transactions are executed in such a manner that the total cost or proceeds (including market impact costs and the value of any research to be acquired) in each transaction is the most favorable under the circumstances and benefits TRS. When selecting brokers, employees must take into account trade characteristics, the full range and quality of the broker's services, including but not limited to the broker's execution capabilities, the value of the research, services or goods to be acquired (if any), commission rates, financial responsibility, and the broker's responsiveness to TRS.
- c. Commission Credit arrangements will be documented and approved in accordance with policies, guidelines and procedures approved by the Executive Director or his designee. Commission Credits allocations and disbursements shall be made in accordance with internal guidelines and procedures approved by the Chief Financial Officer (or, in the absence of the CFO, the Executive Director or his designee). The Investment Division shall post the internal guidelines and procedures for Commission Credits to the board management site in the Resource Center under the Commission Credit Policy.
- d. Whenever possible, any acquisition using Commission Credits for which TRS normally employs competitive procedures will be handled using the procedures that will ensure that TRS will obtain the best value, taking all factors into account, including trade execution.
- e. All Commission Credits expenditures shall be documented in written agreements consistent with contracting guidelines.

### 3.2. Examples of Eligible Research, Goods and Services

Notwithstanding any other provision of this Policy, Commission Credits may be expended for any eligible research, goods, or services under this Policy, including the following:

- a. **Investment Research:** furnished either directly by a broker's investment research department, through subscription-based publications, or by an independent research or advisory firm. Investment research includes advice as to the value of securities or futures; the advisability of investing in, purchasing or selling securities or futures; the availability of securities or futures or purchasers or sellers of securities or futures; and analyses and reports concerning issuers, industries, securities, futures, economic factors and trends, portfolio strategy, and portfolio performance.
- b. **Data Services, Magazines, Journals, Reference Materials:** subscriptions to electronic data feeds, exchanges, data services, databases, magazines (including popular magazines relevant to securities analysis), professional journals and reference materials.
- c. **Seminars/Conferences:** fee-paid attendance at investment seminars or conferences and other fees or study materials for investment staff, provided, that soft dollars may not be used for travel and lodging.
- d. **Portfolio Management Assistance, Professional Services, and Institutional Memberships:** third-party services or institutional memberships that support TRS investment processes and portfolio management by providing TRS with direct advice, assistance or support, including without limitation pricing or valuation services and performance measurement services.
- e. **Information Systems:** communications equipment or access (including high bandwidth services) that supports the investment decision-making process or portfolio management, including trading and investment accounting systems.
- f. Any other items useful in aiding in the investment decision-making process.

### 3.3. Annual Commission Credits Budget

- a. **Annual Budget:** An annual Commission Credits budget will be developed and presented to the Board for approval with the TRS annual budget or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution. Soft dollar, CRA and CSA uses shall each be stated separately in the annual budget. The CSA and CRA budget line items may aggregate the total estimated amount to be expended for research during the applicable fiscal year.
- b. **Commission Credits Balances:** Credit balances may be used as needed in accordance with the annual Commission Credits budget. Only one CSA and one CRA account may be established to hold Commission Credits and to expend funds for eligible research, goods, or services authorized in accordance with this Policy. No other funds may be commingled with the CSA or CRA funds in the CSA or CRA account, nor may such funds be used for any other purpose.
- c. **Expenditure Internal Accounting & Control:** Commission Credit expenditures will be made under the same general internal controls as operating budget expenditures.

- d. **Reporting and Disclosure:** The custodian or administrator of the CSA or CRA account or an authorized TRS broker shall provide electronic access to commissions received, account balances, deposits, disbursements/expenditures and aging of deposits. A report of expenditures will be included with all financial and budget information presented to the Board. The Comprehensive Annual Financial Report will disclose fiscal year Commission Credits expenditures.

**TAB 5**

# Securities Lending Policy Proposals

James Nield, Chief Risk Officer

December 2025



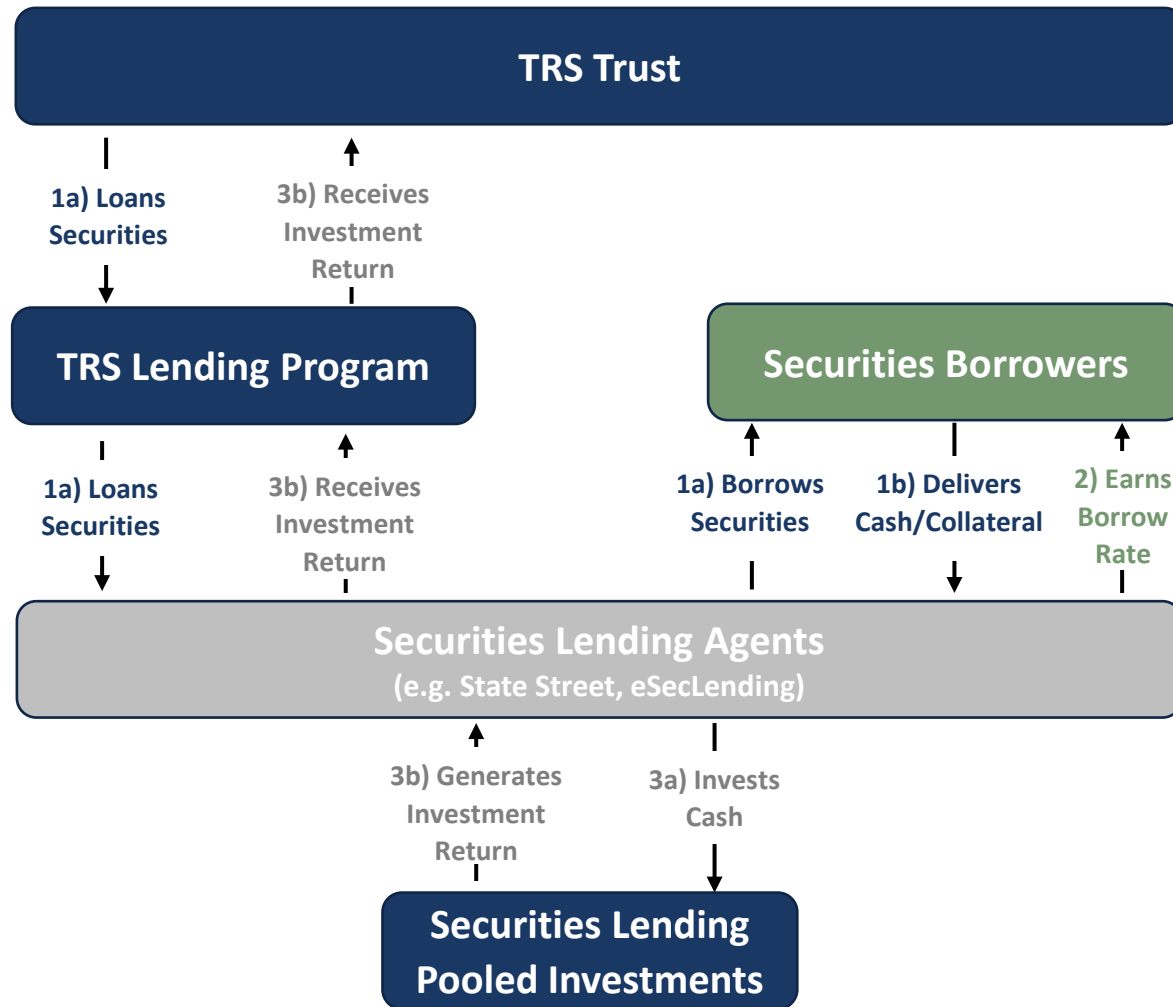


# Introduction

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- The Board reviews the Securities Lending Policy every three years
  - The policy was last modified in December 2022
  - A redline version of the proposed changes is included for review
  - Board consultants and fiduciary counsel have provided memos discussing their views
- IMD is proposing one modification
- Three additional administrative edits are also proposed

# TRS Securities Lending Overview



- Securities Lending is the practice of loaning securities in exchange for receiving cash/collateral
  - 1) (a) Lender loans securities to borrower  
(b) Borrower delivers cash/collateral in return
  - 2) Borrower earns interest on collateral posted ( *"borrow rate"* )
  - 3) (a) Cash/collateral is invested in Securities Lending pooled investments per TRS direction  
(b) Securities Lending Pool generates investment return
- Securities lender (TRS) earns spread between investment return and borrow rate paid
- Securities Lending agent earns a management fee and may share in investment return

# Modification #1

## *Delegate borrower credit review responsibility*

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### Proposal

- Delegate responsibility of underwriting the firms eligible to participate as borrowers in a securities lending program to the lending agent (e.g. State Street, eSecLending)

### Rationale

- It is both industry standard and operationally efficient to have the lending agent independently approve borrowers given the lending agent provides indemnification and therefore has an extensive credit review process
- TRS will maintain transparency into process
  - TRS maintains ability to restrict any borrower at its discretion
  - TRS receives daily reports on borrower balances and limits and reports top borrowers to the Board annually

### Additional Information

- Relevant language for this modification can be found in section 2.5.2
  - *“The lending agent(s) shall ~~assist the Investment Management Division~~ monitor the creditworthiness of all borrowers”*
- Section 4.4 is also updated to be consistent with this proposed modification
  - *“On at least an annual basis, the lending agent(s) will deliver to the Investment Management Division a list of ~~proposed~~ borrowers and corresponding dollar loan limits”*

# Additional Administrative Policy Edits

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Three additional edits were made which are included in the policy redline.

Two edits were made to provide additional clarification:

- Section 1.3: Clarify that securities lending should not negatively impact TRS management activities – thereby acknowledging there is some operational impact
- Section 2.2: update language to include indemnification provider (e.g. an insurance company) in the list of entities that need to be monitored by TRS as part of a program credit review. This language is needed to maintain consistency with section 10.3.e of TRS investment policy statement

One edit was made to correct an error:

- Section 4.6.1: language incorrectly referenced the wrong section in the investment guidelines






DEPARTMENT OF FINANCE  
THE UNIVERSITY OF TEXAS AT AUSTIN

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## MEMORANDUM

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

From: Keith C. Brown   
Advisor to the TRS Board

Re: Proposed Changes to the TRS Securities Lending Policy

Date: October 31, 2025

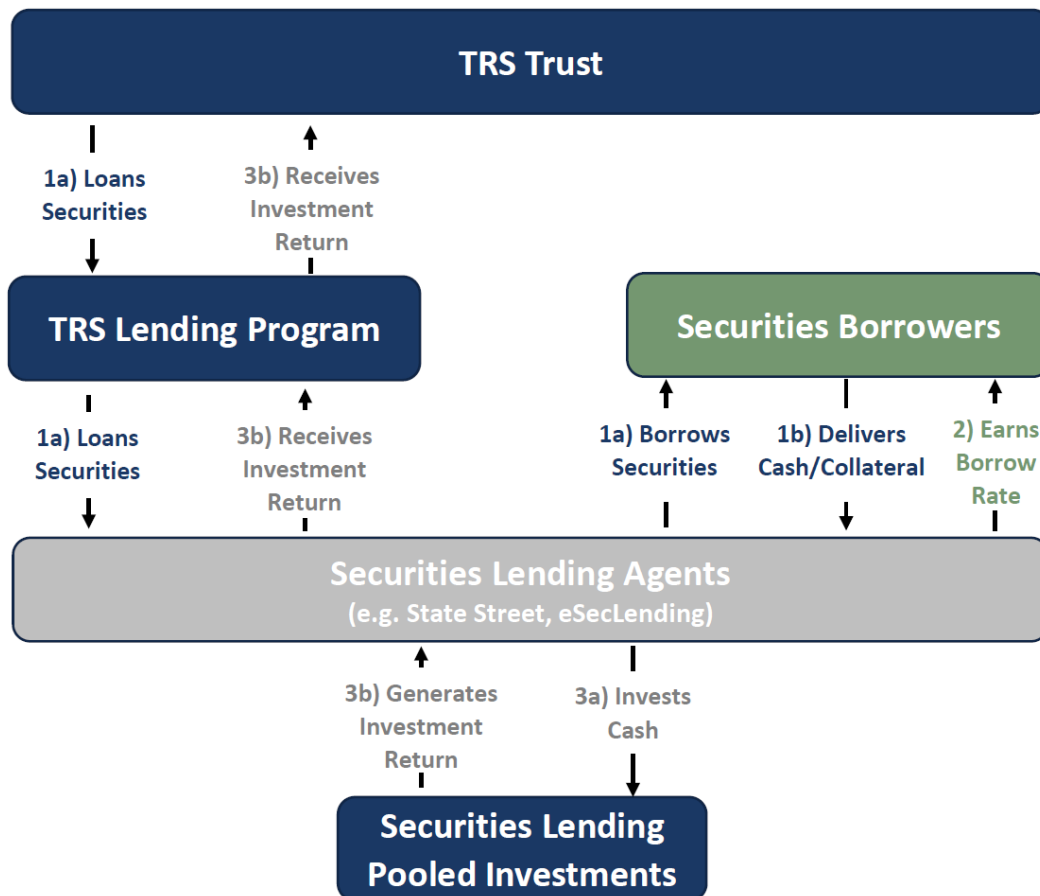
Based on its triennial evaluation of TRS' operating policies, the Investment Management Division (IMD) has reviewed the Securities Lending Policy and has proposed one substantive modification, along with a few minor editorial changes. *Overall, I endorse these changes and recommend their adoption.*

For some perspective on what the main adjustment entails, it may be useful to briefly review what a securities lending program represents in the first place. (IMD's December 2025 document "Securities Lending Policy Proposals" contains a good summary of this process). Basically, securities lending is an investment management tool that allows asset owners (e.g., pension funds, central banks, sovereign wealth funds) to produce additional revenue for their operations by lending a portion of their asset holdings to a variety of different borrowers (e.g., prime brokers, hedge funds). That lending activity is typically coordinated by a securities lending agent (e.g., State Street, eSecLending), which is often a bank that offers custody services for the lender's security portfolio or a third-party lending provider.

A good schematic representation of the current securities lending process (which comes from IMD's document) is shown below. The main "moving parts" in this endeavor are (i) the asset owner physically lends some of its securities (through the lending agent) to an external borrower, which must post cash collateral to secure the loan, and (ii) that cash collateral is then invested on behalf of the asset owner.

Capturing the revenue from this reinvested cash collateral is ultimately the goal of the program from the lender's perspective. However, the asset owner does not receive the total return produced by the reinvested collateral. First, the borrower gets a rebate for the cash

collateral they post, which is called the borrow rate. Second, the net amount of the gross collateral reinvestment return less the borrow rate paid to the borrower—which is referred to as the spread—is split between the asset owner and the security lending agent. A normal sharing arrangement for this reinvestment return spread is typically in the range of 80%-20% to 90%-10% in favor of the asset owner.



Finally, notice that there are two main sources of potential risk in this arrangement from the asset owner’s standpoint: (i) the borrower could default on their obligation to return the securities they have been lent, and (ii) the cash collateral that the asset owner reinvests could experience lower-than-expected returns, or even outright losses. Given that the cash collateral the borrower posts is usually between 102-105% of the value of the borrowed securities (i.e., overcollateralization) and the fact that the securities lending agent indemnifies the asset owner against borrower default, it is typically the second source of risk that represents the biggest concern in a securities lending program. Accordingly, much of the language in TRS’ Securities Lending Policy provides guidelines and restrictions for how and where this collateral can be reinvested. (Incidentally, in its approval of this same policy in 2022, the Board allowed for the possibility that this collateral could be directed back to the TRS portfolio for general investment purposes, effectively creating a new source of internal leverage for the Trust. Nothing in the current set of proposals alters that

possibility, which has now been in place for the past three years.)

That background offers a useful context to understand the primary modification that IMD is recommending, which is actually related to the first source of potential risk to TRS that was listed above (i.e., the risk that a Securities Borrower defaults on its obligation to return the borrowed assets to TRS).

- *Modification #1: Delegate Borrower Credit Review Responsibility*

Current language in Section 2.5.2 of the policy stipulates that “[t]he lending agent(s) shall assist the Investment Management Division to monitor the creditworthiness of all borrowers...”, meaning that, at present, IMD is responsible for evaluating the credit risk inherent with each potential borrower of securities from the Trust portfolio. The proposed modification would strike the phrase “assist the Investment Management Division to” which has the effect of shifting the responsibility for monitoring borrower creditworthiness back to the lending agent (i.e., State Street, eSecLending).

From an operational standpoint, the lending agent is in a significantly better position to evaluate the credit risk of a potential securities borrower than is IMD. Given the indemnification against borrower default that the lending agent provides to TRS as the asset owner, it is clearly in the lending agent’s best interest to expend the resources necessary to create and maintain an extensive credit review process. Further, TRS retains the right to restrict any borrower from participating in the program as well as to receive daily reports on borrower activity, which creates sufficient transparency to protect its interests with respect to the securities borrowers.

Finally, it is worth mentioning that, because of this indemnification arrangement, TRS is exposed to the credit risk of the lending agent. Section 2.3 of the policy statement specifies that it is the Board that selects the lending agent(s) whereas Section 5 charges IMD with the responsibility to evaluate the performance of the lending agents (which presumably includes an assessment of changes in creditworthiness) on an annual basis.

- *Additional Modifications*

IMD’s proposal also includes some minor changes to the policy (e.g., substituting the phrase “negatively impact” in lieu of “interfere with” in Section 1.3, inserting specific language for an indemnification provider in Section 2.2). Generally, these adjustments add clarity and consistency to the document. The indemnification provider language is necessary because there are different methods used in practice to offer indemnity (e.g., lending agent balance sheet-backing, insurance-backing), which is the case for the two lending agents TRS is currently using to support this program.





## MEMORANDUM

**TO:** Teacher Retirement System of Texas Board of Trustees  
**FROM:** Mika Malone, Colin Bebee, Meketa Investment Group  
**CC:** Jase Auby, Chief Investment Officer; Katy Hoffman, Chief of Staff  
**DATE:** December 4, 2025  
**RE:** Concurrence Memo – Securities Lending Policy Revision

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### Summary and Recommendation

In October 2025, the Investment Management Division (“IMD”) requested on behalf of the Teacher Retirement System of Texas (“TRS”) Board of Trustees that Meketa Investment Group (“Meketa”) review a number of proposed changes to the Securities Lending Policy for the TRS. After meeting with IMD, legal counsel, and Dr. Brown, providing feedback, and independently evaluating the proposed changes and memo, ***Meketa concurs with the proposed changes suggested by IMD.*** The proposed changes primarily relate to one material change, which is the: 1) delegation of borrower credit underwriting, and three administrative edits: 1) clarifying intent of language regarding impact on TRS management activities, 2) addition of indemnification provider to list of entities monitored by TRS, and 3) a reference correction.

### Discussion

The TRS Securities Lending Policy broadly describes the objectives of the program, the controls in place to ensure the program is managed effectively (and one of those controls is that the Board selects the lending agent for securities lending), the guidelines for the program, including for the cash collateral, and restrictions within the securities lending function (including maximum market value of securities on loan, and diversification requirements).

Of the four policy changes described above, only the first is a noteworthy change to the policy. Currently, the language calls for the lending agent (e.g., State Street or eSecLending) to “assist” IMD in monitoring creditworthiness of all borrowers. A more common industry practice is to have the lending agent be the responsible party, approving borrowers, given their responsibility to provide indemnification. Importantly, this process would not restrict TRS’s ability to have transparency into the process, nor to restrict any borrow at its discretion.

IMD currently provides the Board an annual report on the securities lending program, including top borrowers, balances, and IMD receives reporting from the lending agent at least annually to monitor dollar loan limits.

With respect to the change to Objective 1.3, Meketa, IMD, legal counsel, and Dr. Brown engaged in dialogue with respect to the most effective way to describe the intent of the program. Current language could be interpreted to imply that no interference/impact would be tolerated in the program, and IMD desired to ensure that language was adjusted to appropriately reflect that administering *any* securities lending activity has *an impact* on the management of the overall TRS portfolio, it is only a *negative impact* which the policy should strive to avoid. Meketa agreed with the intent, and suggested language to modify, which IMD, legal counsel, and Dr. Brown supported.

IMD has taken a comprehensive approach to its review of the Securities Lending Policy and has received feedback from Meketa. ***Meketa concurs with the proposed changes suggested by IMD.***

We look forward to discussing these changes at the Board meeting, if desired.



[Date]

MLM/CB/mp

**MEMORANDUM**

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

**FROM:** Suzanne M. Dugan  
Fiduciary Counsel

**DATE:** November 3, 2025

**RE:** 2025 Review of Securities Lending Policy

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At the December 2025 TRS Board meeting, TRS staff will present proposed modifications to the Securities Lending Policy. The Policy is reviewed every three years, with the last review having been in December 2022.

In addition to administrative edits to clarify and correct language of the Policy, the Investment Management Division (IMD) is proposing one material change to the Policy that would delegate borrower credit review responsibilities to the securities lending agent. The current language calls for the lending agents (who are selected by the Board and are currently State Street and eSecLending) to assist IMD in monitoring the credit worthiness of all borrowers. As more fully set forth in the Board package materials, the more common industry practice is for the lending agents to be responsible for the assessment of a borrower’s credit worthiness. As noted, the lending agent is in a better position to make such an assessment and, importantly, is required to indemnify TRS. In addition, TRS retains the right to restrict any borrower in its discretion.

In our respective roles as independent Advisors to the Board, Meketa, Dr. Brown, and I have each reviewed the proposal and provided feedback to IMD staff in the process of the preparation of the proposal, as well as this input to the Board regarding its consideration of the proposal. Both Meketa and Dr. Brown concur with the proposed changes suggested by staff.

Fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process help to demonstrate prudence. In reviewing the process that was undertaken with regard to the review of the Securities Lending Policy, it appears that the Board has sufficient information before it from staff as well as the advice of independent outside experts in order to enable it to engage in a rigorous decision-making process in a manner consistent with procedural prudence. In addition, at its meeting the Board has opportunity to utilize in-house and outside experts to obtain answers to any questions the Board may have. Following this process allows the Board to demonstrate that it has exercised appropriate fiduciary oversight.





# SECURITIES LENDING POLICY

(rev. effective December 59, 20252)

This Securities Lending Policy is adopted by the Board of Trustees of the Teacher Retirement System of Texas (the “Board”) pursuant to section 825.303 of the Texas Government Code. The staff shall include the provisions of this Policy in any contract with securities lending agent(s) engaged to lend TRS securities under Tex. Gov’t Code section 825.303.

## 1. Objectives

The securities lending program is designed to achieve the following objectives:

- 1.1. Earn a competitive market return on securities lending through conservative securities lending practices, consistently with the preservation of capital.
- 1.2. Manage risk to a reasonable and acceptable level with respect to both the broker and borrower and the collateral.
- 1.3. Operate the securities lending program so that it will not negatively impact ~~interfere with~~ the management of the TRS portfolios.
- 1.4. Participate in an enhanced custody program that facilitates both TRS borrowing of securities and lending of securities to the lending agent(s) as a principal.
- 1.5. Provide an alternative source of Trust financing that would be used in accordance with Investment Policy Statement (“IPS”).

## 2. Controls

- 2.1. The Executive Director will ensure that the responsibilities for the securities lending program are appropriately allocated and implemented as between the Chief Investment Officer and the Chief Financial Officer.
- 2.2. The Chief Investment Officer and his or her designated employees are responsible for implementing and monitoring the securities lending program to ensure compliance with TRS policy and guidelines and restrictions by the lending agent(s). Such monitoring will include at least an annual review of the creditworthiness of the lending agent(s), as lending agent(s) and as borrower, and the indemnification provider(s), if applicable. The Chief Financial Officer is responsible for monitoring the program and providing accurate and timely accounting for the securities lending program.
- 2.3. The Board will select the lending agent(s) that will perform the securities-lending function. The selection will be made in accordance with applicable statutory requirements and any other factors deemed appropriate pursuant to a competitive evaluation process and due diligence by the staff.

- 2.4. The Investment Management Division will negotiate a securities lending authorization agreement with the lending agent(s) selected by the Board consistent with this policy and applicable law. The executive director or designee must execute the agreement and any amendments to the agreement.
- 2.5. The lending agent(s) selected by the Board must agree to conduct securities lending activities pursuant to the following minimum requirements. Only the Board may determine whether to waive any such requirement.
  - 2.5.1 The lending agent(s) may not take actions that would cause TRS to engage in a prohibited transaction under section 503 of the Internal Revenue Code (“Code”).
  - 2.5.2 The lending agent(s) shall ~~assist the Investment Management Division to~~ monitor the creditworthiness of all borrowers and shall obtain the most recent audited statement of a borrower's financial condition (or the most recent unaudited statement, if more recent) as part of this process.
  - 2.5.3 The lending agent(s) shall perform its responsibilities in a manner consistent with that of professional securities lending agent(s) with the care, skill, prudence and diligence under the circumstances prevailing that a professional securities lending agent(s) acting in like capacity and familiar with such matters would use, all in accordance with applicable federal and state laws.
  - 2.5.4 The lending agent(s) may, pursuant to a separate written agreement signed by the executive director or designee, and subject to the TRS Code of Ethics for Contractors, be authorized to borrow TRS securities in a principal capacity for its own account (including for re-lending to other clients). To the extent that TRS and the lending agent(s), acting as a principal, have offsetting collateral delivery obligations in connection with TRS as a borrower of securities and the lending agent(s) as a principal borrower, such collateral delivery obligations may be netted to maximize efficiency in fees and the delivery of collateral.

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### 3. Guidelines

The securities lending program will include the following types of loan collateral, short-term cash collateral investments, and loan terms with the exception of activities conducted in accordance with paragraph 1.5 which will be governed by IPS:

- 3.1. **Securities eligible for lending.** Domestic and international equity and fixed income securities held by a bank custodian may be loaned, except those securities which the Investment Management Division specifies from time to time are not available for lending. TRS securities held in custody by a prime broker are not eligible for securities lending.
- 3.2. **Compliance monitoring.** Except as specifically provided in these guidelines with respect to maintaining the required market value of collateral for loaned securities, compliance with these guidelines shall be determined as of the time of the investment of cash collateral.
- 3.3. **Collateral received.** Collateral received from borrowers must be delivered in the form of cash or government securities eligible for book entry in either the Federal Reserve System or the Participants Trust Company, or their respective successors.
- 3.4. **Cash collateral collective investments authorized.** Cash collateral may be invested in (a) any collective trust fund the assets of which are invested in compliance with these guidelines, is qualified for exemption from taxation under Internal Revenue Service Ruling 81-100, 1981-1C.B. 326, or any successor ruling, regulation or similar pronouncement (the “qualified trust fund

exemption”), and of which the current bank custodian or securities lending agent(s) is the trustee; or (b) if approved by the Chief Investment Officer, (1) any open-ended money market mutual fund managed by a registered investment adviser or (2) any short-term money market investment collective trust fund that has the qualified trust fund exemption and of which the current bank custodian or securities lending agent(s) is the trustee. No more than 10% of cash collateral may be invested in funds authorized in clause (b)(2) of the preceding sentence.

**3.5. Cash collateral authorized portfolio investments.** All investments of cash collateral must be denominated in U.S. dollars. When the borrower of a TRS security delivers cash collateral to secure its obligations to redeliver the borrowed security to the lending agent, such cash collateral shall be invested only in the following types of instruments in accordance with these guidelines:

**3.5.1** U.S. Government securities and U.S. government-sponsored enterprise (GSE) or agency securities.

**3.5.2** Money market instruments including but not limited to commercial paper, master notes, time deposits, bank certificates of deposit and bankers’ acceptances.

**3.5.3** Repurchase agreements, either deliverable or triparty, that are fully collateralized by collateral determined by the lending agent(s) consistently with its established practices and in its reasonable discretion, which collateral may include, but is not limited to, any of the following: U.S. Treasuries, U.S. Treasury STRIPS, federal agency obligations, mortgage-backed securities, agency REMICS and CMOs, commercial paper, corporates, asset-backed securities, equities, whole loans, or any combination of these. The lending agent(s) shall notify the Investment Management Division when other types of collateral are used. The market value of collateral received under any repurchase agreement must exceed the market value of the cash distributed by a margin of not less than two percent.

**3.5.4** Fixed or floating rate debt obligations, including, but not limited to, corporate and medium term notes, automobile loans (including dealer inventory financing), credit card receivables, student loans, home equity, and residential and commercial mortgage issues. Any floating rate obligation must meet the following criteria:

**3.5.4.1** Interest must be based upon a coupon formula that resets at least quarterly.

**3.5.4.2** The coupon formula must be tied to one of the following: the Federal Funds Effective Rate, the U.S. prime lending rate, the three-month U.S. Treasury Bill rate, the Secured Overnight Financing Rate (SOFR), the Overnight Bank Funding Rate (OBFR), any similar successor rate indices, or a published composite index for interest rates on commercial paper or certificates of deposit.

**3.5.4.3** The coupon formula must be based upon a constant spread relationship between the security coupon rate and the reference rate. Step-up or -down floaters are permitted. Prohibited floaters include, but are not limited to, complex derivative structures such as inverse floating rate notes, and defined range floating rate notes. No investment may be made in any instrument for which a negative coupon interest rate is possible. Zero coupon securities such as commercial paper, short term discount notes, and original issue discount notes purchased at prevailing market yields are acceptable for purchase.

**3.5.5** Derivative instruments, including but not limited to, futures contracts and options on futures, interest rate swaps, credit default swaps, total return swaps, and options on securities and securities indices. No individual derivative instrument may exceed applicable guideline limits, and no derivative exposure, either individually or in the aggregate, may



cause the collateral fund to exceed applicable guideline limits. All derivatives exposure must be measured on a net basis.

- 3.6. Maturity limits for individual cash collateral investments.** At the time of purchase, the expected final maturity of any individual fixed-rate or floating-rate instrument (expected weighted-average life in the case of amortizing fixed or floating-rate investments (e.g., asset back securities)) may not exceed 37 months based on settlement date.
- 3.7. Portfolio maturity limits for cash collateral investments.** The par value, dollar-weighted average maturity of the collective cash collateral investment portfolio may not exceed 120 days. For purposes of this calculation, the maturity of any floating rate obligation may be considered the remaining time to the instrument's next coupon reset. Additionally, for the purpose of this calculation, the weighted-average life of any amortizing, fixed-rate obligation may be substituted for the instrument's maturity.
- 3.8. Minimum credit quality ratings for individual cash collateral investments.**
- 3.8.1** Each instrument having a maturity at the time of purchase of less than 13 months must be rated in one of the two highest short-term ratings categories of the following Nationally Recognized Statistical Ratings Organizations (NRSROs): Moody's Investors Service, Inc. (P-2 or higher); S&P Global Ratings (A-2 or higher); Fitch Ratings, Inc. (F-2 or higher); or DBRS, Inc. (R-2 (high) or higher); or be determined by the Board to be of comparable quality based on a recommendation by the Chief Investment Officer or his designee.
- 3.8.2** Each instrument having a maturity at the time of purchase greater than 13 months must be rated at the time of purchase within the highest major, long-term rating category of an NRSRO (e.g., Moody's A3 or S&P Global's A-), or, if unrated, be determined to be of comparable quality by the Board based on a recommendation by the Chief Investment Officer or his designee.
- 3.9. Downgraded Securities.** If, subsequent to purchase, a security is downgraded by an NRSRO such that the security no longer meets the minimum credit rating requirements prescribed in Section 3.8 above, the securities lending agent(s) shall inform one or more of the Chief Investment Officer, or the Chief Risk Officer of the downgrade in writing by email through another type of electronic transmission within 72 hours of the downgrade action. Upon receipt of such a notice, the Chief Risk Officer, or his or her designee, will conduct a review of the downgraded security and submit a recommended action to the Chief Investment Officer, or his or her designee, within 72 hours of the receipt of written notice from the securities lending agent(s). Within 48 hours of the receipt of this recommendation, the Chief Investment Officer or his or her designee will instruct the securities lending agent(s) as to how to administer the downgraded security.
- 3.10. Initial collateral; marking to market.** Loaned securities and initial collateral delivered by the borrower of TRS securities shall be marked to current market value in the applicable currency at the close of each business day, as "business day" may be defined in an applicable securities lending authorization agreement between TRS and the securities lending agent(s).
- 3.10.1 Domestic securities.** For purposes of this policy, domestic securities are securities denominated in U.S. dollars and whose primary trading markets are in the United States. The initial collateral delivered to secure a loan of domestic securities must have a market value of at least 102% of the initial market value of the loaned securities. If, while an individual loan to a borrower is outstanding, the current market value of the collateral initially delivered by the borrower is less than 100% of the current market value of the

loaned securities, or if the aggregated current market value of the collateral for all domestic securities loaned to a borrower is less than 102% of the current market value of all such securities loaned to a borrower, the securities lending agent(s) must require the borrower to deliver additional collateral to restore the value of the collateral to 102% of the then-current market value of the relevant loan or loans of such securities.

**3.10.2 International equity securities.** For purposes of this policy, international securities are securities not denominated in U.S. dollars or whose primary trading markets are not in the United States. The initial collateral delivered to secure a loan of international equity securities must have a market value of at least 105% of the initial market value of the loaned securities. If, while an individual loan is outstanding, the current market value of the collateral initially delivered by the borrower is less than 103% of the current market value of the loaned international equity securities, or if the aggregated current market value of the collateral for all such securities loaned to a borrower is less than 105% of the aggregated current market value of all securities loaned to a borrower, the securities lending agent(s) must require the borrower to deliver additional collateral to restore the market value of the collateral to 105% of the then-current market value of the relevant loan or loans of such securities.

**3.10.3 International sovereign debt and non-U.S. corporate debt securities.** In the case of loans of (i) sovereign debt issued by non-U.S. governments and (ii) non-U.S. corporate debt securities, the initial collateral delivered must have a market value of at least 102% of the initial market value of the loaned securities. If, while an individual loan is outstanding the current market value of the collateral is less than 100% of the current market value of the loaned international sovereign debt and non-U.S. corporate debt securities, or if the aggregated current market value of the collateral for all such securities loaned to a borrower is less than 102% of the aggregated current market value of all securities loaned to a borrower, the securities lending agent(s) must require the borrower to deliver additional collateral to restore the value of the collateral to 102% of the then-current market value of the relevant loan or loans of such securities.

**3.10.4 Invested cash collateral.** When cash collateral is invested for the account of TRS, the borrower is not required to deliver additional collateral based on a drop in the market value of such cash collateral investments except as provided in the applicable securities loan agreement.

**3.11.** Loans must be callable by the Investment Management Division or the lending agent(s) for timely delivery on the applicable trade settlement date if the loaned security is sold by a TRS portfolio. Any term loans that are not callable must be approved in advance by the Chief Investment Officer or his or her designee.

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## 4. Restrictions

**4.1.** A fundamental investment approach will be used to identify collateral investments appropriate for the relevant portfolio guidelines. A fundamental investment approach employs both internal and external quantitative and qualitative research to monitor credit quality within the active universe of investable credits. Several factors are analyzed including: capitalization levels, funding profiles, trends in earnings, credit rating trends, standard financial ratio analysis, changes in regulatory environments, and fluctuations in relevant macroeconomic conditions that could potentially impact an issuer's creditworthiness profile. Maturity restrictions, as identified below, are assigned to individual securities, and notional credit limits are determined for each issuer, in order to manage

the portfolio exposure to each issuer's credit. All limits within this Section 4 are reviewed regularly to address issuer credit exposure concentration risks and are managed on a real-time basis.

- 4.2. The maximum market value of TRS securities on loan at any one time shall not exceed 50% of the market value of the eligible securities available for loan under Section 3.1 in the TRS investment portfolio.
- 4.3. No mortgage-backed securities may be loaned in "dollar roll" transactions in which the identical borrowed securities are not returned to TRS.
- 4.4. On at least an annual basis, the lending agent(s) will deliver to the Investment Management Division a list of ~~proposed~~ borrowers and corresponding dollar loan limits. The Chief Investment Officer or his/her designee has the discretion to remove any name from the borrower list and may require the lending agent(s) to deliver an updated list of ~~proposed~~ borrowers on request.
- 4.5. Securities lending agreements entered into with borrowers by the securities lending agent(s) must be evidenced by written contracts that comply with this policy and applicable law. The lending agent(s) may use a proprietary form for such written agreements.
- 4.6. Diversification requirements.
  - 4.6.1 No more than 10% of total cash collateral investments may be made in issues of any one non-governmental entity. There are no concentration limits for U.S. Treasury and agency securities. The single counterparty exposure on a repurchase agreement may not exceed 5% of the total cash collateral account unless those transactions are covered by an indemnification agreement that is sponsored by an organization that bears a long-term NRSRO rating of A- or better and is enhanced by acceptable collateral as specified by section 3.5.3 of the guidelines. For purposes of this requirement, counterparty includes the counterparty's subsidiaries.
  - 4.6.2 Exclusive of approved money market funds, no more than 40% of cash collateral investments may be made in asset-backed commercial paper.
  - 4.6.3 Exclusive of approved money market funds, no more than 50% of cash collateral investments may be made in foreign debt obligations.
- 4.7. Investments in structured notes are prohibited with the exception of those listed in Section 3.5 of the guidelines.

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## 5. Reports

The Investment Management Division will review the progress of the securities lending program, including an overall evaluation of the performance of the lending agent(s) and the program, with the Investment Committee of the Board of Trustees at least annually. This review will include a written report on the lending volume with and without amounts used per Section 1.5, income generated, the lending agent(s)'s borrowing balance and its credit limit as a principal, and top borrower balances and their respective credit limits.



# **SECURITIES LENDING POLICY**

**(rev. effective December 5, 2025)**

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This Securities Lending Policy is adopted by the Board of Trustees of the Teacher Retirement System of Texas (the “Board”) pursuant to section 825.303 of the Texas Government Code. The staff shall include the provisions of this Policy in any contract with securities lending agent(s) engaged to lend TRS securities under Tex. Gov’t Code section 825.303.

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## **1. Objectives**

The securities lending program is designed to achieve the following objectives:

- 1.1. Earn a competitive market return on securities lending through conservative securities lending practices, consistent with the preservation of capital.
- 1.2. Manage risk to a reasonable and acceptable level with respect to both the broker and borrower and the collateral.
- 1.3. Operate the securities lending program so that it will not negatively impact the management of the TRS portfolios.
- 1.4. Participate in an enhanced custody program that facilitates both TRS borrowing of securities and lending of securities to the lending agent(s) as a principal.
- 1.5. Provide an alternative source of Trust financing that would be used in accordance with Investment Policy Statement (“IPS”).

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## **2. Controls**

- 2.1. The Executive Director will ensure that the responsibilities for the securities lending program are appropriately allocated and implemented as between the Chief Investment Officer and the Chief Financial Officer.
- 2.2. The Chief Investment Officer and his or her designated employees are responsible for implementing and monitoring the securities lending program to ensure compliance with TRS policy and guidelines and restrictions by the lending agent(s). Such monitoring will include at least an annual review of the creditworthiness of the lending agent(s), as lending agent(s) and as borrower, and the indemnification provider(s), if applicable. The Chief Financial Officer is responsible for monitoring the program and providing accurate and timely accounting for the securities lending program.
- 2.3. The Board will select the lending agent(s) that will perform the securities-lending function. The selection will be made in accordance with applicable statutory requirements and any other factors deemed appropriate pursuant to a competitive evaluation process and due diligence by the staff.

- 2.4. The Investment Management Division will negotiate a securities lending authorization agreement with the lending agent(s) selected by the Board consistent with this policy and applicable law. The executive director or designee must execute the agreement and any amendments to the agreement.
- 2.5. The lending agent(s) selected by the Board must agree to conduct securities lending activities pursuant to the following minimum requirements. Only the Board may determine whether to waive any such requirement.
  - 2.5.1 The lending agent(s) may not take actions that would cause TRS to engage in a prohibited transaction under section 503 of the Internal Revenue Code (“Code”).
  - 2.5.2 The lending agent(s) shall monitor the creditworthiness of all borrowers and shall obtain the most recent audited statement of a borrower's financial condition (or the most recent unaudited statement, if more recent) as part of this process.
  - 2.5.3 The lending agent(s) shall perform its responsibilities in a manner consistent with that of professional securities lending agent(s) with the care, skill, prudence and diligence under the circumstances prevailing that a professional securities lending agent(s) acting in like capacity and familiar with such matters would use, all in accordance with applicable federal and state laws.
  - 2.5.4 The lending agent(s) may, pursuant to a separate written agreement signed by the executive director or designee, and subject to the TRS Code of Ethics for Contractors, be authorized to borrow TRS securities in a principal capacity for its own account (including for re-lending to other clients). To the extent that TRS and the lending agent(s), acting as a principal, have offsetting collateral delivery obligations in connection with TRS as a borrower of securities and the lending agent(s) as a principal borrower, such collateral delivery obligations may be netted to maximize efficiency in fees and the delivery of collateral.

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### 3. Guidelines

The securities lending program will include the following types of loan collateral, short-term cash collateral investments, and loan terms with the exception of activities conducted in accordance with paragraph 1.5 which will be governed by IPS:

- 3.1. **Securities eligible for lending.** Domestic and international equity and fixed income securities held by a bank custodian may be loaned, except those securities which the Investment Management Division specifies from time to time are not available for lending. TRS securities held in custody by a prime broker are not eligible for securities lending.
- 3.2. **Compliance monitoring.** Except as specifically provided in these guidelines with respect to maintaining the required market value of collateral for loaned securities, compliance with these guidelines shall be determined as of the time of the investment of cash collateral.
- 3.3. **Collateral received.** Collateral received from borrowers must be delivered in the form of cash or government securities eligible for book entry in either the Federal Reserve System or the Participants Trust Company, or their respective successors.
- 3.4. **Cash collateral collective investments authorized.** Cash collateral may be invested in (a) any collective trust fund the assets of which are invested in compliance with these guidelines, is qualified for exemption from taxation under Internal Revenue Service Ruling 81-100, 1981-1C.B. 326, or any successor ruling, regulation or similar pronouncement (the “qualified trust fund

exemption”), and of which the current bank custodian or securities lending agent(s) is the trustee; or (b) if approved by the Chief Investment Officer, (1) any open-ended money market mutual fund managed by a registered investment adviser or (2) any short-term money market investment collective trust fund that has the qualified trust fund exemption and of which the current bank custodian or securities lending agent(s) is the trustee. No more than 10% of cash collateral may be invested in funds authorized in clause (b)(2) of the preceding sentence.

**3.5. Cash collateral authorized portfolio investments.** All investments of cash collateral must be denominated in U.S. dollars. When the borrower of a TRS security delivers cash collateral to secure its obligations to redeliver the borrowed security to the lending agent, such cash collateral shall be invested only in the following types of instruments in accordance with these guidelines:

**3.5.1** U.S. Government securities and U.S. government-sponsored enterprise (GSE) or agency securities.

**3.5.2** Money market instruments including but not limited to commercial paper, master notes, time deposits, bank certificates of deposit and bankers’ acceptances.

**3.5.3** Repurchase agreements, either deliverable or triparty, that are fully collateralized by collateral determined by the lending agent(s) consistently with its established practices and in its reasonable discretion, which collateral may include, but is not limited to, any of the following: U.S. Treasuries, U.S. Treasury STRIPS, federal agency obligations, mortgage-backed securities, agency REMICS and CMOs, commercial paper, corporates, asset-backed securities, equities, whole loans, or any combination of these. The lending agent(s) shall notify the Investment Management Division when other types of collateral are used. The market value of collateral received under any repurchase agreement must exceed the market value of the cash distributed by a margin of not less than two percent.

**3.5.4** Fixed or floating rate debt obligations, including, but not limited to, corporate and medium term notes, automobile loans (including dealer inventory financing), credit card receivables, student loans, home equity, and residential and commercial mortgage issues. Any floating rate obligation must meet the following criteria:

**3.5.4.1** Interest must be based upon a coupon formula that resets at least quarterly.

**3.5.4.2** The coupon formula must be tied to one of the following: the Federal Funds Effective Rate, the U.S. prime lending rate, the three-month U.S. Treasury Bill rate, the Secured Overnight Financing Rate (SOFR), the Overnight Bank Funding Rate (OBFR), any similar successor rate indices, or a published composite index for interest rates on commercial paper or certificates of deposit.

**3.5.4.3** The coupon formula must be based upon a constant spread relationship between the security coupon rate and the reference rate. Step-up or -down floaters are permitted. Prohibited floaters include, but are not limited to, complex derivative structures such as inverse floating rate notes, and defined range floating rate notes. No investment may be made in any instrument for which a negative coupon interest rate is possible. Zero coupon securities such as commercial paper, short term discount notes, and original issue discount notes purchased at prevailing market yields are acceptable for purchase.

**3.5.5** Derivative instruments, including but not limited to, futures contracts and options on futures, interest rate swaps, credit default swaps, total return swaps, and options on securities and securities indices. No individual derivative instrument may exceed applicable guideline limits, and no derivative exposure, either individually or in the aggregate, may

cause the collateral fund to exceed applicable guideline limits. All derivatives exposure must be measured on a net basis.

- 3.6. Maturity limits for individual cash collateral investments.** At the time of purchase, the expected final maturity of any individual fixed-rate or floating-rate instrument (expected weighted-average life in the case of amortizing fixed or floating-rate investments (e.g., asset back securities)) may not exceed 37 months based on settlement date.
- 3.7. Portfolio maturity limits for cash collateral investments.** The par value, dollar-weighted average maturity of the collective cash collateral investment portfolio may not exceed 120 days. For purposes of this calculation, the maturity of any floating rate obligation may be considered the remaining time to the instrument's next coupon reset. Additionally, for the purpose of this calculation, the weighted-average life of any amortizing, fixed-rate obligation may be substituted for the instrument's maturity.
- 3.8. Minimum credit quality ratings for individual cash collateral investments.**
- 3.8.1** Each instrument having a maturity at the time of purchase of less than 13 months must be rated in one of the two highest short-term ratings categories of the following Nationally Recognized Statistical Ratings Organizations (NRSROs): Moody's Investors Service, Inc. (P-2 or higher); S&P Global Ratings (A-2 or higher); Fitch Ratings, Inc. (F-2 or higher); or DBRS, Inc. (R-2 (high) or higher); or be determined by the Board to be of comparable quality based on a recommendation by the Chief Investment Officer or his designee.
- 3.8.2** Each instrument having a maturity at the time of purchase greater than 13 months must be rated at the time of purchase within the highest major, long-term rating category of an NRSRO (e.g., Moody's A3 or S&P Global's A-), or, if unrated, be determined to be of comparable quality by the Board based on a recommendation by the Chief Investment Officer or his designee.
- 3.9. Downgraded Securities.** If, subsequent to purchase, a security is downgraded by an NRSRO such that the security no longer meets the minimum credit rating requirements prescribed in Section 3.8 above, the securities lending agent(s) shall inform one or more of the Chief Investment Officer, or the Chief Risk Officer of the downgrade in writing by email through another type of electronic transmission within 72 hours of the downgrade action. Upon receipt of such a notice, the Chief Risk Officer, or his or her designee, will conduct a review of the downgraded security and submit a recommended action to the Chief Investment Officer, or his or her designee, within 72 hours of the receipt of written notice from the securities lending agent(s). Within 48 hours of the receipt of this recommendation, the Chief Investment Officer or his or her designee will instruct the securities lending agent(s) as to how to administer the downgraded security.
- 3.10. Initial collateral; marking to market.** Loaned securities and initial collateral delivered by the borrower of TRS securities shall be marked to current market value in the applicable currency at the close of each business day, as "business day" may be defined in an applicable securities lending authorization agreement between TRS and the securities lending agent(s).
- 3.10.1 Domestic securities.** For purposes of this policy, domestic securities are securities denominated in U.S. dollars and whose primary trading markets are in the United States. The initial collateral delivered to secure a loan of domestic securities must have a market value of at least 102% of the initial market value of the loaned securities. If, while an individual loan to a borrower is outstanding, the current market value of the collateral initially delivered by the borrower is less than 100% of the current market value of the

loaned securities, or if the aggregated current market value of the collateral for all domestic securities loaned to a borrower is less than 102% of the current market value of all such securities loaned to a borrower, the securities lending agent(s) must require the borrower to deliver additional collateral to restore the value of the collateral to 102% of the then-current market value of the relevant loan or loans of such securities.

**3.10.2 International equity securities.** For purposes of this policy, international securities are securities not denominated in U.S. dollars or whose primary trading markets are not in the United States. The initial collateral delivered to secure a loan of international equity securities must have a market value of at least 105% of the initial market value of the loaned securities. If, while an individual loan is outstanding, the current market value of the collateral initially delivered by the borrower is less than 103% of the current market value of the loaned international equity securities, or if the aggregated current market value of the collateral for all such securities loaned to a borrower is less than 105% of the aggregated current market value of all securities loaned to a borrower, the securities lending agent(s) must require the borrower to deliver additional collateral to restore the market value of the collateral to 105% of the then-current market value of the relevant loan or loans of such securities.

**3.10.3 International sovereign debt and non-U.S. corporate debt securities.** In the case of loans of (i) sovereign debt issued by non-U.S. governments and (ii) non-U.S. corporate debt securities, the initial collateral delivered must have a market value of at least 102% of the initial market value of the loaned securities. If, while an individual loan is outstanding the current market value of the collateral is less than 100% of the current market value of the loaned international sovereign debt and non-U.S. corporate debt securities, or if the aggregated current market value of the collateral for all such securities loaned to a borrower is less than 102% of the aggregated current market value of all securities loaned to a borrower, the securities lending agent(s) must require the borrower to deliver additional collateral to restore the value of the collateral to 102% of the then-current market value of the relevant loan or loans of such securities.

**3.10.4 Invested cash collateral.** When cash collateral is invested for the account of TRS, the borrower is not required to deliver additional collateral based on a drop in the market value of such cash collateral investments except as provided in the applicable securities loan agreement.

**3.11.** Loans must be callable by the Investment Management Division or the lending agent(s) for timely delivery on the applicable trade settlement date if the loaned security is sold by a TRS portfolio. Any term loans that are not callable must be approved in advance by the Chief Investment Officer or his or her designee.

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## 4. Restrictions

**4.1.** A fundamental investment approach will be used to identify collateral investments appropriate for the relevant portfolio guidelines. A fundamental investment approach employs both internal and external quantitative and qualitative research to monitor credit quality within the active universe of investable credits. Several factors are analyzed including: capitalization levels, funding profiles, trends in earnings, credit rating trends, standard financial ratio analysis, changes in regulatory environments, and fluctuations in relevant macroeconomic conditions that could potentially impact an issuer's creditworthiness profile. Maturity restrictions, as identified below, are assigned to individual securities, and notional credit limits are determined for each issuer, in order to manage



the portfolio exposure to each issuer's credit. All limits within this Section 4 are reviewed regularly to address issuer credit exposure concentration risks and are managed on a real-time basis.

- 4.2. The maximum market value of TRS securities on loan at any one time shall not exceed 50% of the market value of the eligible securities available for loan under Section 3.1 in the TRS investment portfolio.
- 4.3. No mortgage-backed securities may be loaned in "dollar roll" transactions in which the identical borrowed securities are not returned to TRS.
- 4.4. On at least an annual basis, the lending agent(s) will deliver to the Investment Management Division a list of borrowers and corresponding dollar loan limits. The Chief Investment Officer or his/her designee has the discretion to remove any name from the borrower list and may require the lending agent(s) to deliver an updated list of borrowers on request.
- 4.5. Securities lending agreements entered into with borrowers by the securities lending agent(s) must be evidenced by written contracts that comply with this policy and applicable law. The lending agent(s) may use a proprietary form for such written agreements.
- 4.6. Diversification requirements.
  - 4.6.1 No more than 10% of total cash collateral investments may be made in issues of any one non-governmental entity. There are no concentration limits for U.S. Treasury and agency securities. The single counterparty exposure on a repurchase agreement may not exceed 5% of the total cash collateral account unless those transactions are covered by an indemnification agreement that is sponsored by an organization that bears a long-term NRSRO rating of A- or better and is enhanced by acceptable collateral as specified by section 3.5.3 of the guidelines. For purposes of this requirement, counterparty includes the counterparty's subsidiaries.
  - 4.6.2 Exclusive of approved money market funds, no more than 40% of cash collateral investments may be made in asset-backed commercial paper.
  - 4.6.3 Exclusive of approved money market funds, no more than 50% of cash collateral investments may be made in foreign debt obligations.
- 4.7. Investments in structured notes are prohibited with the exception of those listed in Section 3.5 of the guidelines.

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## 5. Reports

The Investment Management Division will review the progress of the securities lending program, including an overall evaluation of the performance of the lending agent(s) and the program, with the Investment Committee of the Board of Trustees at least annually. This review will include a written report on the lending volume with and without amounts used per Section 1.5, income generated, the lending agent(s)'s borrowing balance and its credit limit as a principal, and top borrower balances and their respective credit limits.

**TAB 6**

# Proxy Voting Policy Proposals

Brad Gilbert, Managing Director  
Dale West, Senior Managing Director

December 2025



# TRS Proxy Voting Overview

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- **Objective:** Ensure proxies are voted prudently and in the best economic interests of the pension plan
  - The Investment Policy further elaborates that investments must be made without promoting interests unrelated to the portfolio's stated objectives of controlling risk and achieving a long-term rate of return
- Policy calls for the TRS Board to retain an independent Proxy Advisor to analyze proxy issues, make voting recommendations, and vote proxies as an agent of TRS
  - Institutional Shareholder Services (ISS) is TRS's Proxy Advisor
  - TRS will launch a Request for Proposal (RFP) process for the Proxy Advisor in early 2026
- TRS reviews and updates the Proxy Voting Policy every three years. Any changes are proposed to the TRS Board of Trustees

# TRS Proxy Voting Implementation

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- Policy delegates administration duties to the Chief Investment Officer, who appoints the IMD Proxy Committee, including three investment professionals, along with members from Legal & Compliance and Investment Operations
  - The Proxy Committee implements TRS's Proxy Voting Policy
  - In almost all cases, TRS votes in line with Proxy Advisor recommendations, as they are informed by the Board-approved proxy voting guidelines
    - Manual reviews and overrides are rare, affecting 0-2 votes per year on average
    - The IMD has no staff dedicated solely to proxy voting
  - At least annually, the Proxy Committee reviews current voting guidelines for appropriateness and provides them to the Board
- The Board may direct the Proxy Committee to vote TRS proxies differently than recommended by the Proxy Advisor when doing so is in the best economic interests of the pension plan

# 2025 Proxy Voting Statistics

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- From January 1 through September 17th, 2025, TRS voted:
  - On **84,305** ballot items
  - Among **6,985** companies
  - At **7,777** meetings
  - In **65** countries
- ISS recommendations do not always align with company management
  - In this period TRS voted against company management recommendations in 9.4% of all ballot items

# Summary of Changes

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- The table below summarizes proposed modifications to the Proxy Voting Policy:

| Modification # | Proposed Modification  |
|----------------|--|
| 1              | Update policy for voting against or without advisor recommendation         |
| 2              | Update reporting timeline  |
| 3              | Revise reporting requirements for exception votes                          |
| 4              | Codify current practices for share blocking markets and private securities |

- Additional minor modifications:
  - Updated effective date from December 9, 2022, to December 5, 2025
  - Changed Board's Policy Committee to Governance Committee

# Modification 1

## *Update Policy for Voting Against or Without Advisor Recommendation*

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### Proposal

- Add the following language:
  - *In the event that the CIO or the Proxy Committee as the CIO's designee determines that it is in the best economic interest of the pension plan to do so, the Proxy Committee shall have discretion to vote against a recommendation of the Proxy Advisor.*
  - *In the event a recommendation is not provided by the Proxy Advisor, voting will be in line with fiduciary standards and proxies will generally be voted according to the company management recommendations. Further, the Proxy Committee will conduct an internal review on votes where TRS directly owns greater than 0.25% of the company's outstanding shares or greater than \$100 million of the position.*

### Rationale

- Codifies in Policy the existing process for voting shares contrary to Proxy Advisor recommendations, for example to support an invested activist manager
- In the event the Proxy Advisor is unable to provide voting advice on a company or class of companies, this modification instructs the Proxy Committee to vote proxies in line with company management recommendations, with an internal review for material holdings
- If the number of internal reviews becomes unmanageable, IMD would require additional FTE resources

### Background

- Over the last four years, TRS has overridden the Proxy Advisor recommendation five times to reflect a different investment view



# Modification 2

## *Update Reporting Timeline*

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### **Proposal**

- Change the timing of reporting exception votes from “next Board meeting” to “in the Quarterly Transparency Report”

### **Rationale**

- The “next Board meeting” could be the following day from an exception vote and not allow sufficient time to distribute the report
- Prior notice is already given to the Chair of the Governance Committee, Executive Director and CIO if the Proxy Committee recommends a vote other than in accordance with the Proxy Advisor’s recommendation

# Modification 3

## Revise Reporting Requirements

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### Proposal

- Add required reporting when TRS performs an internal review and votes contrary to company management
- Remove reporting required when Proxy Advisor has no recommendation, unless the Proxy Voting Committee votes contrary to company management
- Add the following language:
  - *The Proxy Exceptions Report will omit non-voting items and purely administrative votes that identify TRS by shareholder type, required in some foreign jurisdictions.*

### Rationale

- The Policy currently requires reporting for items “voted other than in accordance with the Proxy Advisor’s recommendation or no recommendation as been made”
- Narrowing the focus of the report to those actions where IMD Proxy Committee exercises discretion

### Background Information

- In certain jurisdictions including Canada and Israel, there are voting items that require shareholders to identify their type of investor (for example, “US Institutional Investor”). The Proxy Advisor does not provide a recommendation for these items, but they are purely administrative and involve no discretion on the part of the Proxy Committee

# Modification 4

## *Codify Current Practices*

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### **Proposal**

- Clarify special situations where TRS typically does not vote:
  - Share-Blocking Markets
  - Private Companies

### **Rationale**

- Share Blocking Markets: In certain foreign markets (for example, Egypt and Switzerland) shares must be blocked from transacting ahead of shareholder meetings to vote. In general, TRS would prefer to preserve the liquidity of these shares
- Private Companies: Proxy Advisor does not provide recommendations on private companies, which tend to be closely held. TRS generally does not vote proxies for private companies

### **Background Information**

- The additions reflect current practice





DEPARTMENT OF FINANCE


THE UNIVERSITY OF TEXAS AT AUSTIN

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(512) 471-4368 · Fax: (512) 471-5073

## MEMORANDUM

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

From: Keith C. Brown   
Advisor to the TRS Board

Re: Proposed Changes to the TRS Proxy Voting Policy

Date: October 31, 2025

I have reviewed the various changes that the Investment Management Division (IMD) has proposed for the TRS Proxy Voting Policy. *Overall, I endorse these modifications and recommend their adoption.*

For some historical context, it is worth noting that the TRS Proxy Voting Policy has undergone a substantial philosophical transformation over the past 15 years. Essentially, the policy has evolved from one in which TRS' position on each potential proxy voting issue was specified in writing to an alternative in which the Board delegates responsibility for voting to an IMD-managed Proxy Committee, using a set of Board-approved voting guidelines generated by an external proxy voting advisor.

The key features of the Proxy Voting Policy as it is currently written are (i) the explicit recognition that the right to vote proxies on the shares it holds is very much an asset of the Trust that needs to be managed prudently, and that (ii) the Board is ultimately responsible for determining how that asset should be managed. From that perspective, the delegation of administrative duties to IMD (and the outside proxy advisor) outlined in the policy can be viewed as a timely and cost-effective way for the Board to implement its vision of how proxy votes should be cast. This point was underscored by the policy changes adopted by the Board in February 2022 and December 2022 that allowed for a Board-generated customized set of voting guidelines that differ from the proxy advisor's benchmark recommendations and affirmed that the Board can alter the set of proxy voting guidelines at its discretion.

In what follows below, I offer analysis and opinion on the four modifications that IMD has proposed for the present version of the policy document.

- *Modification #1: Voting Against or Without Advisor Recommendation*

This modification makes explicit the conditions under which IMD is allowed to vote in opposition to the recommendation of the proxy advisor, as well as how it will vote in situations where the proxy advisor has not provided a recommended position. Both these contingencies are covered in the new Section 4 of the policy. In the former case, IMD must justify its dissention from the proxy advisor's position on a compelling economic basis. In the latter, IMD will automatically vote with management, unless the size of the shareholding in the Trust portfolio is material enough to warrant a formal internal review of the issues involved in the proxy vote.

Both these changes appear to be consistent with the fiduciary duty to ensure that proxy votes are cast in best economic interests of the Trust. One tangential issue that the Board might consider is that there may be a significant number of votes involving Texas-based companies for which the proxy advisor provides no recommendation. In those instances, TRS will always cast an "automatic" vote without a full consideration of the underlying issues, unless the firm in question is a sufficiently large holding in the portfolio.

- *Modification #2: Reporting Timeline*

The new Section 5 of the policy will be changed so that exception votes are reported to the Board in the Quarterly Transparency Report instead of "at, or prior to, the Board's next quarterly meeting", as the document currently reads. This modification merely clarifies the procedure for delivering the Proxy Exceptions Report to the Board without altering that delivery process in any material way.

- *Modification #3: Revise Reporting Requirements*

This proposal would change the content of the Proxy Exceptions Report. The new Section 5 will add a requirement to report to the Board any vote for which TRS staff performed an internal review, as well as any votes that are against company management. Further, the proposed change removes the need to report votes for which the proxy advisor makes no recommendation, as long as those votes are cast with management. Finally, language is added to omit from the Report any non-voting items and purely administrative votes. All these modifications serve to streamline the amount of information conveyed to the Board with no apparent loss in the delivery of meaningful content.

- *Modification #4: Codify Current Practices*

There are times when TRS does not exercise the right to vote its shares: (i) if those shares are on loan at the time of the vote and it is determined that the vote to be cast does not warrant recalling the shares, (ii) if choosing to cast the vote would restrict the ability to liquidate the shareholding for a period of time, and (iii) if the vote concerns a privately held company. The new Section 6 of the policy describes these three special situations, the last two being new additions to the document. Each of these exemptions is reasonable and, in the first two cases, can be justified by a benefit TRS receives that offsets any potential "cost" associated with the failure to cast a proxy vote.

## MEMORANDUM

**TO:** Teacher Retirement System of Texas Board of Trustees  
**FROM:** Mika Malone, Colin Bebee, Meketa Investment Group  
**CC:** Jase Auby, Chief Investment Officer; Katy Hoffman, Chief of Staff  
**DATE:** December 4, 2025  
**RE:** Concurrence Memo – Proxy Voting Policy Revision

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### Summary and Recommendation

In October 2025, the Investment Management Division (“IMD”) requested on behalf of the Teacher Retirement System of Texas (“TRS”) Board of Trustees that Meketa Investment Group (“Meketa”) review proposed changes to the Proxy Voting Policy for the TRS. After meeting with IMD, legal counsel, and Dr. Brown, providing feedback, and independently evaluating the proposed changes and memo, **Meketa concurs with the proposed changes suggested by IMD.** The proposed changes are intended to clarify responsibilities of IMD, the Proxy Advisor, and the Board across four main areas: 1) policy for voting against or without advisor recommendation, 2) reporting timeline, 3) reporting requirements for exception votes, and 4) current practices for share blocking and private securities, which needed to be codified.

### Discussion

The first modification adds language to the proxy policy to allow for the CIO or Proxy Committee to vote against a recommendation from the Proxy Advisor, if it is in the best economic interest of the pension plan. Language is also added to ensure that if no recommendation is provided, that proxies will generally be voted in accordance with company management, and adds a layer of review by the Committee if TRS ownership exceeds 0.25% of the company’s outstanding shares or \$100 million. IMD highlights that in the last five years, TRS has only overridden the Proxy Advisor recommendation five times, so it is relatively uncommon, but can come up in cases of activist managers on the TRS roster, or in cases where the proxy advisor cannot provide a recommendation. Meketa feels this modification helps codify existing practice protect against potential future impacts to process, and continue to align with fiduciary responsibilities.

The second modification is simply ensuring that the timing of reporting aligns with the practical ability to produce the quarterly report; Meketa has no concerns with this adjustment.

The third proposed adjustment revises reporting requirements to remove the reporting requirement if the Proxy Advisor has no recommendation, *unless* the Committee votes contrary to company management. The stated intent of this is to ensure that reporting is not required for administrative voting items in certain jurisdictions. Meketa has no concerns with this change and believes reporting is most important when TRS votes contrary to company management, which is covered.

The final modification clarifies the situations where TRS typically does not vote. This change reflects the practice currently in place, and we do not have any concerns.

IMD has taken a comprehensive approach to its review of the Proxy Voting Policy and has received feedback from Meketa and others in the process. **Meketa concurs with the proposed changes suggested by IMD.**

We look forward to discussing these changes at the Board meeting, if desired.

MLM/CB/mp





Suzanne M. Dugan  
(202) 408-4600  
sdugan@cohenmilstein.com

## MEMORANDUM

**TO:** Board of Trustees  
Teacher Retirement System of Texas ("TRS")

**FROM:** Suzanne M. Dugan  
Fiduciary Counsel

**DATE:** November 3, 2025

**RE:** 2025 Review of Proxy Voting Policy

---

At the December 2025 TRS Board meeting, TRS staff will be proposing updates to the Proxy Voting Policy, which was last amended in 2022.

From a fiduciary perspective, it is important to note that the right to vote shareholder proxies is a trust asset that must be prudently managed. The stated purpose of the Proxy Voting Policy is to ensure that TRS proxies are voted prudently and in the best economic interest of the pension plan so as to maximize portfolio returns over time. The Policy further provides that the TRS Board shall retain an independent proxy advisory service to assist and advise TRS to vote its proxies prudently, noting the exclusive objective of maximizing the long-term economic benefits of TRS pension plan participants and beneficiaries. The Board delegates to the Chief Investment Officer (CIO) the responsibility for proxy voting and administration, who, in turn, appoints a Proxy Committee to oversee the Proxy Advisor. The Proxy Committee reviews any voting guidelines issued by the Proxy Advisor to ensure that they are appropriate for TRS, and causes TRS proxies to be voted in accordance with the recommendations of the Proxy Advisor as modified by any custom policy determined to be in the best interests of TRS by the Board. Moreover, the TRS Board may vote to direct the Proxy Committee to vote TRS proxies differently than recommended when doing so is in the best economic interests of the pension plan.

The proposed changes before the Board are fully set forth in the materials from staff of the Investment Management Division (IMD) as well as from Board Advisors Dr. Brown and Meketa. The most significant change adds language regarding the voting of proxies against the

recommendation of the Proxy Advisor, as well as voting when there is no recommendation from the Advisor.

In our respective roles as independent Advisors to the Board, Meketa, Dr. Brown, and I have each reviewed the proposal and provided feedback to IMD staff in the process of the preparation of the proposal, as well as this input to the Board regarding its consideration of the proposal. Both Meketa and Dr. Brown concur with the proposed changes suggested by staff.

Fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process help to demonstrate prudence. In reviewing the process that was undertaken with regard to the proposed changes to the Proxy Voting Policy, it appears that the Board has sufficient information before it from staff, as well as the advice of independent outside experts, in order to enable it to engage in a rigorous decision-making process in a manner consistent with procedural prudence. In addition, at its meeting the Board has opportunity to utilize in-house and outside experts in order to obtain answers to any questions the Board may have. Following this process allows the Board to demonstrate that it has exercised appropriate fiduciary oversight.



# PROXY VOTING POLICY

(rev. effective ~~December 9, 2022~~5,  
2025)

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## 1. OBJECTIVE

Corporate governance and shareholder proposals can directly affect shareholder values. The right to vote shareholder proxies is therefore a trust asset. Informed proxy voting can enhance long-term shareholder returns in all markets. Accordingly, the purpose of this policy is to ensure that the TRS proxies are voted prudently and in the best economic interests of the pension plan so as to maximize portfolio returns over time.

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## 2. DELEGATION

To assist and advise TRS to vote its proxies prudently, the TRS Board shall retain a reputable, independent proxy advisory service (the “Proxy Advisor”) to analyze proxy issues, make voting recommendations, and vote proxies as TRS’ agent. In selecting the Proxy Advisor, the Board will have determined that the Proxy Advisors’ voting guidelines are reasonably designed to help ensure that TRS fulfills its fiduciary responsibilities governing proxy voting, with the exclusive objective of maximizing the long-term economic benefits of TRS pension plan participants and beneficiaries.

The Board hereby delegates to the Chief Investment Officer (“CIO”) the responsibility for proxy voting and administration. The CIO shall further appoint a committee (the “Proxy Committee”) of qualified, professional members of the Investment Management Division (the “IMD”) to oversee the Proxy Advisor. The Proxy Committee shall also have two non-voting members, one from the Legal & Compliance Division and one from Investment Operations. The Proxy Committee shall keep current on voting guidelines recommended by the Proxy Advisor. As needed, but at least on an annual basis, the Proxy Committee shall review any voting guidelines issued by the Proxy Advisor to ensure that they are appropriate for TRS. When appropriate, the CIO or Proxy Committee should consult with staff in other departments, with other TRS consultants, and with the Board.

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## 3. GENERAL VOTING GUIDELINES

Generally, the Proxy Committee will cause TRS proxies to be voted, or otherwise exercise voting rights, in accordance with the recommendations of the Proxy Advisor as modified by any custom policy determined to be in the best interests of TRS by the Board. Recommendations are based on the Proxy Advisor’s published guidelines. Such guidelines will be provided to the Board for review on an annual basis. On matters of special importance to TRS, however, the Board may vote during a Board meeting to direct the Proxy Committee to vote TRS proxies differently than recommended by the Proxy Advisor when doing so is in the best economic interests of the pension plan.

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#### 4. VOTING AGAINST OR WITHOUT A RECOMMENDATION FROM THE PROXY ADVISOR

In the event that the CIO or the Proxy Committee as the CIO's designee determines that it is in the best economic interest of the pension plan to do so, the Proxy Committee shall have discretion to vote against a recommendation of the Proxy Advisor.

In the event a recommendation is not provided by the Proxy Advisor, voting will be in line with fiduciary standards and proxies will generally be voted according to company management recommendations. Further, the Proxy Committee will conduct an internal review on votes where TRS directly owns greater than 0.25% of the company's outstanding shares or greater than \$100 million of the position.

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#### 4. 5. REPORTING & RECORD-KEEPING

The Proxy Committee shall provide prior notice to the Chair of the Board's Policy Governance Committee, the Executive Director, and the CIO of proxy votes where TRS votes other than in accordance with the Proxy Advisor's recommendation.

The Proxy Committee shall maintain, or cause to be maintained, a record of all proxy votes. If a proxy item is voted other than in accordance with the Proxy Advisor's recommendation or when internally reviewed by TRS, as noted in Section 4, and voted contrary to management ~~no recommendation has been made~~, such "exception votes" shall be described in a Proxy Exceptions Report delivered to the Board by the Proxy Committee ~~at, or prior to, the Board's next quarterly meeting in the Quarterly Transparency Report~~. The Proxy Exceptions Report must document the exception votes, the reasons supporting each such vote, the number of shares voted, and the date of each corporate meeting at which exception votes were cast. The Proxy Exceptions Report will omit non-voting items and purely administrative votes that identify TRS by shareholder type, required in some foreign jurisdictions.

Proxy voting will be administered so as to permit review for compliance with this policy. The Proxy Committee shall maintain, or cause to be maintained, the following items in readily accessible records for the retention period required by the applicable records retention schedule:

- a. a record of all proxies voted that contains company names, numbers of shares voted, date of each corporate meeting at which votes were cast, issues voted upon and the corresponding TRS vote, along with any necessary supporting documentation;
- b. the Proxy Exceptions Report referenced above;
- c. a record of any proxies received but not voted due to special circumstances, including untimely receipt, re-registration, or blocking; and
- d. copies of annual guidelines issued by the Proxy Advisor.

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#### 5.6. LOANED SECURITIES SPECIAL SITUATIONS

**Loaned Securities:** Because TRS conducts a securities lending program, securities may be on loan during the time when proxies must be voted. Loaned securities will be recalled for purposes of voting proxies only when the CIO or the Proxy Committee as the CIO's designee determines that the proxy voting interest clearly outweighs the securities lending interest. Recalling loaned securities for proxy voting purposes is expected to be the exception.

**Share-Blocking Markets:** Some markets require shares to be blocked from trading for a certain period before a shareholder meeting date if proxies are to be voted. In order to maintain liquidity for those shares, TRS typically elects not to participate in share blocking and does not vote the shares.

**Private Companies:** The Proxy Advisor does not provide recommendations on private companies, which tend to be closely held. TRS generally does not vote proxies for private companies.

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## **6.7.USE OF THIRD-PARTY INVESTMENT MANAGERS TO VOTE PROXIES**

The CIO or the CIO's designee(s) may delegate to third party external managers proxy voting authority related to the securities managed by such manager, provided that the delegation of proxy voting authority is reasonably related to the investment strategy set forth in that manager's investment guidelines in the investment management agreement. Any proxy votes cast by an external manager pursuant to a delegation of proxy voting authority must be cast (1) in accordance with the applicable investment guidelines governing such external manager and (2) in the external manager's reasonable judgment as a fiduciary to TRS, in the best long-term economic interest of TRS. External managers must maintain records of any proxy votes cast on behalf of TRS and annually provide TRS reports of such votes or deliver reports of proxy votes cast upon request.





# **PROXY VOTING POLICY**

**(rev. effective December 5, 2025)**

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## **1. OBJECTIVE**

Corporate governance and shareholder proposals can directly affect shareholder values. The right to vote shareholder proxies is therefore a trust asset. Informed proxy voting can enhance long-term shareholder returns in all markets. Accordingly, the purpose of this policy is to ensure that the TRS proxies are voted prudently and in the best economic interests of the pension plan so as to maximize portfolio returns over time.

---

## **2. DELEGATION**

To assist and advise TRS to vote its proxies prudently, the TRS Board shall retain a reputable, independent proxy advisory service (the “Proxy Advisor”) to analyze proxy issues, make voting recommendations, and vote proxies as TRS’ agent. In selecting the Proxy Advisor, the Board will have determined that the Proxy Advisors’ voting guidelines are reasonably designed to help ensure that TRS fulfills its fiduciary responsibilities governing proxy voting, with the exclusive objective of maximizing the long-term economic benefits of TRS pension plan participants and beneficiaries.

The Board hereby delegates to the Chief Investment Officer (“CIO”) the responsibility for proxy voting and administration. The CIO shall further appoint a committee (the “Proxy Committee”) of qualified, professional members of the Investment Management Division (the “IMD”) to oversee the Proxy Advisor. The Proxy Committee shall also have two non-voting members, one from the Legal & Compliance Division and one from Investment Operations. The Proxy Committee shall keep current on voting guidelines recommended by the Proxy Advisor. As needed, but at least on an annual basis, the Proxy Committee shall review any voting guidelines issued by the Proxy Advisor to ensure that they are appropriate for TRS. When appropriate, the CIO or Proxy Committee should consult with staff in other departments, with other TRS consultants, and with the Board.

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## **3. GENERAL VOTING GUIDELINES**

Generally, the Proxy Committee will cause TRS proxies to be voted, or otherwise exercise voting rights, in accordance with the recommendations of the Proxy Advisor as modified by any custom policy determined to be in the best interests of TRS by the Board. Recommendations are based on the Proxy Advisor’s published guidelines. Such guidelines will be provided to the Board for review on an annual basis. On matters of special importance to TRS, however, the Board may vote during a Board meeting to direct the Proxy Committee to vote TRS proxies differently than recommended by the Proxy Advisor when doing so is in the best economic interests of the pension plan.

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#### 4. VOTING AGAINST OR WITHOUT A RECOMMENDATION FROM THE PROXY ADVISOR

In the event that the CIO or the Proxy Committee as the CIO's designee determines that it is in the best economic interest of the pension plan to do so, the Proxy Committee shall have discretion to vote against a recommendation of the Proxy Advisor.

In the event a recommendation is not provided by the Proxy Advisor, voting will be in line with fiduciary standards and proxies will generally be voted according to company management recommendations. Further, the Proxy Committee will conduct an internal review on votes where TRS directly owns greater than 0.25% of the company's outstanding shares or greater than \$100 million of the position.

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#### 5. REPORTING & RECORD-KEEPING

The Proxy Committee shall provide prior notice to the Chair of the Board's Governance Committee, the Executive Director, and the CIO of proxy votes where TRS votes other than in accordance with the Proxy Advisor's recommendation.

The Proxy Committee shall maintain, or cause to be maintained, a record of all proxy votes. If a proxy item is voted other than in accordance with the Proxy Advisor's recommendation or when internally reviewed by TRS, as noted in Section 4, and voted contrary to management, such "exception votes" shall be described in a Proxy Exceptions Report delivered to the Board by the Proxy Committee in the Quarterly Transparency Report. The Proxy Exceptions Report must document the exception votes, the reasons supporting each such vote, the number of shares voted, and the date of each corporate meeting at which exception votes were cast. The Proxy Exceptions Report will omit non-voting items and purely administrative votes that identify TRS by shareholder type, required in some foreign jurisdictions.

Proxy voting will be administered so as to permit review for compliance with this policy. The Proxy Committee shall maintain, or cause to be maintained, the following items in readily accessible records for the retention period required by the applicable records retention schedule:

- a. a record of all proxies voted that contains company names, numbers of shares voted, date of each corporate meeting at which votes were cast, issues voted upon and the corresponding TRS vote, along with any necessary supporting documentation;
- b. the Proxy Exceptions Report referenced above;
- c. a record of any proxies received but not voted due to special circumstances, including untimely receipt, re-registration, or blocking; and
- d. copies of annual guidelines issued by the Proxy Advisor.

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#### 6. SPECIAL SITUATIONS

**Loaned Securities:** Because TRS conducts a securities lending program, securities may be on loan during the time when proxies must be voted. Loaned securities will be recalled for purposes of voting proxies only when the CIO or the Proxy Committee as the CIO's designee determines that the proxy voting interest clearly outweighs the securities lending interest. Recalling loaned securities for proxy voting purposes is expected to be the exception.



**Share-Blocking Markets:** Some markets require shares to be blocked from trading for a certain period before a shareholder meeting date if proxies are to be voted. In order to maintain liquidity for those shares, TRS typically elects not to participate in share blocking and does not vote the shares.

**Private Companies:** The Proxy Advisor does not provide recommendations on private companies, which tend to be closely held. TRS generally does not vote proxies for private companies.

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## **7. USE OF THIRD-PARTY INVESTMENT MANAGERS TO VOTE PROXIES**

The CIO or the CIO's designee(s) may delegate to third party external managers proxy voting authority related to the securities managed by such manager, provided that the delegation of proxy voting authority is reasonably related to the investment strategy set forth in that manager's investment guidelines in the investment management agreement. Any proxy votes cast by an external manager pursuant to a delegation of proxy voting authority must be cast (1) in accordance with the applicable investment guidelines governing such external manager and (2) in the external manager's reasonable judgment as a fiduciary to TRS, in the best long-term economic interest of TRS. External managers must maintain records of any proxy votes cast on behalf of TRS and annually provide TRS reports of such votes or deliver reports of proxy votes cast upon request.



**TAB 7**



## Memorandum

TRS Compliance

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To: Board of Trustees

From: Heather Traeger, General Counsel & Chief Compliance Officer

Cc: Brian Guthrie, Executive Director

Date: December 4, 2025

Re: Revisions to the TRS Key Employee Determinations Resolution

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A “Key Employee” is an employee who has been determined by the Board as one who exercises significant decision-making or fiduciary authority by virtue of the position they hold with TRS. A Key Employee is subject to special requirements under the Employee Ethics Policy and TRS Trading Policy for Employees and Certain Contractors.

Legal & Compliance is proposing the following changes to the TRS Key Employee Determinations Resolution: 1) remove the title “Assistant Deputy Director” as this position has been eliminated; and 2) non-substantive “clean-up” edits.



December ~~74~~, 202~~3~~5

Teacher Retirement System of Texas  
Board of Trustees

~~Resolution Adopting Revised~~ TRS Key Employee Determinations.  
Resolution

**Whereas**, In accordance with Government Code Section 825.212 and the Employee Ethics Policy, as revised from time to time, the Board of Trustees of the Teacher Retirement System of Texas (the “Board”) has authority to determine employees who exercise significant fiduciary authority (“key employees”); and

**Whereas**, The Board desires to adopt the following determinations of key employees; now, therefore be it

**Resolved**, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

| Title                                  |
|--|
| Executive Director                     |
| Deputy Director                        |
| <del>Assistant Deputy Director</del>   |
| Chief Investment Officer               |
| Chief Benefit Officer                  |
| Chief Financial Officer                |
| Deputy Chief, Financial Officer        |
| General Counsel                        |
| Chief Audit Executive                  |
| Chief Information Officer              |
| Chief Health Care Officer              |
| Senior Director, Investment Accounting |

**Further resolved**, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;



**Further resolved,** That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees; and

**Further resolved,** That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees.

**Further resolved,** That all employees who hold authority during a reporting period under the Board's General Authority Resolution, through direct delegation from the Board, by designation of the Executive Director under the General Authority Resolution, or otherwise, are hereby determined to be key employees and subject to all applicable requirements for key employees;

**Further resolved,** That, in addition to the authority granted under the Board's General Authority Resolution, the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations; and

**Further resolved,** That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, shall remain effective until modified by the Board.



**December 4, 2025**

**Teacher Retirement System of Texas  
Board of Trustees  
TRS Key Employee Determinations Resolution**

**Whereas**, In accordance with Government Code Section 825.212 and the Employee Ethics Policy, as revised from time to time, the Board of Trustees of the Teacher Retirement System of Texas (the “Board”) has authority to determine employees who exercise significant fiduciary authority (“key employees”); and

**Whereas**, The Board desires to adopt the following determinations of key employees; now, therefore be it

**Resolved**, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

| <b>Title</b>                           |
|--|
| Executive Director                     |
| Deputy Director                        |
| Chief Investment Officer               |
| Chief Benefit Officer                  |
| Chief Financial Officer                |
| Deputy Chief, Financial Officer        |
| General Counsel                        |
| Chief Audit Executive                  |
| Chief Information Officer              |
| Chief Health Care Officer              |
| Senior Director, Investment Accounting |

**Further resolved**, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;



**Further resolved,** That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees; and

**Further resolved,** That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees.

**Further resolved,** That all employees who hold authority during a reporting period under the Board's General Authority Resolution, through direct delegation from the Board, by designation of the Executive Director under the General Authority Resolution, or otherwise, are hereby determined to be key employees and subject to all applicable requirements for key employees;

**Further resolved,** That, in addition to the authority granted under the Board's General Authority Resolution, the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations; and

**Further resolved,** That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, shall remain effective until modified by the Board.



**TAB 8**



# Memorandum

TRS Compliance

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To: Board of Trustees

From: Heather Traeger, General Counsel & Chief Compliance Officer

Cc: Brian Guthrie, Executive Director

Date: December 4, 2025

Re: Revisions to TRS Employee Ethics Policy

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Pursuant to the Policy Review Schedule, the comprehensive review of the Employee Ethics Policy (“Policy”), and the associated documents and forms (i.e., Ethics Compliance Statement, Conflict of Interest Disclosure Statement, Key Employee Enhanced Disclosure, and the Disciplinary Action Disclosure Statement) is due. TRS seeks to operate under standards of high ethical conduct, striving for honesty and integrity in the execution of its responsibilities for the exclusive benefit of TRS members and their beneficiaries. TRS specifies the standards of conduct expected of employees through its Policy. TRS then trains and monitors for compliance with such standards. Consistent with the Policy, violations of the standards are reported to the Board.

Legal & Compliance recommends the following changes to the Policy and associated forms:

- 1) The addition of the requirement for state agency employees to report to the Texas Ethics Commission (TEC) any contacts with individuals acting on behalf of a *foreign adversary*<sup>1</sup> including any interaction, communication, or meeting within 30 days of such contact. This Policy change documents a requirement created in the most recent legislative session (Section 572.070 of the Texas Government Code, effective September 1, 2025).
- 2) The addition of several footnotes citing sources of the requirements related to revolving door statutes, the TEC reporting website, and CFA Code of Ethics and Standards of Professional Conduct. This approach ensures referenced information remains current without necessitating a full Policy review.
- 3) Combining the reporting requirements of approvals for Restricted Donors to pay for lodging, transportation, and entertainment expenses in connection with the business conferences to the ACE Committee with other annual reporting obligations. This change would streamline the existing reporting requirements; it neither adds or removes reporting.
- 4) Several language improvements and minor “clean-up” edits for accuracy.

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<sup>1</sup> A foreign adversary means a country: (1) identified by the United States Director of National Intelligence as a country that poses a risk to the national security of the United States in at least one of the three most recent Annual Threat Assessments of the U.S. Intelligence Community issued pursuant to Section 108B, National Security Act of 1947 (50 U.S.C. § 3043b); or (2) designated by the governor after consultation with the public safety director of the Department of Public Safety. As of August 2025, foreign adversaries include the People’s Republic of China (PRC), the Islamic Republic of Iran (Iran), the Russian Federation (Russia), and the Democratic People’s Republic of North Korea (North Korea). SB 2514 (89R).

**Teacher Retirement System of Texas**

**Employee Ethics Policy**

**Adopted: October 9, 2009**

**Revised: ~~February~~ December 27, 2025**

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## **I. Overview**

The Teacher Retirement System of Texas (“TRS”) is charged by the Texas Constitution and state law with the administration of pension assets held in trust for the exclusive benefit of active or retired TRS members and their beneficiaries, and assets may not be diverted. The Teacher Retirement Investment Company of Texas (“TRICOT”) is TRS’ subsidiary in the United Kingdom charged with supporting TRS’ investment activities. Certain Employees are subject to fiduciary duties of prudence and loyalty. The duty of prudence compels Employees to exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs when making investment decisions. The duty of loyalty requires Employees to have an undivided loyalty to the participants of the trust and to exclude all other interests. All operations and activities of TRS must be undertaken solely to advance and protect the interests of the members, retirees, and beneficiaries of the pension plan and must be conducted in a prudent manner. Similarly, TRS is trustee of other trusts that must be administered according to their terms and TRS, as trustee, is subject to fiduciary responsibilities under trust law with regard to those assets and the participants of each particular trust. These other trusts include the TRS-Care health benefits program, and the TRS-ActiveCare health benefits program. Accordingly, Employees have fiduciary duties commonly associated with pensions and other trusts, and each Employee must exercise an independent judgment on behalf of each trust. These duties extend not only to the investment activities but also to the application of TRS benefit provisions, the establishment of actuarial assumptions, the collection of amounts owed TRS, and the general administration of TRS.

TRS is a public entity. Consequently, Employees have the special responsibilities for honesty and integrity applicable to public servants. Texas Government Code, Chapters 572, 825, and 2203, along with Texas Penal Code, Chapters 36 and 39, describe specific standards of conduct that Employees must follow.

This Employee Ethics Policy (the “Policy”) specifies standards of conduct expected of Employees in view of these responsibilities. Although many of its provisions are based upon legal and fiduciary concepts, this Policy should not be interpreted as an exclusive and complete statement of legal and fiduciary responsibilities and its provisions should not necessarily be construed as only statements of legal and fiduciary responsibility. This Policy does not supersede any applicable federal or Texas law or administrative rule. All Employees must abide by all applicable federal and Texas law, including applicable fiduciary duties, administrative rules, and TRS conduct policies, including this Policy.

Adherence to this Policy will allow Employees to meet any applicable fiduciary obligations, comply with statutory mandates, and facilitate mutual respect and public confidence.

Any ambiguity in this Policy generally will be resolved in accordance with applicable legal or fiduciary standards.

In fulfilling the TRS Board of Trustees’ (“Board”) roles and responsibilities and pursuant to requirements of applicable statutes, the Board has delegated to the Executive Director the responsibilities outlined in the Bylaws, including management of the day-to-day operations of TRS. Through the Bylaws, the Board has also delegated authority for some matters to the Executive Director or the staff, in accordance with Board actions or applicable law, including the following: certain investment decisions, contracts, payments and other releases of assets, and litigation decisions. Further, the Board has delegated authority to staff in various other policies, such as the investments policies adopted by the Board.

Capitalized terms are defined in Appendix A, attached hereto and incorporated herein for all purposes, if not otherwise described in the text of this Policy. Therefore, the definitions in Appendix A shall apply unless the context requires otherwise.

## **II. General Conduct Guidelines**

Employees shall fulfill the following fiduciary duties and abide by the general conduct guidelines detailed below:

- A. Exercise undivided loyalty to the trust participants.
  - An Employee must exercise care and caution always to place the interests of trust participants and TRS ahead of the Employee's own interest and to act exclusively in the interest of the respective participants of each trust. No Employee may represent any person in any action or proceeding before or involving the interests of TRS except as a duly authorized representative or agent of TRS.
  - On all matters related to or involving TRS, an Employee's actions must benefit the interests of trust participants and trust funds.
- B. Dissociate one's personal viewpoints from the objective requirements of the Employee's fiduciary obligations to trust participants.
  - An Employee must act with integrity, competence, diligence, respect, and in a transparent and an ethical manner in all matters related to or involving TRS, including all dealings with the participants of a TRS trust, TRS Trustees, other Employees, and the public.
- C. Exercise care, skill, prudence, and diligence appropriate to the prevailing circumstances.
- D. An Employee must abide by all applicable laws, rules, and regulations, including the terms of the pension plan and, as applicable, the specific laws and rules governing other programs administered by TRS.
- E. Avoid unreasonable favoritism toward one beneficiary group over another.
  - An Employee must deal fairly, objectively, and impartially with all participants.
- F. Refrain from prohibited or conflicted actions.
  - An Employee must maintain independence and objectivity with respect to the execution of the Employee's responsibilities to TRS and to trust participants and must avoid actions or activities that create an appearance of bias or that bring into question the Employee's own independence of judgment. This includes avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect an Employee's loyalty.
  - No Employee may influence the investment decision-making process of TRS, either for personal gain or private advantage or in a manner detrimental to the interests of TRS.
  - An Employee must maintain the confidentiality of TRS and trust participant information and must never use such information for personal gain or for the gain of third parties.

## **III. Specific Legal Standards of Conduct**

The following specific legal standards of conduct apply to Employees:

- A. An Employee shall not:
  - 1. Accept or solicit any gift, favor, or service that might reasonably tend to influence the Employee in the discharge of official duties, or that the Employee knows or should know is being offered with the intent to influence the Employee's official conduct.
  - 2. Intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised his or her official powers or performed his or her official duties in favor of another.

3. Disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position except when the Executive Director, or his or her designee, determines such disclosure is either permitted or required by law.
4. Accept other employment, including self-employment, or engage in a business, charity, nonprofit organization, or professional activity that the Employee might reasonably expect would require or induce the Employee to disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position.
5. Have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur any obligation of any nature that is in substantial conflict with the proper discharge of the Employee's duties in the interest of TRS.
6. Accept other employment, including self-employment, or compensation or engage in a business, charity, nonprofit organization, or professional activity that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.
7. Make personal investments, or have a personal or financial interest, that could reasonably be expected to create a substantial conflict between the Employee's private interest and the public interest;
8. Use TRS or state personnel time (*i.e.*, time for which you or other Employees are being paid by TRS or the state), information, property, facilities, equipment or other resources, or information or resources paid for by TRS, for any purpose other than official TRS business. Notwithstanding the above, use of an Employee's own TRS or state personnel time, or use of TRS or state information, property, facilities, equipment and other resources is acceptable if such use
  - does not result in any direct cost to TRS or the state,
  - does not impede TRS functions,
  - is not for private commercial purposes,
  - is reasonable and incidental, and
  - does not violate applicable TRS policies.

Likewise, a person may not entrust TRS or state information, property, facilities, equipment or other resources, or information or resources paid for by TRS or the state, to any other person if the information, property, facilities, equipment or other resources are not to be used for TRS purposes;

9. Use his or her official position for financial gain, obtaining privileges, or avoiding consequences of illegal acts, including but not limited to:
  - accepting, under any circumstances, offers by reason of their position with TRS to trade in any security or other investment on terms more favorable than available to the general investing public;
  - borrowing from Contractors unless such entities are normally engaged in such lending in the usual course of their business, and then only on customary terms offered to others under similar circumstances to finance proper and usual activities.

However, this should not be interpreted to forbid communicating to others the fact that a relationship with TRS exists, provided that no misrepresentation is involved.

10. With intent to obtain a benefit or with intent to harm or defraud another, intentionally or knowingly:
  - violate a law relating to the Employee's position with TRS; or

- misuse TRS time, property, services, personnel, or any other thing of value belonging to TRS that has come into the Employee's custody or possession by virtue of the Employee's position with TRS.
11. Knowingly make misleading statements, either oral or written, or provide false information, in the course of official state business.
  12. Use TRS or, as applicable, state resources for any political activity.
  13. Contract on behalf of TRS with any entity, or an affiliate controlled by such entity, that employs or is represented by a former Trustee or former Employee if such employment or representation would violate the prohibitions on employment of or representation by former public servants contained in Section 572.054 of the Texas Government Code. Notwithstanding the provisions of Section 572.054, the Board may authorize such a contract if the Board determines that the contract would be prudent for TRS. TRS contracts must provide for a termination option, whereby TRS may terminate a contract with an entity, or an affiliate controlled by such entity, in the event that such entity or controlled affiliate employs or uses the services of a former Trustee or former Employee in violation of this Policy.

Section 572.054 of the Texas Government Code prohibits a former Trustee or former Executive Director from making any communication to or appearance before an officer or Employee of TRS before the second anniversary of the date the Trustee or Executive Director ceased being a member of the Board or the Executive Director if the communication or appearance is made:

- with the intent to influence; and
- on behalf of any person in connection with any matter on which the person seeks official action.

Also pursuant to Section 572.054, at no time in the future may a former Trustee or former Employee represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the Trustee or Employee participated, either through personal involvement or because the matter was within the Trustee's or Employee's official responsibility.

Departing Employees should be aware of state conflict of interest requirements (e.g., revolving door statutes<sup>1</sup>) and that they may be subject to further restrictions related to future interactions with TRS, TRICOT and Trustees. Departing Employees shall notify the Chief Compliance Officer if (i) they will have a direct or indirect role in their subsequent employer's effort to influence TRS investments or contracts for goods or service with TRS or TRICOT, or (ii) they expect to have interactions with Employees in a business context.

14. Except for an interest in TRS assets as a member of TRS, have a direct or indirect interest in the gains from investments made with TRS assets and shall not receive any compensation for service other than designated salary and authorized expenses.
15. Advise or make decisions about matters affected by a conflict of interest as defined and provided in subsection IV. A. of this Policy.
16. Participate in or be the beneficiary of, directly or indirectly, a loan, commitment to lend, a guarantee or endorsement to lend, or investment by TRS or a contract to advise TRS or manage property or investments for TRS, except this prohibition does not apply to actions taken by an Employee within the scope of the Employee's official duties for TRS, if the actions do not involve a relationship that the Employee must disclose. An Employee must disclose a relationship if the Employee or a person related within the Second Degree by Consanguinity or Affinity to the Employee has a business or commercial relationship that could reasonably be expected to diminish the Employee's

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<sup>1</sup> See the Texas Ethics Commission's "A GUIDE TO THE REVOLVING DOOR PROVISIONS" (<https://www.ethics.state.tx.us/data/resources/guides/Bdoor.pdf>)



independence of judgment in the performance of the Employee's responsibilities to TRS. The Employee shall disclose such a relationship in writing to *the Executive Director or his or her designee*.

- B. An Employee in a "bona fide executive, administrative, or professional capacity," as that phrase is used for purposes of establishing an exemption to the overtime provisions of the federal Fair Labor Standards Act of 1938 (29 U.S.C. §201 *et seq.*) and the spouse of the Employee shall not be a paid officer, employee, or consultant of a Texas trade association<sup>2</sup> in the field of investment or insurance.
- C. The General Counsel shall not be registered, or be required to be registered, as a lobbyist under Chapter 305 of the Texas Government Code because of the person's activities for compensation on behalf of a business or an association related to the operation of the Board.

#### **IV. Conflicts of Interest**

- A. In addition to conflicts that may arise under circumstances addressed in section III. above, a conflict of interest exists for an Employee whenever the Employee has a relationship or interest that could reasonably be expected to diminish the Employee's independence of judgment in the performance of the Employee's responsibilities to TRS.
- B. No Employee may take action personally (*e.g.*, in the establishment of personal, employment, or business relationships or interests) or on behalf of TRS that will result in a reasonably foreseeable conflict of interest. Should there be an action which an Employee believes to be in the best interest of TRS but which could foreseeably result in a personal conflict of interest, the Employee must disclose such fact to the Chief Compliance Officer prior to taking such action.
- C. No Employee may participate in a matter before TRS that involves a business, contract, property or investment held by the Employee if it is reasonably foreseeable that TRS action on the matter would confer a Benefit to the Employee by or through the business, contract, property or investment. This prohibition on participation in matters involving Benefits for an Employee's own interest does not apply if the Benefit is merely incidental to the Employee's membership in a large class such as the class of TRS members.
- D. No Employee may recommend or cause discretionary TRS business to be transacted with or for the benefit of a Relative.
- E. If an Employee is uncertain whether he or she has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to be likely to occur, or if an Employee is uncertain whether the common-law or statutory law prohibits the Employee from having a direct or indirect interest or relationship, such Employee should promptly inform the Chief Compliance Officer. The Chief Compliance Officer shall evaluate whether a conflict of interest exists under the circumstances presented or whether a prohibition exists under applicable common-law and statutory law. The Chief Compliance Officer may consult with the Executive Director regarding any determinations. If the Chief Compliance Officer determines that the Employee does not or would not have a conflict under the facts presented and no statutory or common-law prohibition exists, the Employee is not required to make a disclosure pursuant to subsection IV. F. If the Chief Compliance Officer determines that a conflict or prohibition may exist under the facts and circumstances presented, the Chief Compliance Officer will advise and discuss the evaluation with the Employee in order to assist the Employee in determining whether a conflict or prohibition actually exists. If a conflict exists, the Employee must make a disclosure pursuant to subsection IV. F. and cure the conflict. Also, if it is

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<sup>2</sup> A Texas trade association means a cooperative and voluntarily joined association of business or professional competitors in Texas designed to assist its members and its industry or profession in dealing with mutual business or professional problems and in promoting their common interest.

determined that a conflict would exist upon the occurrence of the anticipated circumstances and they later do occur, the Employee must make a disclosure pursuant to subsection IV. F. upon the occurrence of such events and cure the conflict.

If the Chief Compliance Officer determines that the Employee's proposed cure of an existing conflict is not appropriate and sufficient under the standards in subsection IV. G., the Chief Compliance Officer shall consult with the Executive Director regarding the viability of a waiver under applicable law, and shall so inform the Audit, Compliance, and Ethics Committee of the Board. The Employee will take appropriate action to respond to any statutory or common-law prohibitions that exist, including the prohibition addressed in Section IV. H. below.

F. An Employee must promptly

- disclose his or her own conflicts of interest in writing to the Chief Compliance Officer through the Conflict of Interest Disclosure Statement, or
- disclose conflicts of interest involving others of which the Employee becomes aware, either in writing to the Chief Compliance Officer through the Conflict of Interest Disclosure Statement or verbally by contacting the TRS "Hotline" for anonymous ethics reporting.

Should an Employee with a duty to disclose conflicts of interest have reasonable cause to believe disclosure to the Chief Compliance Officer will be ineffective, the Employee should file any written disclosure made through the Conflicts of Interest Disclosure Statement with the Executive Director.

In complying with this subsection, any Conflict of Interest Disclosure Statement filed by the Executive Director shall be filed with the Chief Compliance Officer. Should the Executive Director have reasonable cause to believe disclosure to the Chief Compliance Officer will be ineffective, the Executive Director shall file any written disclosure made through the Conflicts of Interest Disclosure Statement with the Chief Operations and Administration Officer.

In complying with this subsection, the Chief Compliance Officer shall file any Conflict of Interest Disclosure Statements with the Executive Director.

The Chief Compliance Officer will report to the Executive Director and the Audit, Compliance, and Ethics Committee of the Board regarding the Conflict of Interest Disclosure Statements and the verbal reports via the TRS "Hotline" that are received by TRS.

If the conflict of interest being reported by an Employee involves a Contractor, the Chief Compliance Officer shall provide notice of the reported conflict of interest to the TRS personnel who supervise or monitor the Contractor, unless the Chief Compliance Officer reasonably believes that such disclosure would be detrimental to the resolution of the conflict.

G. Employees who become aware, or reasonably should have become aware, of a personal conflict of interest, have a duty not only to disclose that conflict, but also to cure it. An Employee may cure a conflict of interest by promptly eliminating it. An Employee who cannot or does not wish to eliminate the conflict must terminate his or her relationship with TRS as quickly as responsibly and legally possible.

If an Employee may prudently withdraw from action on a particular matter in which a conflict exists, he or she may cure the conflict in that manner provided that

1. The Employee may be and is effectively separated from influencing the action taken,
2. The action may properly be taken by others, and
3. The nature of the conflict is not such that the Employee must regularly and consistently withdraw from decisions that are normally his or her responsibility with respect to TRS.

- H. An Employee who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about matters affected by the conflict of interest. The Board hereby delegates to the Executive Director the authority to waive this prohibition. This prohibition concerning the Employee's actions continues in place unless the Executive Director, after consultation with the Chief Compliance Officer, expressly waives this prohibition, thereby effectively waiving the conflict of interest for that matter. To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts of interest. Records of all waivers granted with the supporting reasons will be maintained by the Chief Compliance Officer. The Chief Compliance Officer will advise the Audit, Compliance, and Ethics Committee of the Board of the Executive Director's decision to grant or deny a waiver.
- I. It shall not be considered a conflict solely because
1. An Employee is a member, retiree, or beneficiary of the system or has an interest no greater than a large class of its members, retirees, or beneficiaries, or
  2. An Employee has an investment in the stock of a publicly traded corporation, which is owned, purchased, or sold by TRS, provided that the Employee's interest in the stock is not more than ten (10) percent of any class of stock of the corporation.
- J. Employees should become familiar with the TRS Code of Ethics for Contractors (the "Code of Ethics"), and any reporting responsibilities placed on such Employees.
- K. With respect to each proposed, pending, or closed transaction by TRS concerning a Private Investment, and except as disclosed in writing pursuant to this subsection IV. K., each Employee who actively participates in the decision-making process on behalf of TRS with regard to a given Private Investment, including the review, evaluation or formal or informal recommendation of a TRS investment (an "Active Employee"), represents that:
1. The Active Employee has not solicited or accepted any direct or indirect Benefit or interest, or received or agreed to accept any Benefit or interest from any individual or entity in connection with the Private Investment, and is not aware of any personal Benefit or interest that may result or arise from TRS's investment or decision to invest in the Private Investment.
  2. To the best of the Active Employee's knowledge, no Relative of the Active Employee has received any direct or indirect Benefit or interest or any promise of a Benefit or interest relating to or arising from TRS's investment or decision to invest in the Private Investment, and the Active Employee is not aware of any direct or indirect Benefit to or interest of a Relative that may result or arise from TRS's investment or decision to invest in the Private Investment.
  3. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee, has acquired or has any current intention of acquiring any Benefit or interest, including an ownership interest in the same Private Investment and, so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will acquire such an interest.
  4. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee has or will have an economic or beneficial interest in a general partner, managing member, servicer, underwriter, sponsor, investment adviser, or investment manager of the Private Investment as identified by TRS staff; and so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will knowingly acquire an economic or beneficial interest in any such entity.
  5. The Active Employee has no business relationship with the consultant or adviser recommending the Private Investment, or with any other consultant identified by TRS or TRICOT staff as giving advice or assistance to TRS with regard to the particular Private Investment.

6. The Active Employee is unaware of any existing relationships, interests, or other facts that could reasonably be expected to diminish the Active Employee's independence of judgment as an Active Employee and thereby constitute a conflict of interest in connection with the Active Employee's actions as an Active Employee relating to the Private Investment.

If the Active Employee is unable to make all the representations immediately above in this subsection IV. K. with regard to a Private Investment, then the Active Employee should notify the Chief Compliance Officer in writing immediately upon receipt of information regarding the Private Investment so that a determination of the appropriate course of action can be made prior to authorization by TRS or, in any event, prior to TRS's becoming contractually bound to fund the Private Investment.

## **V. Trading**

- A. The Executive Director, or his or her designee, shall develop and implement a trading policy (the "Personal Trading Policy") that addresses policies, procedures, and standards of conduct applicable to Employees in the conduct of each Employee's personal trading activities and trading activities undertaken on behalf of TRS. Additionally, the Executive Director, or his or her designee, is authorized to amend the Personal Trading Policy from time to time as the Executive Director deems advisable and to issue or modify forms to fully implement the provisions of the Personal Trading Policy, as amended from time to time. Employees shall comply with the Personal Trading Policy.
- B. Restricted Contractors List. No Employee or spouse of the Employee may have or borrow a Security (or a Derivative thereof) or other ownership or profit sharing interest in a Contractor with which TRS or TRICOT does business, except as permitted below.

This prohibition applies to a Security (or a Derivative thereof) or other ownership or profit sharing interest held for an Employee's own account or an account in which he or she has a Beneficial Ownership.

For Employees that are not designated Covered Persons (as defined by the Personal Trading Policy), if an Employee or a spouse of an Employee (1) has an interest prohibited by this Section prior to becoming an employee or prior to the entity becoming a Contractor, or (2) receives an interest prohibited by this Section by inheritance or gift, the Employee or spouse may hold but not add to the interest; provided that holding the interest is not otherwise in conflict with the Personal Trading Policy. The Employee or spouse, in his or her discretion, may dispose of the interest at a time of his or her choosing, provided the Employee or spouse complies with all applicable laws and policies. The Employee shall evaluate whether holding the interest creates a conflict of interest, and if so, will handle the conflict of interest as required by this Policy. Employees that are designated Covered Persons must divest of the prohibited interest consistent with the Personal Trading Policy.

## **VI. Nepotism**

- A. TRS may not employ a person who is a Relative of a Trustee. This does not prevent the continued employment of a person who has already been working for TRS for thirty consecutive days prior to the date of a related Trustee's appointment.
- B. No Employee may exercise discretionary authority to hire, evaluate or promote a Relative. No Employee may supervise a Relative, either directly or indirectly. As used herein, "supervise" means to oversee, with the powers of direction and decision-making, the implementation of one's own or another's intentions. Supervision normally involves assigning duties, overseeing and evaluating work, and approving leave.

## **VII. Benefits**

- A. An Employee shall not solicit, accept, or agree to accept from any donor:
1. a Benefit that the Employee knows or should know is consideration for the Employee's decision, opinion, recommendation, vote, or other exercise of discretion as an Employee, or for having exercised the Employee's official powers or performed the Employee's official duties in favor of another;
  2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee;
  3. a Benefit that might reasonably tend to influence the Employee in the discharge of official duties or that the Employee knows or should know is offered with the intent to influence the Employee's official conduct;
  4. a Benefit if the source of the Benefit is not identified or if the Employee knows or has reason to know that the Benefit is being offered through an intermediary; or
  5. a Benefit that creates a reasonably foreseeable conflict of interest or an actual conflict of interest as defined in subsection IV. A. or that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.
- B. Except as provided in this subsection VII. B., in subsection VII. C., or in subsection VII. E., an Employee shall not solicit, accept or agree to accept (or offer, give, or agree to give) any Benefit from or to a Restricted Donor.
- C. As long as the prohibitions in subsection VII. A. are not violated, an Employee may accept or agree to accept from a Restricted Donor:
1. gifts given on special occasions between Trustees and/or Employees;
  2. an item with a value of less than \$50, received from the same donor or employees of the same donor on infrequent occasions, excluding cash, cash equivalents, or a negotiable instrument as described by Texas Business & Commerce Code, Section 3.104.;
  3. a fee prescribed by law to be received by the Employee or any other Benefit to which the Employee is lawfully entitled or for which he or she gives legitimate consideration in a capacity other than as an Employee of TRS; or
  4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee.
- D. No employee shall accept any gift, regardless of value, from an entity associated with a country on the U.S. Department of Commerce's foreign adversaries list under 15 C.F.R. 791.4. Any employee approached by groups representing these countries, that offer gifts, shall report the offer to the Chief Compliance Officer. In addition, employees are required to report to the Texas Ethics Commission, in the form and manner the commission requires, each interaction, communication, or meeting the employee or volunteer has with a person acting on behalf of a foreign adversary not later than the 30th day after the date of the interaction, communication, or meeting.<sup>3</sup>
- E. Food, Lodging, Transportation and Entertainment. The following apply to items of food, lodging, transportation and entertainment offered by or accepted from a Restricted Donor:

<sup>3</sup> See the Texas Ethics Commission's "Filing Reports - Report of Foreign Adversary Contact" (<https://www.ethics.state.tx.us/filinginfo/rfac.php>)

1. No standard set forth in subsection VII. A. may be violated when acting under subsections VII. E. 2. through 5. immediately below.
  2. Modest items of food (with a value of less than \$50 per person) are permissible only if given or accepted on infrequent occasions.
  3. Food items (with a value of \$50 or more per person) are permissible only if
    - provided in connection with a business meeting, business meal, business conference, or reception; and
    - the donor or a representative of the donor is present.
  4. Lodging, transportation, or entertainment are permissible only if (i) approved by the Executive Director; (ii) in connection with receptions, business meals, business meetings, or business conferences that serve a TRS purpose and (iii) the donor or a representative of the donor will be present at the reception, business meal, business meeting, business conference, or entertainment. ~~The Executive Director shall provide notice to the Chair of the Board's Audit, Compliance, and Ethics Committee of any approvals for Restricted Donors to pay for any expenses related to business conferences under this section.~~
  5. If the Employee is required by law or this Policy to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee pursuant to the process established by the Chief Compliance Officer.
- F. If otherwise permitted by this Policy, lodging and transportation may not be accepted from a person registered as a lobbyist in Texas unless in connection with a fact-finding trip or to a seminar or conference at which the Employee will provide services, such as speaking, and the services are more than merely perfunctory<sup>4</sup>. Entertainment provided by a lobbyist may not exceed the cumulative value of \$500 in a calendar year. Benefits provided by a lobbyist, other than food, lodging, transportation and entertainment, may not exceed the cumulative value of \$500 in a calendar year.
- G. If an unsolicited Benefit that violates any provision of this section VII. is received by an Employee, he or she should attempt to return the Benefit to its source or donate the Benefit to charity, and must be reported by the Employee pursuant to the process established by the Chief Compliance Officer.

### **VIII. Outside Employment and Certain Other Outside Activities**

- A. Employees may not engage in outside employment, business, or other activities, whether compensated or uncompensated, that detract from the ability to fulfill their full-time responsibilities to TRS. Employees must obtain advance written approval from the Executive Director for any outside employment or business. The Executive Director may delegate authority to approve outside employment to appropriate executive staff members.

Employees who work in the TRS Investment Management Division or who in the course of their regular duties have access to current information concerning investment recommendations or decisions of TRS, may not, without advance approval from the Executive Director, advise, manage, or oversee an investment function for any entity, whether profit or nonprofit, or person even if such activity would not detract from the ability to fulfill their full-time responsibilities to TRS. This prohibition applies whether the activity is compensated or uncompensated. An investment function means management of

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<sup>4</sup> Section 305.025 of the Texas Government Code.

or investment advice with respect to a portfolio of investments. This prohibition does not extend to advice or management relating to individual transactions for family members or to functions normally viewed as those of a treasurer such as investing in certificates of deposit or other money market instruments. The Chief Compliance Officer shall inform the Chair of the Board's Audit, Compliance, and Ethics Committee of any approvals granted under this section.

- B. Any outside employment or business undertaken by the Executive Director must be approved in advance by the Board.

### **IX. Key Employees**

- A. The Board shall designate by position the Employees who exercise significant fiduciary authority. By virtue of their position with TRS, these persons are "Key Employees." Employees with fiduciary authority have a strict duty of loyalty and care to TRS, and its members and beneficiaries.
- B. Employees designated as Key Employees must acknowledge their Key Employee status in writing through the annual Ethics Compliance Statement.

### **X. Training**

Employees shall participate in annual ethics training and successfully complete such training in a timely manner as prescribed by any associated deadline.

### **XI. Trustee-Staff Relations and Communications**

The Board has articulated the role and responsibility of Trustees and staff by developing and implementing policies that clearly separate the policy-making responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS. Significantly, the Board has delegated certain responsibilities to the Executive Director in Article 4.1 of the Bylaws. Additionally, the Board has delineated significant authority of staff in TRS rules and in policies adopted by the Board, including the Investment Policy Statement, the Proxy Voting Policy, and the Securities Lending Policy.

It is important that the Trustees and staff have an open and productive working relationship to accomplish the goals of TRS for members, beneficiaries and retirees.

The following will assist staff with its interactions with Trustees.

- A. The Board and staff recognize the distinctively separate policymaking and implementation roles that each plays in fund governance.
- B. Providing direction to TRS staff, Consultants and Contractors:

The Board collectively is empowered to direct TRS's management, staff, and consultants on policy matters of TRS operations. Conversely, no individual Trustee speaks for or binds the Board or TRS. Staff, Consultants and Contractors should not interpret communications from individual Trustees as direction.

- C. Staff shall keep the Executive Director and the Chief Compliance Officer informed of contacts from a Trustee related to a TRS Matter.

D. Referrals of Potential Investments or Third-Party Service Providers:

If a Trustee makes a referral, the Trustee will make a referral and any follow-up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concern.

With regard to all referrals, including those from a Trustee, the staff will evaluate the referred party or opportunity under then existing operating standards and procedures, without regard to the source of the referral.

## **XII. Compliance with Professional Standards**

- A. Employees who are members of professional organizations that promulgate standards of conduct must comply with those standards.
- B. Employees in the TRS Investment Management Division must comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct<sup>5</sup> (together, the "Standards") as amended from time to time by the CFA Institute. ~~The Standards constitute Appendix B to this Policy.~~

## **XIII. Financial and Compliance Disclosures**

- A. The Executive Director must annually file a verified Personal Financial Statement with the Texas Ethics Commission in compliance with Subchapter B of Chapter 572 of the Texas Government Code. Copies of this Personal Financial Statement can be obtained from the Texas Ethics Commission. In addition, at the same time the Executive Director files a copy of his or her verified financial statement with the Texas Ethics Commission, the Executive Director shall file an identical copy of the verified financial statement with the Chief Compliance Officer and the Chief Audit Executive.
- B. Key Employees must file a Key Employee Enhanced Disclosure Form with the Chief Compliance Officer. The content of this form shall disclose a Key Employee's, a Key Employee's spouse's, and a Key Employee's dependent child(ren)'s and other dependent(s)'s private investments, material debts, non-TRS fiduciary positions, non-TRS employment, and material Benefits received from Restricted Donors.

Key Employees must file the Key Employee Enhanced Disclosure Form within 30 days of their date of employment as a Key Employee. The Key Employee's first such enhanced disclosure form must address the calendar year immediately prior to their date of employment as a Key Employee. Thereafter, an enhanced disclosure form must be filed by April 30th of each year covering the preceding calendar year. Notwithstanding anything to the contrary, in no event shall a Key Employee be required to file a second enhanced disclosure form covering the same calendar year. The Executive Director may postpone a filing deadline for not more than 60 days on written request or for an additional period for good cause, as determined by the Chairman of the Board.

- C. In addition to disclosures required in other provisions of this Policy (*e.g.*, subsections IV.F.), Employees with knowledge of a violation of this Policy, the Board of Trustees Ethics Policy, or the Code of Ethics for Contractors must promptly

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<sup>5</sup> See the CFA Code of Ethics and Standards of Professional Conduct: [https://www.cfainstitute.org/sites/default/files/-/media/documents/ethics-in-practice/code\\_of\\_ethics\\_and\\_standards\\_of\\_professional\\_conduct\\_2024.pdf](https://www.cfainstitute.org/sites/default/files/-/media/documents/ethics-in-practice/code_of_ethics_and_standards_of_professional_conduct_2024.pdf)



- report his or her own violation of this Policy in writing to the Executive Director or the Chief Compliance Officer, and
  - report violations, of which he or she becomes aware, of this Policy, the Board of Trustee Ethics Policy, or the Code of Ethics for Contractors by any other individual or entity, either in writing to the Executive Director or the Chief Compliance Officer, or verbally by contacting the TRS “Hotline” for anonymous ethics reporting.
- D. Within sixty (60) days of the date of employment, in the case of new Employees, and within sixty (60) days of the date of employment in a position as a new Key Employee, the Employee or Key Employee, as the case may be, must file a completed Ethics Compliance Statement for Employees and Certain Contractors that he or she has received and read this Policy, that he or she will comply with its provisions, and that it is his or her duty to report any acts by Trustees, other Employees, or Contractors when he or she has knowledge of violations of this Policy. This statement will also include a reminder that he or she is required to update his or her Ethics Compliance Statement if a change in circumstances occurs that would require reporting under this Policy.
- Employees, including the Executive Director, must annually file a completed Ethics Compliance Statement with the Chief Compliance Officer by April 30 of each year for the preceding calendar year. The Chief Compliance Officer will provide a copy of the Executive Director’s Compliance Statement to the Chairman of the Audit, Compliance, and Ethics Committee of the Board only if the Executive Director has anything to report under the five questions found in the Ethics Compliance Statement.
- E. Within sixty (60) days of the date of employment in a position as a new Key Employee, the Key Employee must file a completed Disciplinary Action Disclosure Statement with the Chief Compliance Officer. Within sixty (60) days of the date an individual becomes the Executive Director, he or she must file a Disciplinary Action Disclosure Statement with the Chief Compliance Officer. The Chief Compliance Officer will provide a copy of the Executive Director’s Disciplinary Action Disclosure Statement to the Chairman of the Audit, Compliance, and Ethics Committee of the Board only if the Executive Director responds with a “yes” to any of the questions in this statement. A Key Employee must promptly file an updated, complete Disciplinary Action Disclosure Statement if any action occurs that would cause any answers to change on this form.

#### **XIV. Custodians of Disclosures and Waivers**

The Executive Director shall be the custodian for open records purposes of disclosures required under this Policy. The Chief Compliance Officer shall be the custodian for open records purposes of waivers of conflicts of interest, if any, granted by the Executive Director.

#### **XV. Enforcement**

- A. The Board will enforce this Policy through the Executive Director, who is responsible for its implementation with respect to Employees.
- B. The full range of disciplinary options under TRS personnel policies and practices may be used with respect to Employees who violate this Policy, up to and including termination. Employees shall cooperate with any investigation under this Policy.
- C. Employees who are fiduciaries shall take appropriate action as co-fiduciaries in the event a violation of this Policy would involve or does involve a breach of fiduciary duties, including using reasonable care

to prevent a co-fiduciary from committing a breach of trust or to compel a co-fiduciary to redress a breach of trust.

- D. No retaliatory action will be taken toward any individual who, in good faith, makes a report of or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.
- E. A list will be maintained of the Contractors whose contract or relationship with TRS has been terminated because they were found to be in violation of the Code of Ethics. The custodian of this list is the Chief Compliance Officer. Termination of a contract or relationship because of a violation of the Code of Ethics can preclude another contract or relationship with TRS for a period of time up to ten years, as determined by the Executive Director or his or her designee, commencing from the date of the termination of the contract or relationship.
- F. The Executive Director will report to the Audit, Compliance, and Ethics Committee of the Board in writing by May 31 of each year, covering the immediately prior twelve-month period from May 1 to April 30, of the following:
  - 1. any approval given for outside employment by Key Employees, including the nature of the employment;
  - 2. any disciplinary action disclosed by Key Employees;
  - 3. any Conflict of Interest Disclosure Statements and verbal reports via the TRS “Hotline” that are received by TRS;
  - 4. any written or verbal reports of violations of this Policy, the Board of Trustees Ethics Policy, or the Code of Ethics for Contractors; ~~and~~
  - 5. any decision to grant or deny a waiver pursuant to Section IV. H.; and
  - ~~5.6.any approvals for Restricted Donors to pay for expenses related to business conferences pursuant to Section VII.E.4.~~

## **XVI. Conflict with Other TRS Policies**

The provisions of this Policy are intended to be read in conjunction with other TRS policies regarding ethics. To the extent that this Policy imposes obligations on Employees that are greater than those imposed in other TRS policies, these obligations are deemed to be in addition to, and not in conflict with, the obligations set forth in other TRS policies. Employees should seek the advice of the Chief Compliance Officer and the Executive Director if they have any questions about possible conflicts between this Policy and other TRS policies.

## Appendix A

### Definitions

1. **“Affinity”** means a relation which one spouse, because of marriage, has to the blood relatives of the other spouse. In other words, affinity is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other. Affinity is distinguished from “Consanguinity,” which is the connection between two individuals that exists by kinship or by blood.
2. **“Audit, Compliance, and Ethics Committee of the Board”** means the standing Audit, Compliance, and Ethics Committee of the Board established pursuant to the Bylaws of the Board, as amended from time to time.
- 2.3. **“Beneficial Ownership”** means the true ownership of a Security or an interest in a Security as opposed to any stated legal title to ownership provided in documents or oral representations. The beneficial owner is the person that receives or has the right to receive proceeds or other advantages as a result of the ownership without regard to the nominal owner. In this Policy, Beneficial Ownership includes all types of beneficial ownership interests, such as community property or joint tenancies, the power to vote shares, profit-sharing arrangements, interests in self-directed retirement arrangements, and beneficial interests in trusts and estates, and includes, in addition to a person’s own direct beneficial ownership, an indirect beneficial interest through immediate family members (spouse, minor children, or other dependents).
- 3.4. **“Benefit”** means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.
- 4.5. **“Consanguinity”** means a relation by kinship or by blood. Individuals are related by consanguinity if the individuals are descended from the same stock or common ancestor. Consanguinity is distinguished from “affinity,” which is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other.
- 5.6. **“Consultant”** means an entity or person, other than an Employee or Trustee, (i) who provides advice to TRS intended to affect or form a basis for significant TRS decisions, including but not limited to an actuary or insurance and health care plan advisor, or (ii) who provides advice to TRS and may reasonably be expected to receive for its services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31). For purposes of this Policy, the term “Consultant” does not include an entity or person defined in the Code of Ethics as a Broker or as a Financial Provider. However, if an entity or person defined as a Consultant would also fall within the definition of a Financial Provider, the entity or person will be considered a Financial Provider for all purposes. If any questions exist regarding who constitutes a Consultant for purposes of this Policy, the Executive Director or his or her designee shall make that determination after consultation with the Chief Compliance Officer.
- 6.7. **“Contractor”** is a collective term used to reference all individuals or entities that fall within any one or more of the definitions for an Agent, a Broker, a Consultant, or a Financial Provider, as each separate term is defined in the Code of Ethics.
- 7.8. **“Derivative”** means a financial product whose value or return is based on, derived from, or linked to the value of a reference rate, exchange rate, interest rate, index, or currency or an underlying Security, asset, commodity, or any combination of underlying rates, indices, currencies or securities (*i.e.*, futures

contracts, forward contracts and options), but does not include mutual funds.

~~8.9.~~ **“Employee”** means a person working for TRS in an employer-employee relationship and not in an independent contractor capacity, and includes the Executive Director and Chief Investment Officer of TRS.

~~9. “Audit, Compliance, and Ethics Committee of the Board” means the standing Audit, Compliance, and Ethics Committee of the Board established pursuant to the Bylaws of the Board, as amended from time to time.~~

10. **“General Counsel”** means the Employee of TRS serving in the position of chief legal advisor for TRS.

11. **“Private Investment”** means an investment or decision to invest, regardless of form, made or under consideration by TRS in a private, non-publicly traded security pursuant to limited offerings of securities exempt from registration under the securities laws.

12. **“Relative”** means a person related in the Third Degree by Consanguinity (blood relative) or Affinity (marriage) determined in accordance with Sections 573.021-025, Texas Government Code. Examples of Relatives by consanguinity are a child, grandchild, great- grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. Examples of Relatives by affinity are a spouse, any person related to the spouse within the third degree by consanguinity, or any spouse of a Relative by consanguinity or affinity. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

13. **“Restricted Donor”** means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering doing business, (3) non- publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee’s official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.

14. **“Second Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee:

(1) by consanguinity (blood relative) - a child, grandchild, parent, grandparent, brother, and sister; and (2) by affinity (marriage) – a spouse and the spouse’s child, grandchild, parent, grandparent, brother, and sister. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

15. **“Security” or “Securities”** means, for purposes of this Policy, (a) all types of publicly traded equity and debt securities of companies listed on a domestic or foreign exchange, including without limitation, any equity security included in a TRS policy benchmark, common stocks, preferred stocks, bonds convertible into equities, rights, warrants, units, depositary receipts and (b) Derivatives of equity securities, including without limitation, swaps, futures, options, and the functional equivalents of such instruments. The terms “Security” or “Securities” do not include: (i) open-ended mutual fund investment companies registered under the Investment Company Act of 1940; (ii) U.S. Government-issued securities; (iii) municipal debt obligations; (iv) money market instruments (*i.e.*, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments); and (v) any exchange traded fund (“ETF”) of sufficient size that TRS trades are unlikely to affect the fair market value of the ETF’s shares, as determined by the Compliance Officer in consultation with TRS Investment Management Division staff.

16. **“Third Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee:
- (1) by consanguinity (blood relative) - a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew; and
  - (2) by affinity (marriage) – a spouse and the spouse’s child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
17. **“TRS Matter”** means any transaction, event, occurrence, situation, or state of affairs relating to TRS business and responsibilities, including policies, administration of benefits or programs or operations, current or prospective contracts, procurements or contracting opportunities, employees or employment opportunities, proceedings such as rule making and appeals, investments and investment opportunities, and legislation relating to or affecting TRS.

Appendix B  
CFA Institute  
**Code of Ethics and Standards of Professional Conduct**  
As amended and restated in the  
2014 CFA Institute, [www.cfainstitute.org](http://www.cfainstitute.org)

***The Code of Ethics***

Members of CFA Institute (including Chartered Financial Analyst [CFA] charterholders) and candidates for the CFA designation (“Members and Candidates”) must:

- ~~Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.~~
- ~~Place the integrity of the investment profession and the interests of clients above their own personal interests.~~
- ~~Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.~~
- ~~Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.~~
- ~~Promote the integrity and viability of the global capital markets for the ultimate benefit of society.~~
- ~~Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.~~

***Standards of Professional Conduct***

**~~I. PROFESSIONALISM~~**

- ~~A. Knowledge of the Law.~~** ~~Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.~~
- ~~B. Independence and Objectivity.~~** ~~Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another’s independence and objectivity.~~
- ~~C. Misrepresentation.~~** ~~Members and Candidates must not knowingly make any misrepresentations~~

relating to investment analysis, recommendations, actions, or other professional activities.

- D. ~~Misconduct.~~** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

## **~~II. INTEGRITY OF CAPITAL MARKETS~~**

- A. ~~Material Nonpublic Information.~~** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

- B. ~~Market Manipulation.~~** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

## **~~III. DUTIES TO CLIENTS~~**

- A. ~~Loyalty, Prudence, and Care.~~** Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

- B. ~~Fair Dealing.~~** Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

**C. ~~Suitability.~~**

- 1. ~~When Members and Candidates are in an advisory relationship with a client, they must:~~**

- a. ~~Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.~~**
- b. ~~Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.~~**
- c. ~~Judge the suitability of investments in the context of the client's total portfolio.~~**

- 2. ~~When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.~~**

- D. ~~Performance Presentation.~~** When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

- E. ~~Preservation of Confidentiality.~~** Members and Candidates must keep information about current, former, and prospective clients confidential unless:

- 1. ~~The information concerns illegal activities on the part of the client or prospective client,~~**

- ~~2. Disclosure is required by law, or~~
- ~~3. The client or prospective client permits disclosure of the information.~~

#### **IV. DUTIES TO EMPLOYERS**

- ~~A. **Loyalty.** In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.~~
- ~~B. **Additional Compensation Arrangements.** Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.~~
- ~~C. **Responsibilities of Supervisors.** Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.~~

#### **V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS**

- ~~A. **Diligence and Reasonable Basis.** Members and Candidates must:~~
  - ~~1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.~~
  - ~~2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.~~
- ~~B. **Communication with Clients and Prospective Clients.** Members and Candidates must:~~
  - ~~1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.~~
  - ~~2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.~~
  - ~~3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.~~
  - ~~4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.~~
- ~~C. **Record Retention.** Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment related communications with clients and prospective clients.~~

#### **VI. CONFLICTS OF INTEREST**

- ~~A. **Disclosure of Conflicts.** Members and Candidates must make full and fair disclosure of all matters~~



~~that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.~~

~~**B. Priority of Transactions.** Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.~~

~~**C. Referral Fees.** Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.~~

## ~~**VII. — RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE**~~

~~**A. Conduct as Participants in CFA Institute Programs.** Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.~~

~~**B. Reference to CFA Institute, the CFA Designation, and the CFA Program.** When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.~~



## ETHICS COMPLIANCE STATEMENT FOR EMPLOYEES

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Department: \_\_\_\_\_

Date: \_\_\_\_\_

Key Employee (yes/no): \_\_\_\_\_

Please check the appropriate blank:

\_\_\_\_\_ New Employee

\_\_\_\_\_ New Key Employee

\_\_\_\_\_ Annual Confirmation for current Employees, current Key Employees (**Due on April 30 of each year**)

\_\_\_\_\_ Termination of Employment.

Will you have a direct or indirect role in your subsequent employer's effort to influence TRS investments or contracts for goods or service with TRS or TRICOT? Or, do you expect to have interactions with TRS Employees in a business context?

Yes \_\_\_\_\_ Please explain \_\_\_\_\_

No \_\_\_\_\_

### **REPRESENTATIONS**

\_\_\_\_\_ I have received and read the current Employee Ethics Policy. I have also received and read the current TRS Trading Policy for Employees and Certain Contractors (the "Trading Policy"). I understand my responsibilities under these policies and I agree to comply with them. I understand that adherence to the Employee Ethics Policy and the Trading Policy are basic conditions of my employment at TRS.

\_\_\_\_\_ If I believe I have a conflict of interest as defined in the Employee Ethics Policy, I agree to report my conflicts to the Executive Director or the Chief Compliance Officer in writing through the Conflict of Interest Disclosure Statement.

\_\_\_\_\_ If I believe that I have knowledge that a Trustee, Employee, or Contractor (as defined in the TRS Code of Ethics for Contractors (the "Code of Ethics")) has a conflict of interest as defined respectively in the Trustee Ethics Policy (the "Trustee Ethics Policy"), in the Employee Ethics Policy, or in the Code of Ethics, I agree to report such conflicts either in writing to the Executive Director or the Chief Compliance Officer through the Conflict of Interest Disclosure Statement or verbally through the TRS "hotline" for anonymous ethics reporting (the "Hotline").

\_\_\_\_\_ If I believe that I have violated the Employee Ethics Policy or the Trading Policy, I agree to report my violation to the Executive Director or the Chief Compliance Officer in writing.

\_\_\_\_\_ If I believe that I have knowledge that a Trustee, Employee, or Contractor has violated the Trustee Ethics Policy, Employee Ethics Policy, or Code of Ethics, I agree to report such violations either in writing to the Executive Director or the Chief Compliance Officer or verbally through the Hotline.

\_\_\_\_\_ I agree that I will not allow myself to be placed in a position which might give rise to a reasonably foreseeable conflict of interest, as defined in the Employee Ethics Policy.

\_\_\_\_\_ I agree that I will cooperate with any investigation under the Employee Ethics Policy, Trading Policy, Trustee Ethics Policy, Code of Ethics, or other applicable TRS policy.

To the best of my knowledge and belief, I do not have any relationship or interest, nor have I engaged in any activity, which constitutes a conflict of interest as defined in the Employee Ethics Policy.

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(Write "None" if you have nothing to report. If you have something to report, please attach a completed TRS Conflict of Interest Disclosure Statement to this form.)

I am unaware of any unreported conflicts of interest under the Trustee Ethics Policy or the Employee Ethics Policy, as applicable, involving any Trustee or Employee, or any unreported conflicts of interest under the Code of Ethics involving any Contractor, except as indicated below.

---

(Write "None" if you have nothing to report or have reported all conflicts of interest of which you are aware. If you are aware of an unreported conflict of interest, please either attach a completed Conflict of Interest Disclosure Statement to this form or make your report verbally to the Hotline before filing this form.)

To the best of my knowledge and belief, I have not violated the Employee Ethics Policy or the Trading Policy, except as indicated below.

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(Write "None" if you have nothing to report. If you have something to report, please attach a written explanation to this form.)

I am unaware of any unreported violations of the Trustee Ethics Policy, the Employee Ethics Policy or the Trading Policy, as applicable, by any Trustee or Employee, or any unreported violations of the Code of Ethics by any Contractor, except as indicated below.

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(Write "None" if you have nothing to report or have reported all violations of which you are aware. If you are aware of an unreported violation, please either attach a written explanation to this form or make your report verbally to the Hotline before filing this form.)

If required by the Trading Policy, I have properly reported my Personal Securities Transactions and properly disclosed all of my Covered Accounts (as defined in the Trading Policy), in accordance with the Trading Policy, except as indicated below.

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(Write "None" if you (1) either had no Personal Securities Transactions to report or if you properly reported all of your Personal Securities Transactions in accordance with the Trading Policy, and (2) you properly disclosed all of your Covered Accounts in accordance with the Trading Policy.)

\_\_\_\_\_ I agree that if any change in circumstances occurs which should be reported in accordance with the Employee Ethics Policy or the Trading Policy, I will promptly report this change in accordance with those policies.

Outside Employment (please check one blank that applies)

\_\_\_\_\_ I am not engaged in any outside employment, business or other activities, consistent with the Employee Ethics Policy.

\_\_\_\_\_ I am engaged in outside employment, business or other activities, and have obtained advance written approval for such activity, as required by the Employee Ethics Policy, by completing the Outside Business Activity Form.

\_\_\_\_\_ I am in the process of seeking approval of my outside employment, business or other activities. I will notify Human Resources after the process is completed.

**FOR KEY EMPLOYEES**

\_\_\_\_\_ I acknowledge my status as a TRS Key Employee.

**ALL EMPLOYEES**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name Date

**IF THIS STATEMENT IS THE EMPLOYEE'S ANNUAL ETHICS COMPLIANCE STATEMENT, THIS COMPLIANCE STATEMENT MUST BE RETURNED TO TRS LEGAL & COMPLIANCE BY APRIL 30.**

AS TO STATEMENTS OF PAST ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM APRIL 1 OF THE PRIOR CALENDAR YEAR THROUGH MARCH 31 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE.

AS TO STATEMENTS OR COMMITMENTS OF FUTURE ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM APRIL 1 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE THROUGH MARCH 31 OF THE NEXT CALENDAR YEAR.

## CONFLICT OF INTEREST DISCLOSURE STATEMENT

(for use by Employees)

An Employee must promptly:

- disclose his or her own conflicts of interest in writing to the Chief Compliance Officer through this Conflict of Interest Disclosure Statement, and
- disclose conflicts of interest involving others of which the Employee becomes aware either in writing through this Conflict of Interest Disclosure Statement or verbally by contacting the TRS “Hotline” for anonymous ethics reporting.

Your disclosure should be sent to the Chief Compliance Officer, unless you have reason to believe that disclosure to the Chief Compliance Officer would be ineffective. In the latter case, your disclosure should be sent to the Executive Director.

If a conflict of interest involving an Employee is the subject of this Statement, see Section IV.A. of the Employee Ethics Policy for the definition of a Conflict of Interest; if a conflict of interest involving a Trustee is the subject of this Statement, see the Board of Trustees Ethics Policy for the definition of a conflict of interest; and if a Contractor is the subject of this statement, see Section I.A. of the Code of Ethics for Contractors (the “Code”) for the definition of a conflict of interest.

### 1. Conflict of Interest.

Describe the facts and circumstances that create the conflict of interest. Specify the interest or relationship that creates the conflict. Attach additional pages to this form, if needed.

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### 2. For use if the Employee that is filing this Statement is reporting his or her own Conflict of Interest.

Please answer "yes" or "no" and give any requested explanation.

\_\_\_\_\_ I believe that I have a conflict of interest.

\_\_\_\_\_ I have withdrawn from participation in the matters affected by the conflict of interest pending further notification from TRS.

I have cured the conflict of interest or believe that I can cure the conflict of interest by taking the following action (check all applicable blanks and provide explanatory details below):

- \_\_\_\_\_ promptly eliminating the conflict;
- \_\_\_\_\_ prudently withdraw from action on the particular matter in which the conflict exists; or
- \_\_\_\_\_ terminate my relationship with TRS as quickly and responsibly and legally possible.

Explanatory details:

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\_\_\_\_\_ I request a waiver from the Executive Director relating to the prohibition on giving advice or making decisions about matters affected by the conflict of interest that is the subject of this Disclosure Statement.

If "yes", state why. \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_ I have provided a copy of this Disclosure Statement to my supervisor, team leader or manager.

If "no", why not? \_\_\_\_\_  
\_\_\_\_\_

**3. For use if the Employee that is filing this form is reporting on a conflict of interest involving another individual or entity.**

Please answer "yes" or "no" or "do not know" and give any requested explanation.

\_\_\_\_\_ I believe that another individual or entity has a conflict of interest, as described above.

\_\_\_\_\_ The other individual or entity has withdrawn from participation in the matters affected by the conflict of interest pending further notification from TRS.

\_\_\_\_\_ I have provided a copy of this Disclosure Statement to the TRS personnel who supervise or monitor the individual or entity that is the subject of this Disclosure Statement.

If "no," why not? \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date



**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**KEY EMPLOYEE ENHANCED DISCLOSURE FORM**

In completing this form, the reporting year is January 1 through December 31 of the prior calendar year. You may attach additional sheets if necessary for complete disclosures.

Name: \_\_\_\_\_

Reporting Year: \_\_\_\_\_

Spouse's Name: \_\_\_\_\_

Dependent Child(ren)'s Names: \_\_\_\_\_

Other Economic Dependents' Names: \_\_\_\_\_

**SUMMARY OF INFORMATION**

Indicate "Yes" or "No" to the following: \_\_\_\_\_

I am disclosing non-TRS Employment (page 2): \_\_\_\_\_

I am disclosing material debt or debts, defined for this purpose as a debt of \$25,000 or more (page 3): \_\_\_\_\_

I am disclosing a Benefit or Benefits received from a Restricted Donor (page 4): \_\_\_\_\_

I am disclosing a non-TRS fiduciary position (page 5): \_\_\_\_\_

I am disclosing privately held investments (page 6): \_\_\_\_\_

Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**EMPLOYMENT**

Non-TRS Employment

Did you, your spouse, dependent child(ren), and/or other financial dependent(s) have non-TRS employment during the reporting year: \_\_\_\_\_ (yes/no)

If yes, provide the following information. Your Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |

Spousal Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |

Dependent Child(ren) Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |

Other Economic Dependent(s) Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |



**DISCLOSABLE DEBTS:**

Did you, your spouse, dependent child(ren), and/or other financial dependent(s) owe any lender or creditor a debt or aggregate debts of \$25,000 or more during the reporting year? \_\_\_\_\_ (yes/no)

If no, move on to the next section. If yes, provide the following information for each debt of \$25,000 or more actually owed at any time during the reporting year. Please list each debt separately.

|                               | Debt 1 | Debt 2 | Debt 3 | Debt 4 | Debt 5 |
|-------------------------------|--------|--------|--------|--------|--------|
| Creditor:                     |        |        |        |        |        |
| Borrower:                     |        |        |        |        |        |
| Guarantor if any:             |        |        |        |        |        |
| Principal owed (as of 12/31): |        |        |        |        |        |

### BENEFITS FROM RESTRICTED DONORS

Have you, your spouse, dependent child(ren), or other financial dependent(s) received any Benefit (e.g., gift) worth more than \$50 from a Restricted Donor during the reporting year? \_\_\_\_\_ (yes/no)

“Benefit” means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.

“Restricted Donor” means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering doing business, (3) non-publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee’s official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.

If no, move to the next section. If yes, provide the following information.

|                            | Gift 1 | Gift 2 | Gift 3 | Gift 4 | Gift 5 |
|----------------------------|--------|--------|--------|--------|--------|
| Name of recipient:         |        |        |        |        |        |
| Name and address of donor: |        |        |        |        |        |
| Description of gift:       |        |        |        |        |        |
| Value of gift:             |        |        |        |        |        |

Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**NON-TRS FIDUCIARY POSITIONS**

Did you, your spouse, dependent child(ren), or other financial dependent(s) hold any non-TRS office or position that owed fiduciary duties during the reporting year? \_\_\_\_\_(yes/no)

If yes, provide the following information.

|                   | Position 1 | Position 2 | Position 3 | Position 4 |
|-------------------|------------|------------|------------|------------|
| Organization:     |            |            |            |            |
| Position Held:    |            |            |            |            |
| Position Held by: |            |            |            |            |

Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**DISCLOSABLE PRIVATELY HELD INVESTMENTS**

Did you, your spouse, dependent child(ren), or other financial dependent(s) hold an interest in any privately held investment (e.g., limited partnership, closely held corporation, limited liability company) during the reporting year?  
\_\_\_\_\_ (yes/no)

If no, move to the next section. If yes, provide the following information.

|   | Private<br>Investment 1 | Private<br>Investment 2 | Private<br>Investment 3 | Private<br>Investment 4 | Private<br>Investment 5 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Held by:  |                         |                         |                         |                         |                         |
| Name of<br>investment:                            |                         |                         |                         |                         |                         |
| Date Acquired:                                    |                         |                         |                         |                         |                         |
| Estimated value of<br>investment (as of<br>12/31) |                         |                         |                         |                         |                         |

**DECLARATION**

My name is \_\_\_\_\_.

**I declare under penalty of perjury that the foregoing is true and correct.**

Executed in \_\_\_\_\_ County, State of \_\_\_\_\_, on the \_\_\_\_\_ day of \_\_\_\_\_.

Signature: \_\_\_\_\_

## DISCIPLINARY ACTION DISCLOSURE STATEMENT

(For Trustees and Key Employees only)

Please respond "yes" or "no" to the following questions:

\_\_\_\_\_ Has any court in the United States or elsewhere ever entered an order against you or found you to have been involved in any illegal investment related activity?

\_\_\_\_\_ In the past ten years, have you been convicted of or pleaded guilty or no contest to a felony or misdemeanor involving any investment related activities, fraud, theft, bribery, forgery, counterfeiting or extortion?

\_\_\_\_\_ In the past ten years, have you been convicted of or pleaded guilty or no contest to any other felony?

\_\_\_\_\_ Has any federal, state or foreign regulatory or self-regulatory agency ever found you to be in violation of its rules, to have made a false statement, or entered a disciplinary order against you?

\_\_\_\_\_ Have you ever had a professional license or registration suspended, revoked or denied?

\_\_\_\_\_ Has a bonding company ever denied, paid out on, or revoked a bond as a result of any activities in which you were involved?

\_\_\_\_\_ Have you ever been an officer, director, or 10% or more owner of a business which has been declared bankrupt, made a compromise with creditors, or filed a petition for bankruptcy?

\_\_\_\_\_ To your knowledge, are you now the subject of any investigation or proceeding that could result in a "yes" answer to any of the above questions?

I agree to update this form promptly if any action occurs in the future which would cause any of my answers to these questions to change.

\_\_\_\_\_  
Employee signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Printed name

**Teacher Retirement System of Texas**

**Employee Ethics Policy**

**Adopted: October 9, 2009**

**Revised: December 4, 2025**

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## **I. Overview**

The Teacher Retirement System of Texas (“TRS”) is charged by the Texas Constitution and state law with the administration of pension assets held in trust for the exclusive benefit of active or retired TRS members and their beneficiaries, and assets may not be diverted. The Teacher Retirement Investment Company of Texas (“TRICOT”) is TRS’ subsidiary in the United Kingdom charged with supporting TRS’ investment activities. Certain Employees are subject to fiduciary duties of prudence and loyalty. The duty of prudence compels Employees to exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs when making investment decisions. The duty of loyalty requires Employees to have an undivided loyalty to the participants of the trust and to exclude all other interests. All operations and activities of TRS must be undertaken solely to advance and protect the interests of the members, retirees, and beneficiaries of the pension plan and must be conducted in a prudent manner. Similarly, TRS is trustee of other trusts that must be administered according to their terms and TRS, as trustee, is subject to fiduciary responsibilities under trust law with regard to those assets and the participants of each particular trust. These other trusts include the TRS-Care health benefits program, and the TRS-ActiveCare health benefits program. Accordingly, Employees have fiduciary duties commonly associated with pensions and other trusts, and each Employee must exercise an independent judgment on behalf of each trust. These duties extend not only to the investment activities but also to the application of TRS benefit provisions, the establishment of actuarial assumptions, the collection of amounts owed TRS, and the general administration of TRS.

TRS is a public entity. Consequently, Employees have the special responsibilities for honesty and integrity applicable to public servants. Texas Government Code, Chapters 572, 825, and 2203, along with Texas Penal Code, Chapters 36 and 39, describe specific standards of conduct that Employees must follow.

This Employee Ethics Policy (the “Policy”) specifies standards of conduct expected of Employees in view of these responsibilities. Although many of its provisions are based upon legal and fiduciary concepts, this Policy should not be interpreted as an exclusive and complete statement of legal and fiduciary responsibilities and its provisions should not necessarily be construed as only statements of legal and fiduciary responsibility. This Policy does not supersede any applicable federal or Texas law or administrative rule. All Employees must abide by all applicable federal and Texas law, including applicable fiduciary duties, administrative rules, and TRS conduct policies, including this Policy.

Adherence to this Policy will allow Employees to meet any applicable fiduciary obligations, comply with statutory mandates, and facilitate mutual respect and public confidence.

Any ambiguity in this Policy generally will be resolved in accordance with applicable legal or fiduciary standards.

In fulfilling the TRS Board of Trustees’ (“Board”) roles and responsibilities and pursuant to requirements of applicable statutes, the Board has delegated to the Executive Director the responsibilities outlined in the Bylaws, including management of the day-to-day operations of TRS. Through the Bylaws, the Board has also delegated authority for some matters to the Executive Director or the staff, in accordance with Board actions or applicable law, including the following: certain investment decisions, contracts, payments and other releases of assets, and litigation decisions. Further, the Board has delegated authority to staff in various other policies, such as the investments policies adopted by the Board.

Capitalized terms are defined in Appendix A, attached hereto and incorporated herein for all purposes, if not otherwise described in the text of this Policy. Therefore, the definitions in Appendix A shall apply unless the context requires otherwise.

## **II. General Conduct Guidelines**

Employees shall fulfill the following fiduciary duties and abide by the general conduct guidelines detailed below:

- A. Exercise undivided loyalty to the trust participants.
  - An Employee must exercise care and caution always to place the interests of trust participants and TRS ahead of the Employee's own interest and to act exclusively in the interest of the respective participants of each trust. No Employee may represent any person in any action or proceeding before or involving the interests of TRS except as a duly authorized representative or agent of TRS.
  - On all matters related to or involving TRS, an Employee's actions must benefit the interests of trust participants and trust funds.
- B. Dissociate one's personal viewpoints from the objective requirements of the Employee's fiduciary obligations to trust participants.
  - An Employee must act with integrity, competence, diligence, respect, and in a transparent and an ethical manner in all matters related to or involving TRS, including all dealings with the participants of a TRS trust, TRS Trustees, other Employees, and the public.
- C. Exercise care, skill, prudence, and diligence appropriate to the prevailing circumstances.
- D. An Employee must abide by all applicable laws, rules, and regulations, including the terms of the pension plan and, as applicable, the specific laws and rules governing other programs administered by TRS.
- E. Avoid unreasonable favoritism toward one beneficiary group over another.
  - An Employee must deal fairly, objectively, and impartially with all participants.
- F. Refrain from prohibited or conflicted actions.
  - An Employee must maintain independence and objectivity with respect to the execution of the Employee's responsibilities to TRS and to trust participants and must avoid actions or activities that create an appearance of bias or that bring into question the Employee's own independence of judgment. This includes avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect an Employee's loyalty.
  - No Employee may influence the investment decision-making process of TRS, either for personal gain or private advantage or in a manner detrimental to the interests of TRS.
  - An Employee must maintain the confidentiality of TRS and trust participant information and must never use such information for personal gain or for the gain of third parties.

## **III. Specific Legal Standards of Conduct**

The following specific legal standards of conduct apply to Employees:

- A. An Employee shall not:
  - 1. Accept or solicit any gift, favor, or service that might reasonably tend to influence the Employee in the discharge of official duties, or that the Employee knows or should know is being offered with the intent to influence the Employee's official conduct.
  - 2. Intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised his or her official powers or performed his or her official duties in favor of another.

3. Disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position except when the Executive Director, or his or her designee, determines such disclosure is either permitted or required by law.
4. Accept other employment, including self-employment, or engage in a business, charity, nonprofit organization, or professional activity that the Employee might reasonably expect would require or induce the Employee to disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position.
5. Have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur any obligation of any nature that is in substantial conflict with the proper discharge of the Employee's duties in the interest of TRS.
6. Accept other employment, including self-employment, or compensation or engage in a business, charity, nonprofit organization, or professional activity that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.
7. Make personal investments, or have a personal or financial interest, that could reasonably be expected to create a substantial conflict between the Employee's private interest and the public interest;
8. Use TRS or state personnel time (*i.e.*, time for which you or other Employees are being paid by TRS or the state), information, property, facilities, equipment or other resources, or information or resources paid for by TRS, for any purpose other than official TRS business. Notwithstanding the above, use of an Employee's own TRS or state personnel time, or use of TRS or state information, property, facilities, equipment and other resources is acceptable if such use
  - does not result in any direct cost to TRS or the state,
  - does not impede TRS functions,
  - is not for private commercial purposes,
  - is reasonable and incidental, and
  - does not violate applicable TRS policies.

Likewise, a person may not entrust TRS or state information, property, facilities, equipment or other resources, or information or resources paid for by TRS or the state, to any other person if the information, property, facilities, equipment or other resources are not to be used for TRS purposes;

9. Use his or her official position for financial gain, obtaining privileges, or avoiding consequences of illegal acts, including but not limited to:
  - accepting, under any circumstances, offers by reason of their position with TRS to trade in any security or other investment on terms more favorable than available to the general investing public;
  - borrowing from Contractors unless such entities are normally engaged in such lending in the usual course of their business, and then only on customary terms offered to others under similar circumstances to finance proper and usual activities.

However, this should not be interpreted to forbid communicating to others the fact that a relationship with TRS exists, provided that no misrepresentation is involved.

10. With intent to obtain a benefit or with intent to harm or defraud another, intentionally or knowingly:
  - violate a law relating to the Employee's position with TRS; or

- misuse TRS time, property, services, personnel, or any other thing of value belonging to TRS that has come into the Employee's custody or possession by virtue of the Employee's position with TRS.
11. Knowingly make misleading statements, either oral or written, or provide false information, in the course of official state business.
  12. Use TRS or, as applicable, state resources for any political activity.
  13. Contract on behalf of TRS with any entity, or an affiliate controlled by such entity, that employs or is represented by a former Trustee or former Employee if such employment or representation would violate the prohibitions on employment of or representation by former public servants contained in Section 572.054 of the Texas Government Code. Notwithstanding the provisions of Section 572.054, the Board may authorize such a contract if the Board determines that the contract would be prudent for TRS. TRS contracts must provide for a termination option, whereby TRS may terminate a contract with an entity, or an affiliate controlled by such entity, in the event that such entity or controlled affiliate employs or uses the services of a former Trustee or former Employee in violation of this Policy.

Section 572.054 of the Texas Government Code prohibits a former Trustee or former Executive Director from making any communication to or appearance before an officer or Employee of TRS before the second anniversary of the date the Trustee or Executive Director ceased being a member of the Board or the Executive Director if the communication or appearance is made:

- with the intent to influence; and
- on behalf of any person in connection with any matter on which the person seeks official action.

Also pursuant to Section 572.054, at no time in the future may a former Trustee or former Employee represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the Trustee or Employee participated, either through personal involvement or because the matter was within the Trustee's or Employee's official responsibility.

Departing Employees should be aware of state conflict of interest requirements (e.g., revolving door statutes<sup>1</sup>) and that they may be subject to further restrictions related to future interactions with TRS, TRICOT and Trustees. Departing Employees shall notify the Chief Compliance Officer if (i) they will have a direct or indirect role in their subsequent employer's effort to influence TRS investments or contracts for goods or service with TRS or TRICOT, or (ii) they expect to have interactions with Employees in a business context.

14. Except for an interest in TRS assets as a member of TRS, have a direct or indirect interest in the gains from investments made with TRS assets and shall not receive any compensation for service other than designated salary and authorized expenses.
15. Advise or make decisions about matters affected by a conflict of interest as defined and provided in subsection IV. A. of this Policy.
16. Participate in or be the beneficiary of, directly or indirectly, a loan, commitment to lend, a guarantee or endorsement to lend, or investment by TRS or a contract to advise TRS or manage property or investments for TRS, except this prohibition does not apply to actions taken by an Employee within the scope of the Employee's official duties for TRS, if the actions do not involve a relationship that the Employee must disclose. An Employee must disclose a relationship if the Employee or a person related within the Second Degree by Consanguinity or Affinity to the Employee has a business or commercial relationship that could reasonably be expected to diminish the Employee's

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<sup>1</sup> See the Texas Ethics Commission's "A GUIDE TO THE REVOLVING DOOR PROVISIONS"  
(<https://www.ethics.state.tx.us/data/resources/guides/Bdoor.pdf>)

independence of judgment in the performance of the Employee's responsibilities to TRS. The Employee shall disclose such a relationship in writing to *the Executive Director or his or her designee*.

- B. An Employee in a "bona fide executive, administrative, or professional capacity," as that phrase is used for purposes of establishing an exemption to the overtime provisions of the federal Fair Labor Standards Act of 1938 (29 U.S.C. §201 *et seq.*) and the spouse of the Employee shall not be a paid officer, employee, or consultant of a Texas trade association<sup>2</sup> in the field of investment or insurance.
- C. The General Counsel shall not be registered, or be required to be registered, as a lobbyist under Chapter 305 of the Texas Government Code because of the person's activities for compensation on behalf of a business or an association related to the operation of the Board.

#### **IV. Conflicts of Interest**

- A. In addition to conflicts that may arise under circumstances addressed in section III. above, a conflict of interest exists for an Employee whenever the Employee has a relationship or interest that could reasonably be expected to diminish the Employee's independence of judgment in the performance of the Employee's responsibilities to TRS.
- B. No Employee may take action personally (*e.g.*, in the establishment of personal, employment, or business relationships or interests) or on behalf of TRS that will result in a reasonably foreseeable conflict of interest. Should there be an action which an Employee believes to be in the best interest of TRS but which could foreseeably result in a personal conflict of interest, the Employee must disclose such fact to the Chief Compliance Officer prior to taking such action.
- C. No Employee may participate in a matter before TRS that involves a business, contract, property or investment held by the Employee if it is reasonably foreseeable that TRS action on the matter would confer a Benefit to the Employee by or through the business, contract, property or investment. This prohibition on participation in matters involving Benefits for an Employee's own interest does not apply if the Benefit is merely incidental to the Employee's membership in a large class such as the class of TRS members.
- D. No Employee may recommend or cause discretionary TRS business to be transacted with or for the benefit of a Relative.
- E. If an Employee is uncertain whether he or she has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to be likely to occur, or if an Employee is uncertain whether the common-law or statutory law prohibits the Employee from having a direct or indirect interest or relationship, such Employee should promptly inform the Chief Compliance Officer. The Chief Compliance Officer shall evaluate whether a conflict of interest exists under the circumstances presented or whether a prohibition exists under applicable common-law and statutory law. The Chief Compliance Officer may consult with the Executive Director regarding any determinations. If the Chief Compliance Officer determines that the Employee does not or would not have a conflict under the facts presented and no statutory or common-law prohibition exists, the Employee is not required to make a disclosure pursuant to subsection IV. F. If the Chief Compliance Officer determines that a conflict or prohibition may exist under the facts and circumstances presented, the Chief Compliance Officer will advise and discuss the evaluation with the Employee in order to assist the Employee in determining whether a conflict or prohibition actually exists. If a conflict exists, the Employee must make a disclosure pursuant to subsection IV. F. and cure the conflict. Also, if it is

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<sup>2</sup> A Texas trade association means a cooperative and voluntarily joined association of business or professional competitors in Texas designed to assist its members and its industry or profession in dealing with mutual business or professional problems and in promoting their common interest.

determined that a conflict would exist upon the occurrence of the anticipated circumstances and they later do occur, the Employee must make a disclosure pursuant to subsection IV. F. upon the occurrence of such events and cure the conflict.

If the Chief Compliance Officer determines that the Employee's proposed cure of an existing conflict is not appropriate and sufficient under the standards in subsection IV. G., the Chief Compliance Officer shall consult with the Executive Director regarding the viability of a waiver under applicable law, and shall so inform the Audit, Compliance, and Ethics Committee of the Board. The Employee will take appropriate action to respond to any statutory or common-law prohibitions that exist, including the prohibition addressed in Section IV. H. below.

F. An Employee must promptly

- disclose his or her own conflicts of interest in writing to the Chief Compliance Officer through the Conflict of Interest Disclosure Statement, or
- disclose conflicts of interest involving others of which the Employee becomes aware, either in writing to the Chief Compliance Officer through the Conflict of Interest Disclosure Statement or verbally by contacting the TRS "Hotline" for anonymous ethics reporting.

Should an Employee with a duty to disclose conflicts of interest have reasonable cause to believe disclosure to the Chief Compliance Officer will be ineffective, the Employee should file any written disclosure made through the Conflicts of Interest Disclosure Statement with the Executive Director.

In complying with this subsection, any Conflict of Interest Disclosure Statement filed by the Executive Director shall be filed with the Chief Compliance Officer. Should the Executive Director have reasonable cause to believe disclosure to the Chief Compliance Officer will be ineffective, the Executive Director shall file any written disclosure made through the Conflicts of Interest Disclosure Statement with the Chief Operations and Administration Officer.

In complying with this subsection, the Chief Compliance Officer shall file any Conflict of Interest Disclosure Statements with the Executive Director.

The Chief Compliance Officer will report to the Executive Director and the Audit, Compliance, and Ethics Committee of the Board regarding the Conflict of Interest Disclosure Statements and the verbal reports via the TRS "Hotline" that are received by TRS.

If the conflict of interest being reported by an Employee involves a Contractor, the Chief Compliance Officer shall provide notice of the reported conflict of interest to the TRS personnel who supervise or monitor the Contractor, unless the Chief Compliance Officer reasonably believes that such disclosure would be detrimental to the resolution of the conflict.

G. Employees who become aware, or reasonably should have become aware, of a personal conflict of interest, have a duty not only to disclose that conflict, but also to cure it. An Employee may cure a conflict of interest by promptly eliminating it. An Employee who cannot or does not wish to eliminate the conflict must terminate his or her relationship with TRS as quickly as responsibly and legally possible.

If an Employee may prudently withdraw from action on a particular matter in which a conflict exists, he or she may cure the conflict in that manner provided that

1. The Employee may be and is effectively separated from influencing the action taken,
2. The action may properly be taken by others, and
3. The nature of the conflict is not such that the Employee must regularly and consistently withdraw from decisions that are normally his or her responsibility with respect to TRS.

- H. An Employee who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about matters affected by the conflict of interest. The Board hereby delegates to the Executive Director the authority to waive this prohibition. This prohibition concerning the Employee's actions continues in place unless the Executive Director, after consultation with the Chief Compliance Officer, expressly waives this prohibition, thereby effectively waiving the conflict of interest for that matter. To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts of interest. Records of all waivers granted with the supporting reasons will be maintained by the Chief Compliance Officer. The Chief Compliance Officer will advise the Audit, Compliance, and Ethics Committee of the Board of the Executive Director's decision to grant or deny a waiver.
- I. It shall not be considered a conflict solely because
1. An Employee is a member, retiree, or beneficiary of the system or has an interest no greater than a large class of its members, retirees, or beneficiaries, or
  2. An Employee has an investment in the stock of a publicly traded corporation, which is owned, purchased, or sold by TRS, provided that the Employee's interest in the stock is not more than ten (10) percent of any class of stock of the corporation.
- J. Employees should become familiar with the TRS Code of Ethics for Contractors (the "Code of Ethics"), and any reporting responsibilities placed on such Employees.
- K. With respect to each proposed, pending, or closed transaction by TRS concerning a Private Investment, and except as disclosed in writing pursuant to this subsection IV. K., each Employee who actively participates in the decision-making process on behalf of TRS with regard to a given Private Investment, including the review, evaluation or formal or informal recommendation of a TRS investment (an "Active Employee"), represents that:
1. The Active Employee has not solicited or accepted any direct or indirect Benefit or interest, or received or agreed to accept any Benefit or interest from any individual or entity in connection with the Private Investment, and is not aware of any personal Benefit or interest that may result or arise from TRS's investment or decision to invest in the Private Investment.
  2. To the best of the Active Employee's knowledge, no Relative of the Active Employee has received any direct or indirect Benefit or interest or any promise of a Benefit or interest relating to or arising from TRS's investment or decision to invest in the Private Investment, and the Active Employee is not aware of any direct or indirect Benefit to or interest of a Relative that may result or arise from TRS's investment or decision to invest in the Private Investment.
  3. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee, has acquired or has any current intention of acquiring any Benefit or interest, including an ownership interest in the same Private Investment and, so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will acquire such an interest.
  4. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee has or will have an economic or beneficial interest in a general partner, managing member, servicer, underwriter, sponsor, investment adviser, or investment manager of the Private Investment as identified by TRS staff; and so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will knowingly acquire an economic or beneficial interest in any such entity.
  5. The Active Employee has no business relationship with the consultant or adviser recommending the Private Investment, or with any other consultant identified by TRS or TRICOT staff as giving advice or assistance to TRS with regard to the particular Private Investment.

6. The Active Employee is unaware of any existing relationships, interests, or other facts that could reasonably be expected to diminish the Active Employee's independence of judgment as an Active Employee and thereby constitute a conflict of interest in connection with the Active Employee's actions as an Active Employee relating to the Private Investment.

If the Active Employee is unable to make all the representations immediately above in this subsection IV. K. with regard to a Private Investment, then the Active Employee should notify the Chief Compliance Officer in writing immediately upon receipt of information regarding the Private Investment so that a determination of the appropriate course of action can be made prior to authorization by TRS or, in any event, prior to TRS's becoming contractually bound to fund the Private Investment.

## **V. Trading**

- A. The Executive Director, or his or her designee, shall develop and implement a trading policy (the "Personal Trading Policy") that addresses policies, procedures, and standards of conduct applicable to Employees in the conduct of each Employee's personal trading activities and trading activities undertaken on behalf of TRS. Additionally, the Executive Director, or his or her designee, is authorized to amend the Personal Trading Policy from time to time as the Executive Director deems advisable and to issue or modify forms to fully implement the provisions of the Personal Trading Policy, as amended from time to time. Employees shall comply with the Personal Trading Policy.
- B. Restricted Contractors List. No Employee or spouse of the Employee may have or borrow a Security (or a Derivative thereof) or other ownership or profit sharing interest in a Contractor with which TRS or TRICOT does business, except as permitted below.

This prohibition applies to a Security (or a Derivative thereof) or other ownership or profit sharing interest held for an Employee's own account or an account in which he or she has a Beneficial Ownership.

For Employees that are not designated Covered Persons (as defined by the Personal Trading Policy), if an Employee or a spouse of an Employee (1) has an interest prohibited by this Section prior to becoming an employee or prior to the entity becoming a Contractor, or (2) receives an interest prohibited by this Section by inheritance or gift, the Employee or spouse may hold but not add to the interest; provided that holding the interest is not otherwise in conflict with the Personal Trading Policy. The Employee or spouse, in his or her discretion, may dispose of the interest at a time of his or her choosing, provided the Employee or spouse complies with all applicable laws and policies. The Employee shall evaluate whether holding the interest creates a conflict of interest, and if so, will handle the conflict of interest as required by this Policy. Employees that are designated Covered Persons must divest of the prohibited interest consistent with the Personal Trading Policy.

## **VI. Nepotism**

- A. TRS may not employ a person who is a Relative of a Trustee. This does not prevent the continued employment of a person who has already been working for TRS for thirty consecutive days prior to the date of a related Trustee's appointment.
- B. No Employee may exercise discretionary authority to hire, evaluate or promote a Relative. No Employee may supervise a Relative, either directly or indirectly. As used herein, "supervise" means to oversee, with the powers of direction and decision-making, the implementation of one's own or another's intentions. Supervision normally involves assigning duties, overseeing and evaluating work, and approving leave.



## **VII. Benefits**

- A. An Employee shall not solicit, accept, or agree to accept from any donor:
1. a Benefit that the Employee knows or should know is consideration for the Employee's decision, opinion, recommendation, vote, or other exercise of discretion as an Employee, or for having exercised the Employee's official powers or performed the Employee's official duties in favor of another;
  2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee;
  3. a Benefit that might reasonably tend to influence the Employee in the discharge of official duties or that the Employee knows or should know is offered with the intent to influence the Employee's official conduct;
  4. a Benefit if the source of the Benefit is not identified or if the Employee knows or has reason to know that the Benefit is being offered through an intermediary; or
  5. a Benefit that creates a reasonably foreseeable conflict of interest or an actual conflict of interest as defined in subsection IV. A. or that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.
- B. Except as provided in this subsection VII. B., in subsection VII. C., or in subsection VII. E., an Employee shall not solicit, accept or agree to accept (or offer, give, or agree to give) any Benefit from or to a Restricted Donor.
- C. As long as the prohibitions in subsection VII. A. are not violated, an Employee may accept or agree to accept from a Restricted Donor:
1. gifts given on special occasions between Trustees and/or Employees;
  2. an item with a value of less than \$50, received from the same donor or employees of the same donor on infrequent occasions, excluding cash, cash equivalents, or a negotiable instrument as described by Texas Business & Commerce Code, Section 3.104.;
  3. a fee prescribed by law to be received by the Employee or any other Benefit to which the Employee is lawfully entitled or for which he or she gives legitimate consideration in a capacity other than as an Employee of TRS; or
  4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee.
- D. No employee shall accept any gift, regardless of value, from an entity associated with a country on the U.S. Department of Commerce's foreign adversaries list under 15 C.F.R. 791.4. Any employee approached by groups representing these countries, that offer gifts, shall report the offer to the Chief Compliance Officer. In addition, employees are required to report to the Texas Ethics Commission, in the form and manner the commission requires, each interaction, communication, or meeting the employee or volunteer has with a person acting on behalf of a foreign adversary not later than the 30th day after the date of the interaction, communication, or meeting.<sup>3</sup>
- E. Food, Lodging, Transportation and Entertainment. The following apply to items of food, lodging, transportation and entertainment offered by or accepted from a Restricted Donor:

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<sup>3</sup> See the Texas Ethics Commission's "Filing Reports - Report of Foreign Adversary Contact" (<https://www.ethics.state.tx.us/filinginfo/rfac.php>)

1. No standard set forth in subsection VII. A. may be violated when acting under subsections VII. E. 2. through 5. immediately below.
  2. Modest items of food (with a value of less than \$50 per person) are permissible only if given or accepted on infrequent occasions.
  3. Food items (with a value of \$50 or more per person) are permissible only if
    - provided in connection with a business meeting, business meal, business conference, or reception; and
    - the donor or a representative of the donor is present.
  4. Lodging, transportation, or entertainment are permissible only if (i) approved by the Executive Director; (ii) in connection with receptions, business meals, business meetings, or business conferences that serve a TRS purpose and (iii) the donor or a representative of the donor will be present at the reception, business meal, business meeting, business conference, or entertainment.
  5. If the Employee is required by law or this Policy to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee pursuant to the process established by the Chief Compliance Officer.
- F. If otherwise permitted by this Policy, lodging and transportation may not be accepted from a person registered as a lobbyist in Texas unless in connection with a fact-finding trip or to a seminar or conference at which the Employee will provide services, such as speaking, and the services are more than merely perfunctory<sup>4</sup>. Entertainment provided by a lobbyist may not exceed the cumulative value of \$500 in a calendar year. Benefits provided by a lobbyist, other than food, lodging, transportation and entertainment, may not exceed the cumulative value of \$500 in a calendar year.
- G. If an unsolicited Benefit that violates any provision of this section VII. is received by an Employee, he or she should attempt to return the Benefit to its source or donate the Benefit to charity, and must be reported by the Employee pursuant to the process established by the Chief Compliance Officer.

### **VIII. Outside Employment and Certain Other Outside Activities**

- A. Employees may not engage in outside employment, business, or other activities, whether compensated or uncompensated, that detract from the ability to fulfill their full-time responsibilities to TRS. Employees must obtain advance written approval from the Executive Director for any outside employment or business. The Executive Director may delegate authority to approve outside employment to appropriate executive staff members.

Employees who work in the TRS Investment Management Division or who in the course of their regular duties have access to current information concerning investment recommendations or decisions of TRS, may not, without advance approval from the Executive Director, advise, manage, or oversee an investment function for any entity, whether profit or nonprofit, or person even if such activity would not detract from the ability to fulfill their full-time responsibilities to TRS. This prohibition applies whether the activity is compensated or uncompensated. An investment function means management of or investment advice with respect to a portfolio of investments. This prohibition does not extend to advice or management relating to individual transactions for family members or to functions normally viewed as those of a treasurer such as investing in certificates of deposit or other money market instruments. The Chief Compliance Officer shall inform the Chair of the Board's Audit, Compliance, and Ethics Committee of any approvals granted under this section.

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<sup>4</sup> Section 305.025 of the Texas Government Code.

- B. Any outside employment or business undertaken by the Executive Director must be approved in advance by the Board.

### **IX. Key Employees**

- A. The Board shall designate by position the Employees who exercise significant fiduciary authority. By virtue of their position with TRS, these persons are “Key Employees.” Employees with fiduciary authority have a strict duty of loyalty and care to TRS, and its members and beneficiaries.
- B. Employees designated as Key Employees must acknowledge their Key Employee status in writing through the annual Ethics Compliance Statement.

### **X. Training**

Employees shall participate in annual ethics training and successfully complete such training in a timely manner as prescribed by any associated deadline.

### **XI. Trustee-Staff Relations and Communications**

The Board has articulated the role and responsibility of Trustees and staff by developing and implementing policies that clearly separate the policy-making responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS. Significantly, the Board has delegated certain responsibilities to the Executive Director in Article 4.1 of the Bylaws. Additionally, the Board has delineated significant authority of staff in TRS rules and in policies adopted by the Board, including the Investment Policy Statement, the Proxy Voting Policy, and the Securities Lending Policy.

It is important that the Trustees and staff have an open and productive working relationship to accomplish the goals of TRS for members, beneficiaries and retirees.

The following will assist staff with its interactions with Trustees.

- A. The Board and staff recognize the distinctively separate policymaking and implementation roles that each plays in fund governance.

- B. Providing direction to TRS staff, Consultants and Contractors:

The Board collectively is empowered to direct TRS’ management, staff, and consultants on policy matters of TRS operations. Conversely, no individual Trustee speaks for or binds the Board or TRS. Staff, Consultants and Contractors should not interpret communications from individual Trustees as direction.

- C. Staff shall keep the Executive Director and the Chief Compliance Officer informed of contacts from a Trustee related to a TRS Matter.

- D. Referrals of Potential Investments or Third-Party Service Providers:

If a Trustee makes a referral, the Trustee will make a referral and any follow-up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concern.

With regard to all referrals, including those from a Trustee, the staff will evaluate the referred party or opportunity under then existing operating standards and procedures, without regard to the source of the referral.

## **XII. Compliance with Professional Standards**

- A. Employees who are members of professional organizations that promulgate standards of conduct must comply with those standards.
- B. Employees in the TRS Investment Management Division must comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct<sup>5</sup> (together, the "Standards") as amended from time to time by the CFA Institute.

## **XIII. Financial and Compliance Disclosures**

- A. The Executive Director must annually file a verified Personal Financial Statement with the Texas Ethics Commission in compliance with Subchapter B of Chapter 572 of the Texas Government Code. Copies of this Personal Financial Statement can be obtained from the Texas Ethics Commission. In addition, at the same time the Executive Director files a copy of his or her verified financial statement with the Texas Ethics Commission, the Executive Director shall file an identical copy of the verified financial statement with the Chief Compliance Officer and the Chief Audit Executive.
- B. Key Employees must file a Key Employee Enhanced Disclosure Form with the Chief Compliance Officer. The content of this form shall disclose a Key Employee's, a Key Employee's spouse's, and a Key Employee's dependent child(ren)'s and other dependent(s)'s private investments, material debts, non-TRS fiduciary positions, non-TRS employment, and material Benefits received from Restricted Donors.

Key Employees must file the Key Employee Enhanced Disclosure Form within 30 days of their date of employment as a Key Employee. The Key Employee's first such enhanced disclosure form must address the calendar year immediately prior to their date of employment as a Key Employee. Thereafter, an enhanced disclosure form must be filed by April 30th of each year covering the preceding calendar year. Notwithstanding anything to the contrary, in no event shall a Key Employee be required to file a second enhanced disclosure form covering the same calendar year. The Executive Director may postpone a filing deadline for not more than 60 days on written request or for an additional period for good cause, as determined by the Chairman of the Board.

- C. In addition to disclosures required in other provisions of this Policy (*e.g.*, subsections IV.F.), Employees with knowledge of a violation of this Policy, the Board of Trustees Ethics Policy, or the Code of Ethics for Contractors must promptly
  - report his or her own violation of this Policy in writing to the Executive Director or the Chief Compliance Officer, and
  - report violations, of which he or she becomes aware, of this Policy, the Board of Trustee Ethics Policy, or the Code of Ethics for Contractors by any other individual or entity, either in writing to the Executive Director or the Chief Compliance Officer, or verbally by contacting the TRS

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<sup>5</sup> See the CFA Code of Ethics and Standards of Professional Conduct: [https://www.cfainstitute.org/sites/default/files/-/media/documents/ethics-in-practice/code\\_of\\_ethics\\_and\\_standards\\_of\\_professional\\_conduct\\_2024.pdf](https://www.cfainstitute.org/sites/default/files/-/media/documents/ethics-in-practice/code_of_ethics_and_standards_of_professional_conduct_2024.pdf)

“Hotline” for anonymous ethics reporting.

- D. Within sixty (60) days of the date of employment, in the case of new Employees, and within sixty (60) days of the date of employment in a position as a new Key Employee, the Employee or Key Employee, as the case may be, must file a completed Ethics Compliance Statement for Employees and Certain Contractors that he or she has received and read this Policy, that he or she will comply with its provisions, and that it is his or her duty to report any acts by Trustees, other Employees, or Contractors when he or she has knowledge of violations of this Policy. This statement will also include a reminder that he or she is required to update his or her Ethics Compliance Statement if a change in circumstances occurs that would require reporting under this Policy.

Employees, including the Executive Director, must annually file a completed Ethics Compliance Statement with the Chief Compliance Officer by April 30 of each year for the preceding calendar year. The Chief Compliance Officer will provide a copy of the Executive Director’s Compliance Statement to the Chairman of the Audit, Compliance, and Ethics Committee of the Board only if the Executive Director has anything to report under the five questions found in the Ethics Compliance Statement.

- E. Within sixty (60) days of the date of employment in a position as a new Key Employee, the Key Employee must file a completed Disciplinary Action Disclosure Statement with the Chief Compliance Officer. Within sixty (60) days of the date an individual becomes the Executive Director, he or she must file a Disciplinary Action Disclosure Statement with the Chief Compliance Officer. The Chief Compliance Officer will provide a copy of the Executive Director’s Disciplinary Action Disclosure Statement to the Chairman of the Audit, Compliance, and Ethics Committee of the Board only if the Executive Director responds with a “yes” to any of the questions in this statement. A Key Employee must promptly file an updated, complete Disciplinary Action Disclosure Statement if any action occurs that would cause any answers to change on this form.

#### **XIV. Custodians of Disclosures and Waivers**

The Executive Director shall be the custodian for open records purposes of disclosures required under this Policy. The Chief Compliance Officer shall be the custodian for open records purposes of waivers of conflicts of interest, if any, granted by the Executive Director.

#### **XV. Enforcement**

- A. The Board will enforce this Policy through the Executive Director, who is responsible for its implementation with respect to Employees.
- B. The full range of disciplinary options under TRS personnel policies and practices may be used with respect to Employees who violate this Policy, up to and including termination. Employees shall cooperate with any investigation under this Policy.
- C. Employees who are fiduciaries shall take appropriate action as co-fiduciaries in the event a violation of this Policy would involve or does involve a breach of fiduciary duties, including using reasonable care to prevent a co-fiduciary from committing a breach of trust or to compel a co-fiduciary to redress a breach of trust.
- D. No retaliatory action will be taken toward any individual who, in good faith, makes a report of or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.
- E. A list will be maintained of the Contractors whose contract or relationship with TRS has been

terminated because they were found to be in violation of the Code of Ethics. The custodian of this list is the Chief Compliance Officer. Termination of a contract or relationship because of a violation of the Code of Ethics can preclude another contract or relationship with TRS for a period of time up to ten years, as determined by the Executive Director or his or her designee, commencing from the date of the termination of the contract or relationship.

- F. The Executive Director will report to the Audit, Compliance, and Ethics Committee of the Board in writing by May 31 of each year, covering the immediately prior twelve-month period from May 1 to April 30, of the following:
1. any approval given for outside employment by Key Employees, including the nature of the employment;
  2. any disciplinary action disclosed by Key Employees;
  3. any Conflict of Interest Disclosure Statements and verbal reports via the TRS “Hotline” that are received by TRS;
  4. any written or verbal reports of violations of this Policy, the Board of Trustees Ethics Policy, or the Code of Ethics for Contractors;
  5. any decision to grant or deny a waiver pursuant to Section IV. H.; and
  6. any approvals for Restricted Donors to pay for expenses related to business conferences pursuant to Section VII.E.4.

## **XVI. Conflict with Other TRS Policies**

The provisions of this Policy are intended to be read in conjunction with other TRS policies regarding ethics. To the extent that this Policy imposes obligations on Employees that are greater than those imposed in other TRS policies, these obligations are deemed to be in addition to, and not in conflict with, the obligations set forth in other TRS policies. Employees should seek the advice of the Chief Compliance Officer and the Executive Director if they have any questions about possible conflicts between this Policy and other TRS policies.

## Appendix A

### Definitions

1. **“Affinity”** means a relation which one spouse, because of marriage, has to the blood relatives of the other spouse. In other words, affinity is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other. Affinity is distinguished from “Consanguinity,” which is the connection between two individuals that exists by kinship or by blood.
2. **“Audit, Compliance, and Ethics Committee of the Board”** means the standing Audit, Compliance, and Ethics Committee of the Board established pursuant to the Bylaws of the Board, as amended from time to time.
3. **“Beneficial Ownership”** means the true ownership of a Security or an interest in a Security as opposed to any stated legal title to ownership provided in documents or oral representations. The beneficial owner is the person that receives or has the right to receive proceeds or other advantages as a result of the ownership without regard to the nominal owner. In this Policy, Beneficial Ownership includes all types of beneficial ownership interests, such as community property or joint tenancies, the power to vote shares, profit-sharing arrangements, interests in self-directed retirement arrangements, and beneficial interests in trusts and estates, and includes, in addition to a person’s own direct beneficial ownership, an indirect beneficial interest through immediate family members (spouse, minor children, or other dependents).
4. **“Benefit”** means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.
5. **“Consanguinity”** means a relation by kinship or by blood. Individuals are related by consanguinity if the individuals are descended from the same stock or common ancestor. Consanguinity is distinguished from “affinity,” which is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other.
6. **“Consultant”** means an entity or person, other than an Employee or Trustee, (i) who provides advice to TRS intended to affect or form a basis for significant TRS decisions, including but not limited to an actuary or insurance and health care plan advisor, or (ii) who provides advice to TRS and may reasonably be expected to receive for its services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31). For purposes of this Policy, the term “Consultant” does not include an entity or person defined in the Code of Ethics as a Broker or as a Financial Provider. However, if an entity or person defined as a Consultant would also fall within the definition of a Financial Provider, the entity or person will be considered a Financial Provider for all purposes. If any questions exists regarding who constitutes a Consultant for purposes of this Policy, the Executive Director or his or her designee shall make that determination after consultation with the Chief Compliance Officer.
7. **“Contractor”** is a collective term used to reference all individuals or entities that fall within any one or more of the definitions for an Agent, a Broker, a Consultant, or a Financial Provider, as each separate term is defined in the Code of Ethics.
8. **“Derivative”** means a financial product whose value or return is based on, derived from, or linked to the value of a reference rate, exchange rate, interest rate, index, or currency or an underlying Security, asset, commodity, or any combination of underlying rates, indices, currencies or securities (*i.e.*, futures

contracts, forward contracts and options), but does not include mutual funds.

9. **“Employee”** means a person working for TRS in an employer-employee relationship and not in an independent contractor capacity, and includes the Executive Director and Chief Investment Officer of TRS.
10. **“General Counsel”** means the Employee of TRS serving in the position of chief legal advisor for TRS.
11. **“Private Investment”** means an investment or decision to invest, regardless of form, made or under consideration by TRS in a private, non-publicly traded security pursuant to limited offerings of securities exempt from registration under the securities laws.
12. **“Relative”** means a person related in the Third Degree by Consanguinity (blood relative) or Affinity (marriage) determined in accordance with Sections 573.021-025, Texas Government Code. Examples of Relatives by consanguinity are a child, grandchild, great- grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. Examples of Relatives by affinity are a spouse, any person related to the spouse within the third degree by consanguinity, or any spouse of a Relative by consanguinity or affinity. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
13. **“Restricted Donor”** means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering doing business, (3) non- publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee’s official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.
14. **“Second Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee:
  - (1) by consanguinity (blood relative) - a child, grandchild, parent, grandparent, brother, and sister; and (2) by affinity (marriage) – a spouse and the spouse’s child, grandchild, parent, grandparent, brother, and sister. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
15. **“Security” or “Securities”** means, for purposes of this Policy, (a) all types of publicly traded equity and debt securities of companies listed on a domestic or foreign exchange, including without limitation, any equity security included in a TRS policy benchmark, common stocks, preferred stocks, bonds convertible into equities, rights, warrants, units, depositary receipts and (b) Derivatives of equity securities, including without limitation, swaps, futures, options, and the functional equivalents of such instruments. The terms “Security” or “Securities” do not include: (i) open-ended mutual fund investment companies registered under the Investment Company Act of 1940; (ii) U.S. Government-issued securities; (iii) municipal debt obligations; (iv) money market instruments (*i.e.*, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments); and (v) any exchange traded fund (“ETF”) of sufficient size that TRS trades are unlikely to affect the fair market value of the ETF’s shares, as determined by the Compliance Officer in consultation with TRS Investment Management Division staff.
16. **“Third Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee:
  - (1) by consanguinity (blood relative) - a child, grandchild, great-grandchild, parent, grandparent, great-



grandparent, brother, sister, uncle, aunt, niece or nephew; and

- (2) by affinity (marriage) – a spouse and the spouse’s child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
17. **“TRS Matter”** means any transaction, event, occurrence, situation, or state of affairs relating to TRS business and responsibilities, including policies, administration of benefits or programs or operations, current or prospective contracts, procurements or contracting opportunities, employees or employment opportunities, proceedings such as rule making and appeals, investments and investment opportunities, and legislation relating to or affecting TRS.



## ETHICS COMPLIANCE STATEMENT FOR EMPLOYEES

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Department: \_\_\_\_\_

Date: \_\_\_\_\_

Key Employee (yes/no): \_\_\_\_\_

Please check the appropriate blank:

\_\_\_\_\_ New Employee

\_\_\_\_\_ New Key Employee

\_\_\_\_\_ Annual Confirmation for current Employees, current Key Employees (**Due on April 30 of each year**)

\_\_\_\_\_ Termination of Employment.

Will you have a direct or indirect role in your subsequent employer's effort to influence TRS investments or contracts for goods or service with TRS or TRICOT? Or, do you expect to have interactions with TRS Employees in a business context?

Yes \_\_\_\_\_ Please explain \_\_\_\_\_

No \_\_\_\_\_

### **REPRESENTATIONS**

\_\_\_\_\_ I have received and read the current Employee Ethics Policy. I have also received and read the current TRS Trading Policy for Employees and Certain Contractors (the "Trading Policy"). I understand my responsibilities under these policies and I agree to comply with them. I understand that adherence to the Employee Ethics Policy and the Trading Policy are basic conditions of my employment at TRS.

\_\_\_\_\_ If I believe I have a conflict of interest as defined in the Employee Ethics Policy, I agree to report my conflicts to the Executive Director or the Chief Compliance Officer in writing through the Conflict of Interest Disclosure Statement.

\_\_\_\_\_ If I believe that I have knowledge that a Trustee, Employee, or Contractor (as defined in the TRS Code of Ethics for Contractors (the "Code of Ethics")) has a conflict of interest as defined respectively in the Trustee Ethics Policy (the "Trustee Ethics Policy"), in the Employee Ethics Policy, or in the Code of Ethics, I agree to report such conflicts either in writing to the Executive Director or the Chief Compliance Officer through the Conflict of Interest Disclosure Statement or verbally through the TRS "hotline" for anonymous ethics reporting (the "Hotline").

\_\_\_\_\_ If I believe that I have violated the Employee Ethics Policy or the Trading Policy, I agree to report my violation to the Executive Director or the Chief Compliance Officer in writing.

\_\_\_\_\_ If I believe that I have knowledge that a Trustee, Employee, or Contractor has violated the Trustee Ethics Policy, Employee Ethics Policy, or Code of Ethics, I agree to report such violations either in writing to the Executive Director or the Chief Compliance Officer or verbally through the Hotline.

\_\_\_\_\_ I agree that I will not allow myself to be placed in a position which might give rise to a reasonably foreseeable conflict of interest, as defined in the Employee Ethics Policy.

\_\_\_\_\_ I agree that I will cooperate with any investigation under the Employee Ethics Policy, Trading Policy, Trustee Ethics Policy, Code of Ethics, or other applicable TRS policy.

To the best of my knowledge and belief, I do not have any relationship or interest, nor have I engaged in any activity, which constitutes a conflict of interest as defined in the Employee Ethics Policy.

---

(Write "None" if you have nothing to report. If you have something to report, please attach a completed TRS Conflict of Interest Disclosure Statement to this form.)

I am unaware of any unreported conflicts of interest under the Trustee Ethics Policy or the Employee Ethics Policy, as applicable, involving any Trustee or Employee, or any unreported conflicts of interest under the Code of Ethics involving any Contractor, except as indicated below.

---

(Write "None" if you have nothing to report or have reported all conflicts of interest of which you are aware. If you are aware of an unreported conflict of interest, please either attach a completed Conflict of Interest Disclosure Statement to this form or make your report verbally to the Hotline before filing this form.)

To the best of my knowledge and belief, I have not violated the Employee Ethics Policy or the Trading Policy, except as indicated below.

---

(Write "None" if you have nothing to report. If you have something to report, please attach a written explanation to this form.)

I am unaware of any unreported violations of the Trustee Ethics Policy, the Employee Ethics Policy or the Trading Policy, as applicable, by any Trustee or Employee, or any unreported violations of the Code of Ethics by any Contractor, except as indicated below.

---

(Write "None" if you have nothing to report or have reported all violations of which you are aware. If you are aware of an unreported violation, please either attach a written explanation to this form or make your report verbally to the Hotline before filing this form.)

If required by the Trading Policy, I have properly reported my Personal Securities Transactions and properly disclosed all of my Covered Accounts (as defined in the Trading Policy), in accordance with the Trading Policy, except as indicated below.

---

(Write "None" if you (1) either had no Personal Securities Transactions to report or if you properly reported all of your Personal Securities Transactions in accordance with the Trading Policy, and (2) you properly disclosed all of your Covered Accounts in accordance with the Trading Policy.)

\_\_\_\_\_ I agree that if any change in circumstances occurs which should be reported in accordance with the Employee Ethics Policy or the Trading Policy, I will promptly report this change in accordance with those policies.

Outside Employment (please check one blank that applies)

\_\_\_\_\_ I am not engaged in any outside employment, business or other activities, consistent with the Employee Ethics Policy.

\_\_\_\_\_ I am engaged in outside employment, business or other activities, and have obtained advance written approval for such activity, as required by the Employee Ethics Policy, by completing the Outside Business Activity Form.

\_\_\_\_\_ I am in the process of seeking approval of my outside employment, business or other activities. I will notify Human Resources after the process is completed.

**FOR KEY EMPLOYEES**

\_\_\_\_\_ I acknowledge my status as a TRS Key Employee.

**ALL EMPLOYEES**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name Date

**IF THIS STATEMENT IS THE EMPLOYEE'S ANNUAL ETHICS COMPLIANCE STATEMENT, THIS COMPLIANCE STATEMENT MUST BE RETURNED TO TRS LEGAL & COMPLIANCE BY APRIL 30.**

AS TO STATEMENTS OF PAST ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM APRIL 1 OF THE PRIOR CALENDAR YEAR THROUGH MARCH 31 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE.

AS TO STATEMENTS OR COMMITMENTS OF FUTURE ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM APRIL 1 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE THROUGH MARCH 31 OF THE NEXT CALENDAR YEAR.

## CONFLICT OF INTEREST DISCLOSURE STATEMENT

(for use by Employees)

An Employee must promptly:

- disclose his or her own conflicts of interest in writing to the Chief Compliance Officer through this Conflict of Interest Disclosure Statement, and
- disclose conflicts of interest involving others of which the Employee becomes aware either in writing through this Conflict of Interest Disclosure Statement or verbally by contacting the TRS "Hotline" for anonymous ethics reporting.

Your disclosure should be sent to the Chief Compliance Officer, unless you have reason to believe that disclosure to the Chief Compliance Officer would be ineffective. In the latter case, your disclosure should be sent to the Executive Director.

If a conflict of interest involving an Employee is the subject of this Statement, see Section IV.A. of the Employee Ethics Policy for the definition of a Conflict of Interest; if a conflict of interest involving a Trustee is the subject of this Statement, see the Board of Trustees Ethics Policy for the definition of a conflict of interest; and if a Contractor is the subject of this statement, see Section I.A. of the Code of Ethics for Contractors (the "Code") for the definition of a conflict of interest.

### 1. Conflict of Interest.

Describe the facts and circumstances that create the conflict of interest. Specify the interest or relationship that creates the conflict. Attach additional pages to this form, if needed.

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### 2. For use if the Employee that is filing this Statement is reporting his or her own Conflict of Interest.

Please answer "yes" or "no" and give any requested explanation.

\_\_\_\_\_ I believe that I have a conflict of interest.

\_\_\_\_\_ I have withdrawn from participation in the matters affected by the conflict of interest pending further notification from TRS.

I have cured the conflict of interest or believe that I can cure the conflict of interest by taking the following action (check all applicable blanks and provide explanatory details below):

\_\_\_\_\_ promptly eliminating the conflict;  
\_\_\_\_\_ prudently withdraw from action on the particular matter in which the conflict exists; or  
\_\_\_\_\_ terminate my relationship with TRS as quickly and responsibly and legally possible.

Explanatory details:

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\_\_\_\_\_ I request a waiver from the Executive Director relating to the prohibition on giving advice or making decisions about matters affected by the conflict of interest that is the subject of this Disclosure Statement.

If "yes", state why. \_\_\_\_\_

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\_\_\_\_\_ I have provided a copy of this Disclosure Statement to my supervisor, team leader or manager.

If "no", why not? \_\_\_\_\_

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**3. For use if the Employee that is filing this form is reporting on a conflict of interest involving another individual or entity.**

Please answer "yes" or "no" or "do not know" and give any requested explanation.

\_\_\_\_\_ I believe that another individual or entity has a conflict of interest, as described above.

\_\_\_\_\_ The other individual or entity has withdrawn from participation in the matters affected by the conflict of interest pending further notification from TRS.

\_\_\_\_\_ I have provided a copy of this Disclosure Statement to the TRS personnel who supervise or monitor the individual or entity that is the subject of this Disclosure Statement.

If "no," why not? \_\_\_\_\_

---

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date



**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**KEY EMPLOYEE ENHANCED DISCLOSURE FORM**

In completing this form, the reporting year is January 1 through December 31 of the prior calendar year. You may attach additional sheets if necessary for complete disclosures.

Name: \_\_\_\_\_

Reporting Year: \_\_\_\_\_

Spouse's Name: \_\_\_\_\_

Dependent Child(ren)'s Names: \_\_\_\_\_

Other Economic Dependents' Names: \_\_\_\_\_

**SUMMARY OF INFORMATION**

Indicate "Yes" or "No" to the following: \_\_\_\_\_

I am disclosing non-TRS Employment (page 2): \_\_\_\_\_

I am disclosing material debt or debts, defined for this purpose as a debt of \$25,000 or more (page 3): \_\_\_\_\_

I am disclosing a Benefit or Benefits received from a Restricted Donor (page 4): \_\_\_\_\_

I am disclosing a non-TRS fiduciary position (page 5): \_\_\_\_\_

I am disclosing privately held investments (page 6): \_\_\_\_\_

Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**EMPLOYMENT**

Non-TRS Employment

Did you, your spouse, dependent child(ren), and/or other financial dependent(s) have non-TRS employment during the reporting year: \_\_\_\_\_(yes/no)

If yes, provide the following information. Your Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |

Spousal Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |

Dependent Child(ren) Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |

Other Economic Dependent(s) Employment (if applicable):

|                               | Employment 1 | Employment 2 | Employment 3 |
|-------------------------------|--------------|--------------|--------------|
| Name and address of employer: |              |              |              |
| Nature of employment:         |              |              |              |



Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**DISCLOSABLE DEBTS:**

Did you, your spouse, dependent child(ren), and/or other financial dependent(s) owe any lender or creditor a debt or aggregate debts of \$25,000 or more during the reporting year? \_\_\_\_\_ (yes/no)

If no, move on to the next section. If yes, provide the following information for each debt of \$25,000 or more actually owed at any time during the reporting year. Please list each debt separately.

|                               | Debt 1 | Debt 2 | Debt 3 | Debt 4 | Debt 5 |
|-------------------------------|--------|--------|--------|--------|--------|
| Creditor:                     |        |        |        |        |        |
| Borrower:                     |        |        |        |        |        |
| Guarantor if any:             |        |        |        |        |        |
| Principal owed (as of 12/31): |        |        |        |        |        |

### BENEFITS FROM RESTRICTED DONORS

Have you, your spouse, dependent child(ren), or other financial dependent(s) received any Benefit (e.g., gift) worth more than \$50 from a Restricted Donor during the reporting year? \_\_\_\_\_ (yes/no)

“Benefit” means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.

“Restricted Donor” means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering doing business, (3) non-publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee’s official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.

If no, move to the next section. If yes, provide the following information.

|                            | Gift 1 | Gift 2 | Gift 3 | Gift 4 | Gift 5 |
|----------------------------|--------|--------|--------|--------|--------|
| Name of recipient:         |        |        |        |        |        |
| Name and address of donor: |        |        |        |        |        |
| Description of gift:       |        |        |        |        |        |
| Value of gift:             |        |        |        |        |        |

Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**NON-TRS FIDUCIARY POSITIONS**

Did you, your spouse, dependent child(ren), or other financial dependent(s) hold any non-TRS office or position that owed fiduciary duties during the reporting year? \_\_\_\_\_(yes/no)

If yes, provide the following information.

|                   | Position 1 | Position 2 | Position 3 | Position 4 |
|-------------------|------------|------------|------------|------------|
| Organization:     |            |            |            |            |
| Position Held:    |            |            |            |            |
| Position Held by: |            |            |            |            |

Teacher Retirement System of Texas  
Key Employee Financial Disclosure Form

**DISCLOSABLE PRIVATELY HELD INVESTMENTS**

Did you, your spouse, dependent child(ren), or other financial dependent(s) hold an interest in any privately held investment (e.g., limited partnership, closely held corporation, limited liability company) during the reporting year?  
\_\_\_\_\_ (yes/no)

If no, move to the next section. If yes, provide the following information.

|   | Private<br>Investment 1 | Private<br>Investment 2 | Private<br>Investment 3 | Private<br>Investment 4 | Private<br>Investment 5 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Held by:  |                         |                         |                         |                         |                         |
| Name of<br>investment:                            |                         |                         |                         |                         |                         |
| Date Acquired:                                    |                         |                         |                         |                         |                         |
| Estimated value of<br>investment (as of<br>12/31) |                         |                         |                         |                         |                         |

**DECLARATION**

My name is \_\_\_\_\_.

**I declare under penalty of perjury that the foregoing is true and correct.**

Executed in \_\_\_\_\_ County, State of \_\_\_\_\_, on the \_\_\_\_\_ day of \_\_\_\_\_.

Signature: \_\_\_\_\_

## DISCIPLINARY ACTION DISCLOSURE STATEMENT

(For Trustees and Key Employees only)

Please respond "yes" or "no" to the following questions:

\_\_\_\_\_ Has any court in the United States or elsewhere ever entered an order against you or found you to have been involved in any illegal investment related activity?

\_\_\_\_\_ In the past ten years, have you been convicted of or pleaded guilty or no contest to a felony or misdemeanor involving any investment related activities, fraud, theft, bribery, forgery, counterfeiting or extortion?

\_\_\_\_\_ In the past ten years, have you been convicted of or pleaded guilty or no contest to any other felony?

\_\_\_\_\_ Has any federal, state or foreign regulatory or self-regulatory agency ever found you to be in violation of its rules, to have made a false statement, or entered a disciplinary order against you?

\_\_\_\_\_ Have you ever had a professional license or registration suspended, revoked or denied?

\_\_\_\_\_ Has a bonding company ever denied, paid out on, or revoked a bond as a result of any activities in which you were involved?

\_\_\_\_\_ Have you ever been an officer, director, or 10% or more owner of a business which has been declared bankrupt, made a compromise with creditors, or filed a petition for bankruptcy?

\_\_\_\_\_ To your knowledge, are you now the subject of any investigation or proceeding that could result in a "yes" answer to any of the above questions?

I agree to update this form promptly if any action occurs in the future which would cause any of my answers to these questions to change.

\_\_\_\_\_  
Employee signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Printed name

**TAB 9**



## Memorandum

**DATE:** December 5, 2025

**TO:** Board of Trustees

**FROM:** Heather Traeger, General Counsel and Chief Compliance Officer

**CC:** Brian Guthrie, Executive Director

**RE:** Board of Trustee Ethics Policy

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### Purpose

Staff conducted a review of the *Board of Trustee Ethics Policy* as part of the policy review cycle, which was last reviewed in December 7, 2021. The purpose of this review is to provide background information on *Board of Trustee Ethics Policy*, and to confirm that no updates are recommended at this time.

### Background and Overview

The purpose of this Policy is to guide trustees in upholding the highest standards of fiduciary duty, promoting integrity, impartiality, transparency, and sound judgment.

TRS seeks to operate under standards of high ethical conduct, striving for honesty and integrity in the execution of its responsibilities for the exclusive benefit of TRS members and their beneficiaries. TRS specifies the standards of conduct expected of trustees through the *Board of Trustee Ethics Policy*.

### Recommendation

At this time, Legal & Compliance is not proposing any amendments to the *Board of Trustee Ethics Policy*.



## **Teacher Retirement System of Texas Board of Trustees**

### **Ethics Policy**

Adopted December 8, 2011  
Revised December ~~7~~5, 202~~4~~5

The Board of Trustees of the Teacher Retirement System of Texas (TRS) has adopted this Ethics Policy so that high ethical standards are followed by the TRS Board of Trustees. This Policy is based upon the duty of loyalty that all Trustees, as fiduciaries, owe to the members and retirees of TRS. This Policy also affirms the Board's commitment to fairness, openness, and transparency in its operations. It is important to the Board that it preserves the confidence of the membership, the employers, government officials, and the general public by avoiding even the appearance of impropriety.

Every Trustee has not only the obligation to follow the provisions of the Texas State Constitution, Texas statutes, and federal law applicable to TRS but also has the obligation to adhere to and promote high ethical principles, including those set forth below.

- Act solely in the best interest of the fund and the TRS members, retirees, and beneficiaries.
- Act with prudence, competence, independence, and objectivity.
- Adhere to laws, rules, regulations, bylaws, and policies adopted by the Board in overseeing investments, pension and healthcare benefits administration, and general operations of TRS.
- Act in a transparent manner in Board and Committee meetings when deliberations of official business take place.
- Maintain confidentiality when required to do so by law or by contract.
- Cooperate fully if questioned about an ethical matter related to TRS.

This Ethics Policy is a guide, not a complete statement of all fiduciary responsibilities; therefore, compliance with this Policy does not necessarily ensure compliance with all legal requirements. The provisions below are to aid Trustees in identifying conflicts of interest, avoiding them, disclosing them in a proper way, and managing them if they cannot be avoided. A "conflict of interest" is where a Trustee has, or reasonably could be perceived to have, an incentive to decide a matter or provide a recommendation for a reason that would be inconsistent with acting solely in the interest of TRS, or that would provide a financial benefit to the Trustee. It also includes a personal or business relationship or interest that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to TRS. The provisions are also meant to assist Trustees in identifying prohibited conduct and circumstances that cannot be managed through disclosure or recusal from voting on issues.

This Policy applies only to the Board, and the TRS staff has a separate ethics policy applicable to them.

#### **1. PERSONAL ADVANTAGE**

Trustees shall not use their position on the Board for financial gain, obtaining privileges, avoiding the consequences of illegal acts, or for obtaining more favorable terms on loans, investments, or TRS benefits that are not available to others. This prohibition applies whether the Trustees seek a personal advantage or gain for themselves or for a third party.

#### **2. GIFTS**

A Trustee shall not solicit or accept any gifts (*e.g.*, objects, services, favors, entertainment, preferential treatment, vacations, or property) from any donor, except as provided below. Such gifts cannot be accepted by Trustees for themselves or for their families or business partners. While this standard may be stricter than what is required by law, the Board has decided it is best practice to place limitations on gifts.

The following are allowed under this Policy as long as the Trustee is not influenced by the gift or does not have knowledge that it was offered with intent to influence the Trustee in the discharge of the Trustee's official duties to TRS:

- Gifts conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Trustee;
- Gifts having a value of less than \$50 (but in no event cash, negotiable instruments, or cash equivalents such as gift cards), including the following examples:
  - Tokens of nominal value that are distributed to all attendees at conferences, seminars, meetings, and receptions;
  - Meals, transportation, lodging, or entertainment, regardless of whether the donor is present;
  - Modest food items and other perishable items given on a holiday or other infrequent occasions;
- Transportation valued at \$50 or more if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception;
- Meals valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception, and the donor is present;
- Lodging valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception.
- Gifts given on special occasions between Trustees or between Trustees and TRS employees;
- Food and entertainment included in the conference or seminar fee;
- Travel expenses paid for by another governmental entity or a non-profit organization related to the public retirement industry, provided there are no prohibitive circumstances as determined after consultation pursuant to Section 11.

To avoid not only improper conduct but also the appearance of impropriety, Trustees should consider whether the circumstances associated with an expense payment or a courtesy by another would draw unfavorable public criticism. If this appears to be the case, Trustees should modify their behavior even if their acceptance of an expense payment, a courtesy, or gift is otherwise allowed.

### **3. USE OF TRS RESOURCES**

Trustees shall not use TRS facilities, equipment, or staff for their personal benefit or for any commercial, political, or non-TRS purposes. Trustees may use TRS resources that are reasonably necessary to support them in their role on the Board or that facilitate their attendance at Board meetings, if the use of TRS resources involves only an insignificant cost, does not impede TRS business, and does not create an appearance of impropriety.

### **4. PERSONAL INVESTMENTS**

Trustees shall take care that their personal investments do not create a conflict of interest that impacts their loyalty to TRS and their ability to function as a Trustee. While serving on the TRS Board, Trustees, their spouses, and dependents shall not make personal investments ("co-invest"), directly or indirectly, in private investment funds in which TRS has invested. However, a Trustee, a Trustee's spouse or dependent may continue to hold an investment in a private investment fund if the investment was held prior to TRS' investment or prior to the date the individual became a Trustee. If a Trustee becomes aware that any co-investment, or potential co-investment, exists, the Trustee shall disclose the investment and date of purchase in accordance with the procedure set forth in Section 9. The Trustee shall not receive any non-public or confidential information from TRS related to the co-investment unless the Board provides a waiver as set forth in Section 9. A Trustee shall not make a new personal investment in a private investment fund if TRS has informed the Trustee that TRS is considering investing in the fund.

Trustees, their spouses, and dependents may hold direct ownership interests (*e.g.*, stock or partnership interests) in entities that contract with TRS, provided that the ownership interest arose prior to the individual becoming a Trustee or prior to the entity becoming a TRS contractor. A Trustee who holds the foregoing preexisting investments must disclose his or her interest in accordance with the procedure set forth in Section 9. In addition, a Trustee who holds the foregoing preexisting investments must disclose and recuse him- or herself from (1) discussions and decisions involving contracts or potential contracts with contractors in which the Trustee holds such interests and (2) discussions and decisions involving delegations to, or selection of, staff assigned to award or negotiate contracts or potential contracts with contractors in which the Trustee holds such interests. The Trustee

shall not receive any non-public or confidential information from TRS related to the contract or potential contract unless the Board provides a waiver as set forth in Section 9. Notwithstanding the above, a Trustee is ineligible, and must resign, if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS. TRS will furnish to the Trustees a list of its contractors quarterly. This provision does not apply to mutual funds, exchange traded funds, and other similar funds, or to blind trusts and managed accounts consistent with regulatory guidance ("managed accounts"). A Trustee who holds in a managed account direct ownership interests in entities that contract with TRS may have to disclose his or her interests in accordance with the procedure set forth in Section 9.

Although the Board has largely delegated the selection of investment managers and securities to the staff, Trustees shall not use their personal knowledge of upcoming TRS investments or material developments regarding TRS investments, about which the general public is not aware, for the financial gain of themselves or their family, business associates, or friends.

## **5. REFERRALS**

If approached by persons seeking to do business with TRS, Trustees shall make a referral and any follow up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concerns.

## **6. BLACKOUT PERIODS**

Decisions made by the Board are to be free from improper or undisclosed influence. From time to time, in the ordinary course of business, TRS will issue requests for proposals, information or qualifications (RFPs, RFIs, and RFQs) for goods and services. If the request is one that involves a decision by the Board or a recommendation of a Board Committee, Trustees shall not privately communicate or meet with potential vendors on the subject of the request during the procurement period. Similarly, if the Board is considering an investment in a private investment fund, Trustees shall not privately communicate or meet with representatives of the investment opportunity on the subject of the investment during the decision-making period. Obvious exceptions to this are communications and meetings the Board or a Committee participates in as part of due diligence in the selection process. Notice will be provided by the Executive Director to Trustees regarding the applicable procurement period or the decision-making period in accordance with procedures developed by the Executive Director.

## **7. HONESTY**

In their role on the TRS Board, Trustees shall conduct themselves with utmost honesty and not intentionally provide false or misleading information or intentionally conceal information that should be disclosed.

## **8. DISCLOSURES**

Before the Board or a Board Committee discusses a matter where a Trustee has, or is likely to have, a conflict of interest, the Trustee is to disclose any conflict of interest or potential conflict to the Executive Director. Potential conflicts could arise from such things as a Trustee's, spouse's, or dependent's:

- Business relationships or interests;
- Campaign contributions or solicitations;
- Ownership or financial interests;
- Family relationships;
- Close personal friendships;
- Employment by a TRS business vendor.

The Executive Director, in consultation with legal counsel, will assist the Trustee in determining whether a conflict exists and whether further disclosure is required.

Trustees are also to disclose to the Executive Director the financial information as required by state law, any legal proceedings they are involved with that affects or could impact their ability to serve on the Board, and matters

relating to co-fiduciary responsibility.

## **9. CURING CONFLICTS OF INTEREST**

Trustees shall make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest. If a conflict cannot be avoided, a Trustee shall attempt to cure the conflict. If a conflict cannot be cured, a Trustee with a conflict of interest shall comply with one of the following procedures.

### **Standard Procedure**

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, disclose the conflict at an open meeting and recuse him- or herself from discussing or voting on the matter.

### **Optional Waiver Request**

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, request the Board of Trustees to waive the conflict at an open meeting. In determining whether to waive the conflict, the non-conflicted Trustees shall consider at a minimum the following factors, as applicable:
  - The number of Trustees with the conflict;
  - The nature of the conflict;
  - The materiality of the conflict; and
  - Whether the Trustee has a personal or private interest, as defined in Texas Government Code section 572.058, in the measure, proposal or decision pending before the Board.

If the non-conflicted Trustees determine the Trustee has a personal or private interest, the conflict may not be waived and the conflicted Trustee must recuse him- or herself according to the Standard Procedure.

Upon a Trustee's disclosure of a conflict of interest, the conflicted Trustee shall not receive any non-public or confidential information from TRS on that matter that gave rise to the conflict, unless the non-conflicted Trustees have voted to waive the conflict for that individual.

In some instances, however, recusal or waiver is not sufficient to avoid violations of law. For example, recusal or waiver does not cure a violation of Texas conflict of interest law that results from (1) a gift, (2) employment or compensation, or (3) a personal investment that might reasonably be expected to affect the Trustee's independence of judgment in the performance of TRS duties. Similarly, recusal or waiver does not cure a violation of Texas conflict of interest law that results from having accepted employment that a Trustee might reasonably expect would require or induce the Trustee to disclose TRS' confidential information. Trustees may ask the Executive Director or General Counsel for guidance on these matters.

## **10. ADVICE ABOUT THE ETHICS POLICY**

The Board recognizes that, at times, ethical issues might fall into a "gray" area where the acceptable ethical conduct is not obvious. In such circumstances, Trustees are to seek advice from the Executive Director, General Counsel or fiduciary counsel and, based on this advice, use their best judgment to uphold the highest ethical standards of behavior.

## **11. EVENTS THAT MAY MERIT LEGAL CONSULTATION**

This Policy reflects general ethical principles and does not attempt to cover every conceivable situation where a Trustee may face an ethical dilemma or violate a law that could result in civil damages or criminal prosecution (see, e.g., Texas Government Code Chapters 572, 825, and 2203; and Texas Penal Code Chapters 36 and 39). Therefore, in addition to the specific circumstances that are covered in other sections of this Policy, the following checklist sets forth common events that might merit consultation with the TRS General Counsel or outside fiduciary counsel.

- Change in employment of yourself or spouse.
- Change in your marital status.
- Children become employed by someone doing business or likely to do business with TRS.

- A family member is considering employment at TRS.
- Sale of all or a part of your business.
- Start of a new business.
- Being asked to serve in another governmental office.
- Being asked to serve on the board or as an officer of a company.
- Being contacted about litigation involving TRS.
- Information about an alleged violation of law or ethics.
- Request from third parties for favors, accommodations, or disclosure of information.
- A benefit or gift from a TRS vendor, potential vendor, or member.
- An invitation to speak on behalf of TRS at a conference, meeting, or seminar.
- Someone offers to pay or waive your expenses in connection with a conference or meeting.

## **12. CO-FIDUCIARY RESPONSIBILITY**

If a Trustee is aware of illegal activity, a breach of fiduciary duty by another Trustee or by someone else serving as a fiduciary to TRS, or a violation of this Policy, the Trustee shall promptly disclose such activity or breach to the Executive Director and the Chair of the Audit, Compliance, and Ethics Committee of the Board. No retaliatory action will be taken toward any individual who, in good faith, makes a report or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.

## **13. TRAINING AND ANNUAL ACKNOWLEDGEMENT**

Annually, every Trustee shall attend ethics training provided by TRS and acknowledge in writing that he or she understands the Ethics Policy, has abided by it, and will abide by it. New Trustees are to make this written acknowledgment when they take office.

## **14. CONSEQUENCES FOR VIOLATIONS**

For Trustees who violate this Ethics Policy, the Board may impose sanctions including public reprimand, removal from service on Committees, censure, requests for resignation from the Board, or other appropriate parliamentary measures.

# **Teacher Retirement System of Texas Board of Trustees**

## **Ethics Policy**

Adopted December 8, 2011  
Revised December 5, 2025

The Board of Trustees of the Teacher Retirement System of Texas (TRS) has adopted this Ethics Policy so that high ethical standards are followed by the TRS Board of Trustees. This Policy is based upon the duty of loyalty that all Trustees, as fiduciaries, owe to the members and retirees of TRS. This Policy also affirms the Board's commitment to fairness, openness, and transparency in its operations. It is important to the Board that it preserves the confidence of the membership, the employers, government officials, and the general public by avoiding even the appearance of impropriety.

Every Trustee has not only the obligation to follow the provisions of the Texas State Constitution, Texas statutes, and federal law applicable to TRS but also has the obligation to adhere to and promote high ethical principles, including those set forth below.

- Act solely in the best interest of the fund and the TRS members, retirees, and beneficiaries.
- Act with prudence, competence, independence, and objectivity.
- Adhere to laws, rules, regulations, bylaws, and policies adopted by the Board in overseeing investments, pension and healthcare benefits administration, and general operations of TRS.
- Act in a transparent manner in Board and Committee meetings when deliberations of official business take place.
- Maintain confidentiality when required to do so by law or by contract.
- Cooperate fully if questioned about an ethical matter related to TRS.

This Ethics Policy is a guide, not a complete statement of all fiduciary responsibilities; therefore, compliance with this Policy does not necessarily ensure compliance with all legal requirements. The provisions below are to aid Trustees in identifying conflicts of interest, avoiding them, disclosing them in a proper way, and managing them if they cannot be avoided. A "conflict of interest" is where a Trustee has, or reasonably could be perceived to have, an incentive to decide a matter or provide a recommendation for a reason that would be inconsistent with acting solely in the interest of TRS, or that would provide a financial benefit to the Trustee. It also includes a personal or business relationship or interest that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to TRS. The provisions are also meant to assist Trustees in identifying prohibited conduct and circumstances that cannot be managed through disclosure or recusal from voting on issues.

This Policy applies only to the Board, and the TRS staff has a separate ethics policy applicable to them.

### **1. PERSONAL ADVANTAGE**

Trustees shall not use their position on the Board for financial gain, obtaining privileges, avoiding the consequences of illegal acts, or for obtaining more favorable terms on loans, investments, or TRS benefits that are not available to others. This prohibition applies whether the Trustees seek a personal advantage or gain for themselves or for a third party.

### **2. GIFTS**

A Trustee shall not solicit or accept any gifts (*e.g.*, objects, services, favors, entertainment, preferential treatment, vacations, or property) from any donor, except as provided below. Such gifts cannot be accepted by Trustees for themselves or for their families or business partners. While this standard may be stricter than what is required by law, the Board has decided it is best practice to place limitations on gifts.

The following are allowed under this Policy as long as the Trustee is not influenced by the gift or does not have knowledge that it was offered with intent to influence the Trustee in the discharge of the Trustee's official duties to TRS:

- Gifts conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Trustee;
- Gifts having a value of less than \$50 (but in no event cash, negotiable instruments, or cash equivalents such as gift cards), including the following examples:
  - Tokens of nominal value that are distributed to all attendees at conferences, seminars, meetings, and receptions;
  - Meals, transportation, lodging, or entertainment, regardless of whether the donor is present;
  - Modest food items and other perishable items given on a holiday or other infrequent occasions;
- Transportation valued at \$50 or more if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception;
- Meals valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception, and the donor is present;
- Lodging valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception.
- Gifts given on special occasions between Trustees or between Trustees and TRS employees;
- Food and entertainment included in the conference or seminar fee;
- Travel expenses paid for by another governmental entity or a non-profit organization related to the public retirement industry, provided there are no prohibitive circumstances as determined after consultation pursuant to Section 11.

To avoid not only improper conduct but also the appearance of impropriety, Trustees should consider whether the circumstances associated with an expense payment or a courtesy by another would draw unfavorable public criticism. If this appears to be the case, Trustees should modify their behavior even if their acceptance of an expense payment, a courtesy, or gift is otherwise allowed.

### **3. USE OF TRS RESOURCES**

Trustees shall not use TRS facilities, equipment, or staff for their personal benefit or for any commercial, political, or non-TRS purposes. Trustees may use TRS resources that are reasonably necessary to support them in their role on the Board or that facilitate their attendance at Board meetings, if the use of TRS resources involves only an insignificant cost, does not impede TRS business, and does not create an appearance of impropriety.

### **4. PERSONAL INVESTMENTS**

Trustees shall take care that their personal investments do not create a conflict of interest that impacts their loyalty to TRS and their ability to function as a Trustee. While serving on the TRS Board, Trustees, their spouses, and dependents shall not make personal investments ("co-invest"), directly or indirectly, in private investment funds in which TRS has invested. However, a Trustee, a Trustee's spouse or dependent may continue to hold an investment in a private investment fund if the investment was held prior to TRS' investment or prior to the date the individual became a Trustee. If a Trustee becomes aware that any co-investment, or potential co-investment, exists, the Trustee shall disclose the investment and date of purchase in accordance with the procedure set forth in Section 9. The Trustee shall not receive any non-public or confidential information from TRS related to the co-investment unless the Board provides a waiver as set forth in Section 9. A Trustee shall not make a new personal investment in a private investment fund if TRS has informed the Trustee that TRS is considering investing in the fund.

Trustees, their spouses, and dependents may hold direct ownership interests (*e.g.*, stock or partnership interests) in entities that contract with TRS, provided that the ownership interest arose prior to the individual becoming a Trustee or prior to the entity becoming a TRS contractor. A Trustee who holds the foregoing preexisting investments must disclose his or her interest in accordance with the procedure set forth in Section 9. In addition, a Trustee who holds the foregoing preexisting investments must disclose and recuse him- or herself from (1) discussions and decisions involving contracts or potential contracts with contractors in which the Trustee holds such interests and (2) discussions and decisions involving delegations to, or selection of, staff assigned to award or negotiate contracts or potential contracts with contractors in which the Trustee holds such interests. The Trustee



shall not receive any non-public or confidential information from TRS related to the contract or potential contract unless the Board provides a waiver as set forth in Section 9. Notwithstanding the above, a Trustee is ineligible, and must resign, if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS. TRS will furnish to the Trustees a list of its contractors quarterly. This provision does not apply to mutual funds, exchange traded funds, and other similar funds, or to blind trusts and managed accounts consistent with regulatory guidance ("managed accounts"). A Trustee who holds in a managed account direct ownership interests in entities that contract with TRS may have to disclose his or her interests in accordance with the procedure set forth in Section 9.

Although the Board has largely delegated the selection of investment managers and securities to the staff, Trustees shall not use their personal knowledge of upcoming TRS investments or material developments regarding TRS investments, about which the general public is not aware, for the financial gain of themselves or their family, business associates, or friends.

## **5. REFERRALS**

If approached by persons seeking to do business with TRS, Trustees shall make a referral and any follow up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concerns.

## **6. BLACKOUT PERIODS**

Decisions made by the Board are to be free from improper or undisclosed influence. From time to time, in the ordinary course of business, TRS will issue requests for proposals, information or qualifications (RFPs, RFIs, and RFQs) for goods and services. If the request is one that involves a decision by the Board or a recommendation of a Board Committee, Trustees shall not privately communicate or meet with potential vendors on the subject of the request during the procurement period. Similarly, if the Board is considering an investment in a private investment fund, Trustees shall not privately communicate or meet with representatives of the investment opportunity on the subject of the investment during the decision-making period. Obvious exceptions to this are communications and meetings the Board or a Committee participates in as part of due diligence in the selection process. Notice will be provided by the Executive Director to Trustees regarding the applicable procurement period or the decision-making period in accordance with procedures developed by the Executive Director.

## **7. HONESTY**

In their role on the TRS Board, Trustees shall conduct themselves with utmost honesty and not intentionally provide false or misleading information or intentionally conceal information that should be disclosed.

## **8. DISCLOSURES**

Before the Board or a Board Committee discusses a matter where a Trustee has, or is likely to have, a conflict of interest, the Trustee is to disclose any conflict of interest or potential conflict to the Executive Director. Potential conflicts could arise from such things as a Trustee's, spouse's, or dependent's:

- Business relationships or interests;
- Campaign contributions or solicitations;
- Ownership or financial interests;
- Family relationships;
- Close personal friendships;
- Employment by a TRS business vendor.

The Executive Director, in consultation with legal counsel, will assist the Trustee in determining whether a conflict exists and whether further disclosure is required.

Trustees are also to disclose to the Executive Director the financial information as required by state law, any legal proceedings they are involved with that affects or could impact their ability to serve on the Board, and matters



relating to co-fiduciary responsibility.

## **9. CURING CONFLICTS OF INTEREST**

Trustees shall make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest. If a conflict cannot be avoided, a Trustee shall attempt to cure the conflict. If a conflict cannot be cured, a Trustee with a conflict of interest shall comply with one of the following procedures.

### **Standard Procedure**

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, disclose the conflict at an open meeting and recuse him- or herself from discussing or voting on the matter.

### **Optional Waiver Request**

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, request the Board of Trustees to waive the conflict at an open meeting. In determining whether to waive the conflict, the non-conflicted Trustees shall consider at a minimum the following factors, as applicable:
  - The number of Trustees with the conflict;
  - The nature of the conflict;
  - The materiality of the conflict; and
  - Whether the Trustee has a personal or private interest, as defined in Texas Government Code section 572.058, in the measure, proposal or decision pending before the Board.

If the non-conflicted Trustees determine the Trustee has a personal or private interest, the conflict may not be waived and the conflicted Trustee must recuse him- or herself according to the Standard Procedure.

Upon a Trustee's disclosure of a conflict of interest, the conflicted Trustee shall not receive any non-public or confidential information from TRS on that matter that gave rise to the conflict, unless the non-conflicted Trustees have voted to waive the conflict for that individual.

In some instances, however, recusal or waiver is not sufficient to avoid violations of law. For example, recusal or waiver does not cure a violation of Texas conflict of interest law that results from (1) a gift, (2) employment or compensation, or (3) a personal investment that might reasonably be expected to affect the Trustee's independence of judgment in the performance of TRS duties. Similarly, recusal or waiver does not cure a violation of Texas conflict of interest law that results from having accepted employment that a Trustee might reasonably expect would require or induce the Trustee to disclose TRS' confidential information. Trustees may ask the Executive Director or General Counsel for guidance on these matters.

## **10. ADVICE ABOUT THE ETHICS POLICY**

The Board recognizes that, at times, ethical issues might fall into a "gray" area where the acceptable ethical conduct is not obvious. In such circumstances, Trustees are to seek advice from the Executive Director, General Counsel or fiduciary counsel and, based on this advice, use their best judgment to uphold the highest ethical standards of behavior.

## **11. EVENTS THAT MAY MERIT LEGAL CONSULTATION**

This Policy reflects general ethical principles and does not attempt to cover every conceivable situation where a Trustee may face an ethical dilemma or violate a law that could result in civil damages or criminal prosecution (see, e.g., Texas Government Code Chapters 572, 825, and 2203; and Texas Penal Code Chapters 36 and 39). Therefore, in addition to the specific circumstances that are covered in other sections of this Policy, the following checklist sets forth common events that might merit consultation with the TRS General Counsel or outside fiduciary counsel.

- Change in employment of yourself or spouse.
- Change in your marital status.
- Children become employed by someone doing business or likely to do business with TRS.

- A family member is considering employment at TRS.
- Sale of all or a part of your business.
- Start of a new business.
- Being asked to serve in another governmental office.
- Being asked to serve on the board or as an officer of a company.
- Being contacted about litigation involving TRS.
- Information about an alleged violation of law or ethics.
- Request from third parties for favors, accommodations, or disclosure of information.
- A benefit or gift from a TRS vendor, potential vendor, or member.
- An invitation to speak on behalf of TRS at a conference, meeting, or seminar.
- Someone offers to pay or waive your expenses in connection with a conference or meeting.

## **12. CO-FIDUCIARY RESPONSIBILITY**

If a Trustee is aware of illegal activity, a breach of fiduciary duty by another Trustee or by someone else serving as a fiduciary to TRS, or a violation of this Policy, the Trustee shall promptly disclose such activity or breach to the Executive Director and the Chair of the Audit, Compliance, and Ethics Committee of the Board. No retaliatory action will be taken toward any individual who, in good faith, makes a report or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.

## **13. TRAINING AND ANNUAL ACKNOWLEDGEMENT**

Annually, every Trustee shall attend ethics training provided by TRS and acknowledge in writing that he or she understands the Ethics Policy, has abided by it, and will abide by it. New Trustees are to make this written acknowledgment when they take office.

## **14. CONSEQUENCES FOR VIOLATIONS**

For Trustees who violate this Ethics Policy, the Board may impose sanctions including public reprimand, removal from service on Committees, censure, requests for resignation from the Board, or other appropriate parliamentary measures.



## Memorandum

**DATE:** December 5, 2025

**TO:** Board of Trustees

**FROM:** Heather Traeger, General Counsel and Chief Compliance Officer

**CC:** Brian Guthrie, Executive Director

**RE:** Trustee Position Description

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### Purpose

Staff conducted a review of the *Trustee Position Description* as part of the policy review cycle, which was last reviewed in December 7, 2021. The purpose of this review is to provide background information on *Trustee Position Description*, and to confirm that no updates are recommended at this time.

### Background and Overview

The *Trustee Position Description* was originally adopted in December 2011 when the TRS Board of Trustees (the “Board”) approved the *Board of Trustees Ethics Policy* and the *Trustee Position Description*. The adoption of these policies superseded the former *Trustee Governance and Ethics Policy* and its associated forms.

The *Trustee Position Description* sets forth the general governance principles that facilitate trustees' interactions with each other and the Board's functioning as a whole. The *Trustee Position Description* works in tandem with the information in the *Trustee Orientation Materials*, the *Board of Trustees Ethics Policy*, the TRS Bylaws and the TRS statutes to provide Trustees with direction and guidance in their role serving TRS.

### Recommendation

No recommended changes.

## TEACHER RETIREMENT SYSTEM OF TEXAS

### TRUSTEE POSITION DESCRIPTION

Adopted December ~~85~~, 20~~14~~25

The Board of Trustees is the trustee of all plan assets, is responsible for the general administration and operation of TRS, and is authorized by law to adopt rules for the administration of TRS and the transaction of the business of TRS. The Board collectively is empowered to direct TRS' management, staff, and consultants on all matters of TRS operations. In fulfilling the Board's role and responsibilities, the Board chooses to delegate or not delegate certain responsibilities and authority to the TRS staff from time to time but retains responsibility for oversight of the system.

#### **ALL TRUSTEES HAVE THE RESPONSIBILITY TO:**

- Be prepared for and attend Board and Committee meetings.
- Work constructively with other Trustees in a policy role to set TRS' strategic direction and oversee TRS' activities.
- Participate in discussions and decision-making by the Board, sharing experience, relevant information, judgment, and expertise so the decision reflects the best judgment of the body as a whole.
- Make informed decisions on a substantive basis through a prudent and transparent process, seeking expertise from staff and consultants as necessary.
- Respect the majority vote of the Board, recognizing that individual Trustees need not agree with every decision.
- Discharge duties solely in the interest of the members and beneficiaries and for their exclusive benefit.
- Vote as a fiduciary in the interest of TRS as a whole and not as an advocate for the interests of a constituent group or appointing authority.
- Be informed about TRS' mission and purpose.
- Incur only necessary and reasonable expenses in carrying out duties.
- Respect co-Trustees and the open meetings laws by not conducting meetings with or among a quorum of fellow Trustees to discuss TRS business outside of properly noticed meetings.
- Live up to high ethical standards and avoid conflicts of interest and the appearance of impropriety that could damage TRS' reputation.
- Disclose and recuse themselves if they have a relationship, interest, or incentive that gives rise to a conflict of interest regarding a decision.

- Refrain from acting outside a Board or Committee meeting to inappropriately instruct staff or direct their work, in order to maintain a professional work environment, foster transparency, and protect Board authority.
- Refer vendors or others seeking TRS business to appropriate executive staff.
- Refer questions from employers, members, retirees, beneficiaries, and others to appropriate executive staff.
- Comply with applicable laws as well as TRS Bylaws and policies.
- Maintain confidentiality of member records and certain investment information.
- Be mindful of co-fiduciary responsibility and the duty to take affirmative action if breaches by another Trustee occur.
- Participate in self-assessments and Board training.
- Keep up-to-date on developments in the public retirement and healthcare fields.

**INDIVIDUAL TRUSTEES DO NOT HAVE THE RESPONSIBILITY TO AND GENERALLY SHOULD NOT:**

- Advise members on their benefits.
- Negotiate transactions, contracts, or legal disputes for TRS.
- Locate or recommend potential investments or vendors for TRS but may refer such investments or vendors to appropriate executive staff.
- Direct TRS' vendors or external investment managers' course of action or priorities regarding TRS business.
- Perform due diligence on investments where such due diligence has been delegated to staff or consultants.
- Supervise staff or direct decisions that have been delegated to staff.
- Handle member and press inquiries but may refer such inquiries to appropriate executive staff.

## **TEACHER RETIREMENT SYSTEM OF TEXAS TRUSTEE POSITION DESCRIPTION**

Adopted December 5, 2025

The Board of Trustees is the trustee of all plan assets, is responsible for the general administration and operation of TRS, and is authorized by law to adopt rules for the administration of TRS and the transaction of the business of TRS. The Board collectively is empowered to direct TRS' management, staff, and consultants on all matters of TRS operations. In fulfilling the Board's role and responsibilities, the Board chooses to delegate or not delegate certain responsibilities and authority to the TRS staff from time to time but retains responsibility for oversight of the system.

### **ALL TRUSTEES HAVE THE RESPONSIBILITY TO:**

- Be prepared for and attend Board and Committee meetings.
- Work constructively with other Trustees in a policy role to set TRS' strategic direction and oversee TRS' activities.
- Participate in discussions and decision-making by the Board, sharing experience, relevant information, judgment, and expertise so the decision reflects the best judgment of the body as a whole.
- Make informed decisions on a substantive basis through a prudent and transparent process, seeking expertise from staff and consultants as necessary.
- Respect the majority vote of the Board, recognizing that individual Trustees need not agree with every decision.
- Discharge duties solely in the interest of the members and beneficiaries and for their exclusive benefit.
- Vote as a fiduciary in the interest of TRS as a whole and not as an advocate for the interests of a constituent group or appointing authority.
- Be informed about TRS' mission and purpose.
- Incur only necessary and reasonable expenses in carrying out duties.
- Respect co-Trustees and the open meetings laws by not conducting meetings with or among a quorum of fellow Trustees to discuss TRS business outside of properly noticed meetings.
- Live up to high ethical standards and avoid conflicts of interest and the appearance of impropriety that could damage TRS' reputation.
- Disclose and recuse themselves if they have a relationship, interest, or incentive that gives rise to a conflict of interest regarding a decision.

- Refrain from acting outside a Board or Committee meeting to inappropriately instruct staff or direct their work, in order to maintain a professional work environment, foster transparency, and protect Board authority.
- Refer vendors or others seeking TRS business to appropriate executive staff.
- Refer questions from employers, members, retirees, beneficiaries, and others to appropriate executive staff.
- Comply with applicable laws as well as TRS Bylaws and policies.
- Maintain confidentiality of member records and certain investment information.
- Be mindful of co-fiduciary responsibility and the duty to take affirmative action if breaches by another Trustee occur.
- Participate in self-assessments and Board training.
- Keep up-to-date on developments in the public retirement and healthcare fields.

**INDIVIDUAL TRUSTEES DO NOT HAVE THE RESPONSIBILITY TO AND GENERALLY SHOULD NOT:**

- Advise members on their benefits.
- Negotiate transactions, contracts, or legal disputes for TRS.
- Locate or recommend potential investments or vendors for TRS but may refer such investments or vendors to appropriate executive staff.
- Direct TRS' vendors or external investment managers' course of action or priorities regarding TRS business.
- Perform due diligence on investments where such due diligence has been delegated to staff or consultants.
- Supervise staff or direct decisions that have been delegated to staff.
- Handle member and press inquiries but may refer such inquiries to appropriate executive staff.

**TAB 10**





## **Proposed amendments: TRS Rules 27.6, 29.9 & 29.56**

July 17, 2025

Presented By:  
**Heather Traeger & Nick Gonzalez**



# Rule Review 2022: TRS Rules 27.6, 29.9 & 29.56



## Staff proposes to amend three TRS rules from Chapters 27 and 29.

### Rule Review 2022

- In 2022, all three rules were recommended for amendment in the board of trustees' adopted four-year rule review.

### Updating or clarifying edits

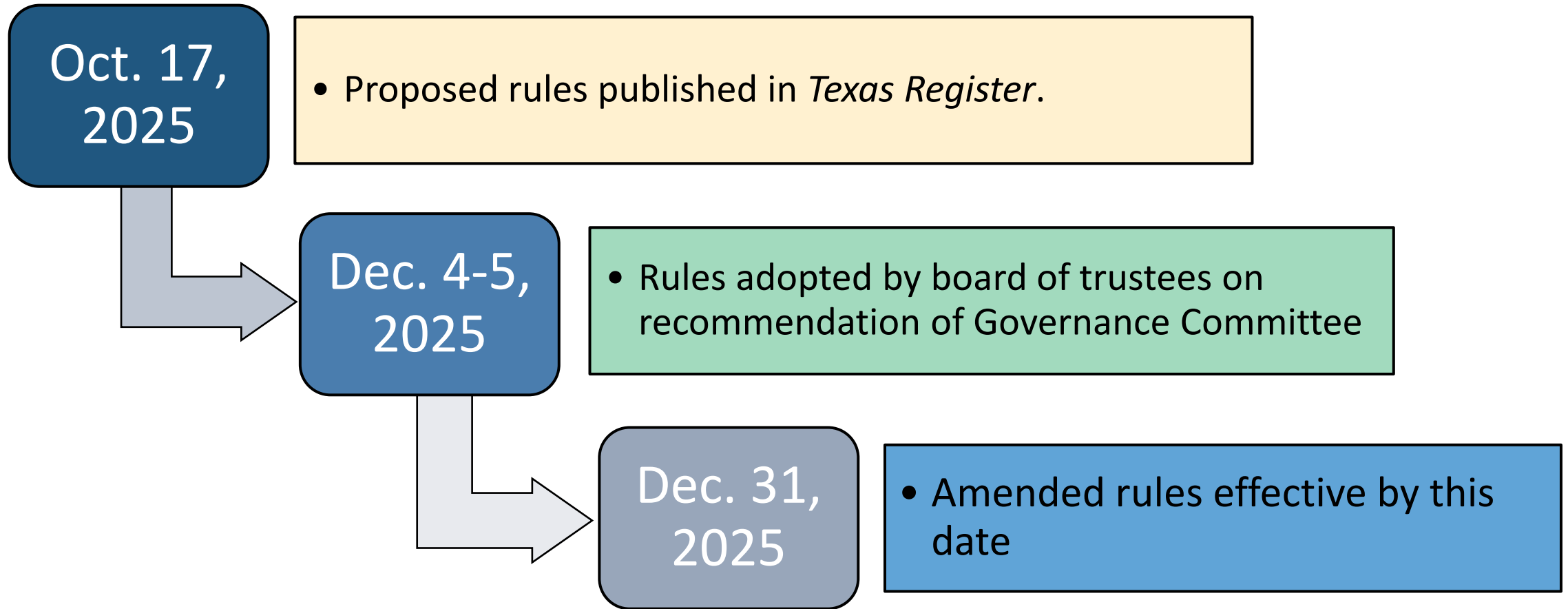
- The proposed amendments to TRS Rule 27.6 and 29.9 are minor changes that remove or update outdated language regarding beneficiary designations and purchasing withdrawn service credit.

### Federal law compliance

- The proposed amendments to TRS Rule 29.56 update the rule to conform with changes made to federal required minimum distribution requirements in the Secure Act and Secure Act 2.0.



# Timeline; Next Steps







## Legal & Compliance

# Memorandum

**DATE:** Dec. 4, 2025

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

**FROM:** Heather Traeger, General Counsel & Chief Compliance Officer

**THROUGH:** Brian Guthrie, Executive Director

**RE:** Proposed Amendment: 34 Texas Administrative Code § 27.6  
Proposed Amendment: 34 Texas Administrative Code §§ 29.9 & 29.56

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### **Requested Action**

TRS staff asks the Governance Committee to recommend that the board of trustees (“board”) adopt the proposed amendments to the following TRS rules in Chapter 27 and 29 of TRS rules without changes to the text as proposed:

- TRS Rule 27.6 – Reinstatement of an Account
- TRS Rule 29.9 – Survivor Benefits
- TRS Rule 29.56 – Minimum Distribution Requirements

### **Background of the Proposed Amended Rules**

At the Jul. 17, 2025, Governance Committee meeting, TRS staff asked the committee to authorize publication in the *Texas Register* proposed amendments to TRS Rules 27.6, 29.9, and 29.56. The Governance Committee authorized publication and the proposed amended rules were published in the *Texas Register* on Oct. 17, 2025 (50 TexReg 6860-6865). TRS did not receive any public comments on the proposed amended rules.

### **Reason and Summary of Proposed Amended Rules**

TRS staff recommends adopting the proposed amendments to TRS Rules 27.6, 29.9 and 29.56. All three rules were recommended for amendment during TRS' 2022 rule review process. The proposed amendments to TRS Rules 27.6 and 29.9 are updating or clarifying amendments that remove outdated or expired language. Specifically, the proposed amendments to TRS Rule 27.6 remove reference to purchasing withdrawn service at the previous reinstatement fee rate of 6% per year since the member's service was withdrawn. The opportunity to purchase at this fee rate expired in 2013. The proposed amendments to TRS Rule 29.9 simply clarify that the beneficiary designated to receive survivor benefits by a retiree is the beneficiary eligible to receive benefits payable under Government Code § 824.501.

The proposed amendments to TRS Rule 29.56 update the rule to conform to the federal changes made in the Secure Act and Secure Act 2.0 passed by Congress in 2019 and 2022, respectfully. The primary change from both pieces of legislation was to increase the age that retired participants must begin receiving required minimum distributions. Under the Secure Act, the age increases from age 70½ to age 72 for participants born after Jan. 1, 1949 and before Jan. 1, 1951. Secure Act 2.0 increases the age from 72 to age 73 for participants that were born after Jan. 1, 1951 and before Jan. 1, 1960 and increases from 73 to 75 for plan participants that were born on or after Jan. 1, 1960. TRS has already begun to implement these changes in its required minimum distribution procedures because TRS is required by Section 825.506 of the Government Code to comply with provisions of federal law necessary to ensure the plan qualification of TRS. For this reason, the proposed amendments to TRS Rule 29.56 also ensure that TRS' rules are consistent with its current procedures. The amendments to TRS Rule 29.56 also include nonsubstantive changes to terminology and citations in the rule.

### **Conclusion**

For these reasons, TRS staff recommends that proposed amended § 27.6, § 29.9 and § 29.56 be adopted without changes.

The proposed language of the amended rules is attached as Appendix 1, and a redlined version of the proposed amendments to the rules is attached as Appendix 2.

# APPENDIX 1

## TITLE 34. PUBLIC FINANCE

### PART 3. TEACHER RETIREMENT SYSTEM OF TEXAS

#### CHAPTER 27. TERMINATION OF MEMBERSHIP AND REFUNDS

##### **§27.6. Reinstatement of an Account**

(a) Except as provided in subsection (c) of this section, any member who has withdrawn an account resulting in the cancellation of service credit may reinstate this account and receive credit for the canceled service by meeting the following requirements:

- (1) resume membership service in the retirement system or establish eligibility under Government Code, Chapter 803 or 805;
- (2) redeposit the amount withdrawn for the years during which the membership was terminated;
- (3) pay a reinstatement fee of 8 percent compounded annually in whole year increments from August 31st of the plan year in which the withdrawal occurred to the date of redeposit;
- (4) reinstate all withdrawn accounts which resulted in the cancellation of service credit. A withdrawn account representing less than a creditable year of service must be reinstated only when it is necessary to combine the canceled service in the account with all other canceled service or with other eligible membership service or equivalent membership service performed in the same year to constitute a creditable year of service.

(b) Membership service credit and the accumulated contributions associated with the membership terminated by not qualifying for service credit for five consecutive years as provided in §822.003(a)(4), Government Code, may be restored by TRS when the person returns to TRS covered employment provided the accumulated contributions in the member account have not been withdrawn. If the accumulated contributions have been withdrawn, the member may reinstate the withdrawn account as provided in this section.

(c) A person who terminated membership in TRS by electing participation in the Optional Retirement Program (ORP) may not reinstate the years of terminated service credit in TRS for the purpose of establishing eligibility for retirement benefits under the Proportionate Retirement Program except as provided in §25.172(a) of this title (relating to ORP and TRS).

# APPENDIX 1

TITLE 34. PUBLIC FINANCE

PART 3. TEACHER RETIREMENT SYSTEM OF TEXAS

CHAPTER 29. BENEFITS

SUBCHAPTER A. RETIREMENT

## **34 TAC §29.9. Survivor Benefits**

The person designated by a retiree to receive survivor benefits payable after the retiree's death is eligible to receive benefits as stated in Government Code §824.501. When multiple beneficiaries are named and two or more beneficiaries are eligible for monthly payments, the monthly payment will be split in equal portions. When only one beneficiary named is eligible for monthly payments, the entire monthly payment will be made to that beneficiary.

# APPENDIX 1

## TITLE 34. PUBLIC FINANCE

### PART 3. TEACHER RETIREMENT SYSTEM OF TEXAS

#### CHAPTER 29. BENEFITS

##### SUBCHAPTER D. PLAN LIMITATIONS

### **34 TAC §29.56. Minimum Distribution Requirements**

#### (a) General Rules and Definitions.

(1) Intent. This rule is intended to comply with a reasonable and good faith interpretation of the requirements of 26 U.S.C. §401(a)(9), as applicable to a governmental plan within the meaning of 26 U.S.C. §414(d).

(2) Plan Qualification and §401(a)(9) compliance. Pursuant to Tex. Gov't Code §825.506(a) and (c), this section modifies the TRS retirement plan to the extent necessary for the plan to be a qualified plan and comply with 26 U.S.C. §401(a)(9) and prevails over any inconsistent provision of the plan.

(3) Requirements of Treasury Regulations Incorporated. All distributions required under this section will be determined in accordance with 26 C.F.R. §§1.401(a)(9)-1 through 1.401(a)(9)-9 of the Internal Revenue Service, U.S. Department of Treasury regulations.

(4) Definition of Participant. In this section, a TRS member or TRS retiree.

(5) Definition of Designated Beneficiary. In accordance with 26 U.S.C. § 401(a)(9)(E) and §1.401(a)(9)-4(a)&(b) of the Treasury regulations, the individual who is designated as the beneficiary under applicable plan provisions or by the participant's affirmative election.

(6) Definition of Distribution Calendar Year. A calendar year for which a minimum distribution is required. For distributions beginning before a participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year that contains the participant's required beginning date. For distributions beginning after a participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to subsection (b)(3) of this section.

(7) Definition of Life Expectancy. For purposes of this rule, life expectancy means life expectancy as computed by use of the Single Life Table in §1.401(a)(9)-9(b) of the Treasury regulations.

(8) Definition of Required Beginning Date. The date specified in subsection (b)(1) of this section.

#### (b) Time and Manner of Distribution.



# APPENDIX 1

## (1) Required Beginning Date.

(A) Required beginning date means April 1 of the calendar year following the later of:

- (i) the calendar year in which the participant attains the applicable age within the meaning of 26 U.S.C. § 401(a)(9)(C)(v), or
- (ii) the calendar year in which the participant terminates employment with a TRS-covered employer.

(B) A participant is required to take distribution of the participant's entire interest, or to begin to take a distribution of the entire interest, no later than the participant's required beginning date.

## (2) Applicable Age.

(A) In the case of a participant born before July 1, 1949, the applicable age is 70 1/2;

(B) In the case of a participant born on or after July 1, 1949, and before January 1, 1951, the applicable age is 72;

(C) In the case of a participant born on or after January 1, 1951, and before January 1, 1960, the applicable age is 73;

(D) In the case of a participant born on or after January 1, 1960, the applicable age is 75;  
or

(E) The age set forth in 26 U.S.C. §401(a)(9)(C)(v), as amended from time-to-time.

(3) Death of Participant Before Distributions Begin. If a participant dies before distributions begin, the participant's entire interest is required to be distributed, or begin to be distributed, no later than described in subparagraphs (A)-(D) of this paragraph. For purposes of this paragraph and subsection (e) of this section, distributions are considered to begin on the participant's required beginning date (or, if subparagraph (D) of this paragraph applies, the date distributions are required to begin to the surviving spouse under subparagraph (A) of this paragraph). If annuity payments irrevocably commence to the participant before the participant's required beginning date (or to the participant's surviving spouse before the date distributions are required to begin to the surviving spouse under subparagraph (A) of this paragraph), the date distributions are considered to begin is the date distributions actually commence.

## APPENDIX 1

(A) If the sole designated beneficiary is the participant's surviving spouse, then distributions after the participant's death to the surviving spouse are required to begin by December 31 of the calendar year immediately following the later of:

(i) the calendar year in which the participant died; or

(ii) the calendar year in which the deceased participant would have attained the applicable age.

(B) If the designated beneficiary is not the participant's surviving spouse, then distributions after the participant's death to the designated beneficiary must either:

(i) begin to be distributed no later than December 31 of the calendar year immediately following the year of the participant's death, payable over a period not to exceed the beneficiary's life expectancy; or

(ii) be distributed no later than December 31 of the calendar year containing the fifth anniversary of the participant's death.

(C) If there is no designated beneficiary as of September 30 of the year following the year of the participant's death, the participant's entire interest is required to be distributed by December 31 of the calendar year containing the fifth anniversary of the participant's death.

(D) If the participant's surviving spouse is the participant's sole designated beneficiary and the surviving spouse dies after the participant but before distributions to the surviving spouse begin, this paragraph, other than subparagraph (A) of this paragraph, will apply as if the surviving spouse were the participant, as described in §1.401(a)(9)-3(b)(3), (d) of the Treasury regulations.

(4) Form of Distribution. As of the first distribution calendar year, distributions are required be made in accordance with subsections (c), (d), (e), (f), and (g) of this section.

(c) Determination of Amount to be Distributed Each Year.

(1) General Annuity Requirements. If the participant's interest is paid in the form of annuity distributions to the participant after retirement or to the participant's beneficiary before or after retirement of the participant, payments under the annuity will satisfy the following requirements:

(A) the annuity distributions will be paid in periodic payments made at monthly intervals;

## APPENDIX 1

(B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in the Treasury regulations;

(C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted; and

(D) payments will either be non-increasing or will increase only as permitted in the Treasury regulations.

### (2) Amount Required to be Distributed by Required Beginning Date.

(A) The amount that is required to be distributed on or before the participant's required beginning date (or, if the participant dies before distributions begin, the date distributions are required to begin to a beneficiary under subparagraph (A) or (B) of subsection (b)(3) of this section) is the payment that is required for one month. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the participant's benefit accruals as of the last day of the first distribution calendar year will be included in the calculation of the amount of the annuity payments for months ending on or after the participant's required beginning date. For a retiree receiving a distribution of a partial lump sum option (PLSO) payment or a deferred retirement option plan (DROP) payment in conjunction with a monthly annuity payment due for a month beginning on or before the participant's required beginning date, the minimum distribution requirement of this section is satisfied by the annuity payment required to be made for that month.

(B) In the case of a refund to a participant of the participant's entire accumulated contributions, the amount that is the required minimum distribution for the distribution calendar year (and thus is not eligible for rollover under 26 U.S.C. §402(c)) is determined by treating the single sum distribution as a distribution from an individual account plan and treating the amount of the single sum distribution as the participant's account balance as of the end of the relevant valuation calendar year. The minimum amount required to be distributed for each distribution calendar year is equal to the quotient obtained by dividing the account by the applicable distribution period using the Uniform Lifetime Table in A-2 of Treasury regulation §1.401(a)(9)-9. If the refund is being made in the calendar year containing the required beginning date and the required minimum distribution for the participant's first distribution calendar year has not been distributed, the portion of the single sum distribution that represents the required minimum distribution for the participant's first and second distribution calendar year is not eligible for rollover.

### (d) Requirements For Distributions of Retirement Annuity Payments

(1) Option 1 or 5 Retirement Payment Plan With Non-spousal Beneficiary. If the participant's interest is to be distributed in the form of an Option 1 or 5 annuity and the participant

# APPENDIX 1

designated a nonspouse beneficiary, annuity payments to the designated beneficiary after the participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the participant using the table set forth in §1.401(a)(9)-6(b)(2)(iii) of the Treasury regulations. An Option 1 or 5 payment plan that would result in a payment to a designated nonspouse beneficiary above the applicable percentage shall not be available to the participant.

## (2) Option 3 and 4 Retirement Payment Plans.

(A) If the participant's spouse is not the sole designated beneficiary, the participant may not select an Option 3 or 4 retirement payment plan if the period certain for an annuity distribution commencing during the participant's lifetime would exceed the applicable distribution period for the participant under the Uniform Lifetime Table set forth in §1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the annuity starting date. If the annuity starting date precedes the year in which the participant reaches age 70, the applicable distribution period for the participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in §1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the participant as of the participant's birthday in the year that contains the annuity starting date.

(B) If the participant's spouse is the sole designated beneficiary, the participant may not select an Option 3 or 4 retirement payment plan if the period certain would exceed the longer of the participant's applicable distribution period, as determined under this paragraph, or the joint life and last survivor expectancy of the participant and the participant's spouse as determined under the Joint and Last Survivor Table set forth in §1.401(a)(9)-9 of the Treasury regulations, using the participant's and spouse's attained ages as of the participant's and spouse's birthdays in the calendar year that contains the annuity starting date.

## (e) Requirements for Minimum Distributions Where Participant Dies Before Date Distributions Begin.

(1) Participant Survived by Designated Beneficiary. If the participant dies before the date that distribution of his or her interest begins (as described in subsection (b)(3) of this section) and there is a designated beneficiary, the entire interest payable with respect to the participant is required to be distributed, beginning no later than the time described in subparagraph (A) or (B) of subsection (b)(3) of this section, over the life of the designated beneficiary or over a period certain not exceeding:

(A) unless the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the participant's death; or

## APPENDIX 1

(B) if the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the annuity starting date.

(2) No Designated Beneficiary. If the participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the participant's death, distribution of the participant's entire interest is required to be completed by December 31 of the calendar year containing the fifth anniversary of the participant's death.

(3) Death of Surviving Spouse Before Distributions to Surviving Spouse Begin. If the participant dies before the date distribution of his or her interest begins, the participant's surviving spouse is the participant's sole designated beneficiary, and the surviving spouse dies before distributions to the surviving spouse begin, this subsection will apply as if the surviving spouse were the member, as described in §1.401(a)(9)-3(b)(3), (d) of the Treasury regulations, except that the time by which distributions must begin will be determined without regard to subsection (b)(3)(A) of this section.

(f) Election To Apply 5-Year Rule to Distributions to Designated Beneficiaries. Notwithstanding subsection (e) of this section, if the participant dies before distributions begin and there is a designated beneficiary entitled to a lump sum distribution, distribution of the lump sum to the designated beneficiary is not required to begin by the date specified in subsection (e)(1) of this section, if the participant's entire interest is distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the participant's death. If the participant's surviving spouse is the participant's sole designated beneficiary and the surviving spouse dies after the member but before distributions to either the participant or the surviving spouse begin, this provision will apply as if the surviving spouse were the participant, as described in §1.401(a)(9)-3(b)(3), (d) of the Treasury regulations.

(g) Requirements for Minimum Distributions Where Participant Dies After Distributions Begin. If a participant dies after retirement benefits have commenced, benefits must continue to be distributed to the beneficiary at least as rapidly as provided for under the option elected by the participant pursuant to §29.8 of this title (relating to Retirement Payment Plans).

(h) An eligible participant who has applied for service or disability retirement and who dies on or after the retirement date will be considered to have retired and commenced distributions.

(i) A participant or beneficiary is required to initiate and complete appropriate TRS processes to take distributions in accordance with this section. A participant or beneficiary who fails to take distributions in accordance with this section is subject to federal tax law establishing an additional tax on minimum distributions that are required but not taken.

## APPENDIX 1

(j) Grandfather Provisions. Notwithstanding any provision of this section to the contrary, with respect to any annuity option or other plan provision as in effect on April 17, 2002, TRS will apply a reasonable and good faith interpretation of the requirement of Internal Revenue Code §401(a)(9). TRS is exercising the authority granted to governmental plans in the Pension Protection Act of 2006 in establishing this section as its good faith interpretation of the requirements of Internal Revenue Code §401(a)(9). The provisions of this section, including subsections (d) and (e) of this section, affecting payment options otherwise available under the TRS plan are applicable to retirements with an effective date after December 31, 2007, or to a benefit payable as a result of the death of a participant after December 31, 2007.

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### TITLE 34. PUBLIC FINANCE

#### PART 3. TEACHER RETIREMENT SYSTEM OF TEXAS

#### CHAPTER 27. TERMINATION OF MEMBERSHIP AND REFUNDS

##### **§27.6. Reinstatement of an Account**

(a) Except as provided in subsection ~~(c)~~**[(e)]** of this section, any member who has withdrawn an account resulting in the cancellation of service credit may reinstate this account and receive credit for the canceled service by meeting the following requirements:

- (1) resume membership service in the retirement system or establish eligibility under Government Code, Chapter 803 or 805;
- (2) redeposit the amount withdrawn for the years during which the membership was terminated;
- (3) ~~[except as provided by subsections (b) and (c) of this section,]~~ pay a reinstatement fee of 8 percent compounded annually in whole year increments from August 31st of the plan year in which the withdrawal occurred to the date of redeposit;
- (4) reinstate all withdrawn accounts which resulted in the cancellation of service credit. A withdrawn account representing less than a creditable year of service must be reinstated only when it is necessary to combine the canceled service in the account with all other canceled service or with other eligible membership service or equivalent membership service performed in the same year to constitute a creditable year of service.

~~(b) [A member may establish withdrawn service credit by paying the deposits and fees required in subsection (c) of this section if:~~

- ~~(1) the member otherwise meets all eligibility requirements under §823.501, Government Code, as amended;~~
- ~~(2) all of the service for which credit is sought to be established was rendered before September 1, 2011, and TRS received an application to withdraw the credit on or before August 31, 2011; and~~
- ~~(3) the member makes payment for the withdrawn service credit, or enters into an installment agreement for payment, not later than August 31, 2013.~~

~~(c) To reinstate withdrawn service credit under subsection (b) of this section, the member shall redeposit the amount withdrawn for the years during which the membership was terminated and shall pay a reinstatement fee of 6 percent compounded annually in whole year increments from August 31 of the plan year in which the withdrawal occurred to the date of redeposit.]~~

## APPENDIX 2

~~(e)~~ Membership service credit and the accumulated contributions associated with the membership terminated by not qualifying for service credit for five consecutive years as provided in §822.003(a)(4), Government Code, may be restored by TRS when the person returns to TRS covered employment provided the accumulated contributions in the member account have not been withdrawn. If the accumulated contributions have been withdrawn, the member may reinstate the withdrawn account as provided in this section.

~~(c)~~~~(e)~~ A person who terminated membership in TRS by electing participation in the Optional Retirement Program (ORP) may not reinstate the years of terminated service credit in TRS for the purpose of establishing eligibility for retirement benefits under the Proportionate Retirement Program except as provided in §25.172(a) of this title (relating to ORP and TRS).



## APPENDIX 2

TITLE 34. PUBLIC FINANCE  
PART 3. TEACHER RETIREMENT SYSTEM OF TEXAS  
CHAPTER 29. BENEFITS  
SUBCHAPTER A. RETIREMENT

### **34 TAC §29.9. Survivor Benefits**

~~[In addition to any of these retirement annuity payments, the]~~ The person designated by a retiree to receive survivor benefits payable after the retiree's death ~~[designated beneficiary of any retired member]~~ is eligible to receive ~~[survivor]~~ benefits as stated in Government Code §824.501. When multiple beneficiaries are named and two or more beneficiaries are eligible for monthly payments, the monthly payment will be split in equal portions. When only one beneficiary named is eligible for monthly payments, the entire monthly payment will be made to that beneficiary.

## APPENDIX 2

### TITLE 34. PUBLIC FINANCE

#### PART 3. TEACHER RETIREMENT SYSTEM OF TEXAS

#### CHAPTER 29. BENEFITS

#### SUBCHAPTER D. PLAN LIMITATIONS

### 34 TAC §29.56. Minimum Distribution Requirements

#### (a) General Rules and Definitions.

(1) Intent. This rule is intended to comply with a reasonable and good faith interpretation of the requirements of 26 U.S.C. §401(a)(9), as applicable to a governmental plan within the meaning of 26 U.S.C. §414(d).

(2) Plan Qualification and §401(a)(9) compliance. Pursuant to Tex. Gov't Code §825.506(a) and (c), this section modifies the TRS retirement plan to the extent necessary for the plan to be a qualified plan and comply with 26 U.S.C. §401(a)(9) and prevails over any inconsistent provision of the plan.

(3) Requirements of Treasury Regulations Incorporated. All distributions required under this section will be determined in accordance with 26 C.F.R. §§1.401(a)(9)-1 through 1.401(a)(9)-9 of the Internal Revenue Service, U.S. Department of Treasury regulations.

(4) Definition of Participant. In this section, a TRS member or TRS retiree.

(5) Definition of Designated Beneficiary. In accordance with 26 U.S.C. § 401(a)(9)(E) and §1.401(a)(9)-4(a)&(b) of the Treasury regulations, the [The] individual who is designated as the beneficiary under applicable plan provisions or by the participant's affirmative election [and who is the designated beneficiary under 26 U.S.C. § 401(a)(9) and § 1.401(a)(9)-1, Q&A-4, of the Treasury regulations].

(6) Definition of Distribution Calendar Year. A calendar year for which a minimum distribution is required. For distributions beginning before a participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year that contains the participant's required beginning date. For distributions beginning after a participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to subsection (b)(3) [(b)(2)] of this section.

(7) Definition of Life Expectancy. For purposes of this rule, life expectancy means life expectancy as computed by use of the Single Life Table in §1.401(a)(9)-9(b) [§1.401(a)(9)-9] of the Treasury regulations.

(8) Definition of Required Beginning Date. The date specified in subsection (b)(1) of this section.

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### (b) Time and Manner of Distribution.

#### (1) Required Beginning Date.

(A) Required beginning date means April 1 of the calendar year following the later of:

(i) the calendar year in which the participant attains the applicable age within the meaning of 26 U.S.C. § 401(a)(9)(C)(v) [70½], or

(ii) the calendar year in which the participant terminates employment with a TRS-covered employer.

(B) A participant is required to take distribution of the participant's entire interest, or to begin to take a distribution of the entire interest, no later than the participant's required beginning date.

#### (2) Applicable Age.

(A) In the case of a participant born before July 1, 1949, the applicable age is 70 1/2;

(B) In the case of a participant born on or after July 1, 1949, and before January 1, 1951, the applicable age is 72;

(C) In the case of a participant born on or after January 1, 1951, and before January 1, 1960, the applicable age is 73;

(D) In the case of a participant born on or after January 1, 1960, the applicable age is 75;  
or

(E) The age set forth in 26 U.S.C. §401(a)(9)(C)(v), as amended from time-to-time.

(3) Death of Participant Before Distributions Begin. If a participant [member] dies before distributions begin, the participant's [member's] entire interest is required to be distributed, or begin to be distributed, no later than described in subparagraphs (A)-(D) of this paragraph. For purposes of this paragraph and subsection (e) of this section, distributions are considered to begin on the participant's [member's] required beginning date (or, if subparagraph (D) of this paragraph applies, the date distributions are required to begin to the surviving spouse under subparagraph (A) of this paragraph). If annuity payments irrevocably commence to the participant [member] before the participant's [member's] required beginning date (or to the participant's [member's] surviving spouse before the date distributions are required to begin to the surviving spouse under subparagraph (A) of this paragraph), the date distributions are considered to begin is the date distributions actually commence.

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(A) If the ~~[member's surviving spouse is the member's]~~ sole designated beneficiary is the participant's surviving spouse, then distributions after the participant's death to the surviving spouse are required to begin by December 31 of the calendar year immediately following the later of:

(i) the calendar year in which the participant [member] died;<sup>1</sup> or

(ii) ~~[by December 31 of ]~~ the calendar year in which the deceased participant [member] would have attained the applicable age ~~[70 1/2, if later]~~.

(B) If the designated beneficiary [member's surviving spouse] is not the participant's surviving spouse [member's sole designated beneficiary], then distributions after the participant's death to the designated beneficiary ~~[are required to begin by December 31 of the calendar year immediately following the calendar year in which the member died]~~ must either:

(i) begin to be distributed no later than December 31 of the calendar year immediately following the year of the participant's death, payable over a period not to exceed the beneficiary's life expectancy; or

(ii) be distributed no later than December 31 of the calendar year containing the fifth anniversary of the participant's death.

(C) If there is no designated beneficiary as of September 30 of the year following the year of the participant's [member's] death, the participant's [member's] entire interest is required to be distributed by December 31 of the calendar year containing the fifth anniversary of the participant's [member's] death.

(D) If the participant's [member's] surviving spouse is the participant's [member's] sole designated beneficiary and the surviving spouse dies after the participant [member] but before distributions to the surviving spouse begin, this paragraph, other than subparagraph (A) of this paragraph, will apply as if the surviving spouse were the participant [member], as described in §1.401(a)(9)-3(b)(3), (d) of the Treasury regulations.

~~(4)~~<sup>3</sup> Form of Distribution. As of the first distribution calendar year, distributions are required be made in accordance with subsections (c), (d), (e), (f), and (g) of this section.

(c) Determination of Amount to be Distributed Each Year.

(1) General Annuity Requirements. If the participant's interest is paid in the form of annuity distributions to the participant after retirement or to the participant's beneficiary before or after

## APPENDIX 2

retirement of the participant, payments under the annuity will satisfy the following requirements:

- (A) the annuity distributions will be paid in periodic payments made at monthly intervals;
- (B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in the Treasury regulations;
- (C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted; and
- (D) payments will either be non-increasing or will increase only as permitted in the Treasury regulations.

### (2) Amount Required to be Distributed by Required Beginning Date.

(A) The amount that is required to be distributed on or before the participant's [member's] required beginning date (or, if the participant [member] dies before distributions begin, the date distributions are required to begin to a beneficiary under subparagraph (A) or (B) of subsection (b)(3) [(b)(2)] of this section) is the payment that is required for one month. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the participant's [member's] benefit accruals as of the last day of the first distribution calendar year will be included in the calculation of the amount of the annuity payments for months ending on or after the participant's [member's] required beginning date. For a retiree receiving a distribution of a partial lump sum option (PLSO) payment or a deferred retirement option plan (DROP) payment in conjunction with a monthly annuity payment due for a month beginning on or before the participant's [member's] required beginning date, the minimum distribution requirement of this section is satisfied by the annuity payment required to be made for that month.

(B) In the case of a refund to a participant [member] of the participant's [member's] entire accumulated contributions, the amount that is the required minimum distribution for the distribution calendar year (and thus is not eligible for rollover under 26 U.S.C. §402(c)) is determined by treating the single sum distribution as a distribution from an individual account plan and treating the amount of the single sum distribution as the participant's [member's] account balance as of the end of the relevant valuation calendar year. The minimum amount required to be distributed for each distribution calendar year is equal to the quotient obtained by dividing the account by the applicable distribution period using the Uniform Lifetime Table in A-2 of Treasury regulation §1.401(a)(9)-9. If the refund is being made in the calendar year containing the required beginning date and the required minimum distribution for the participant's [member's] first distribution calendar year has not been distributed, the portion of the single sum distribution that represents the required

## APPENDIX 2

minimum distribution for the participant's ~~[member's]~~ first and second distribution calendar year is not eligible for rollover.

### (d) Requirements For Distributions of Retirement Annuity Payments ~~[to Retiree or Beneficiary]~~

(1) Option 1 or 5 Retirement Payment Plan With Non-spousal Beneficiary. If the participant's interest is to be distributed in the form of an Option 1 or 5 annuity and the participant designated a nonspouse beneficiary, annuity payments to the designated beneficiary after the participant's ~~[retiree's]~~ death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the participant ~~[retiree]~~ using the table set forth in §1.401(a)(9)-6(b)(2)(iii) ~~[Q&A-2 of § 1.401(a)(9)-6]~~ of the Treasury regulations. An Option 1 or 5 payment plan that would result in a payment to a designated nonspouse beneficiary above the applicable percentage shall not be available to the participant.

### (2) Option 3 and 4 Retirement Payment Plans.

(A) If the participant's spouse is not the sole designated beneficiary, the participant may not select an Option 3 or 4 retirement payment plan if the period certain for an annuity distribution commencing during the participant's ~~[retiree's]~~ lifetime would exceed the applicable distribution period for the participant ~~[retiree]~~ under the Uniform Lifetime Table set forth in §1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the annuity starting date. If the annuity starting date precedes the year in which the participant ~~[retiree]~~ reaches age 70, the applicable distribution period for the participant ~~[retiree]~~ is the distribution period for age 70 under the Uniform Lifetime Table set forth in §1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the participant ~~[retiree]~~ as of the participant's ~~[retiree's]~~ birthday in the year that contains the annuity starting date.

(B) If the participant's spouse is the sole designated beneficiary, the participant may not select an Option 3 or 4 retirement payment plan if the period certain would exceed the longer of the participant's ~~[retiree's]~~ applicable distribution period, as determined under this paragraph, or the joint life and last survivor expectancy of the participant and the participant's spouse as determined under the Joint and Last Survivor Table set forth in §1.401(a)(9)-9 of the Treasury regulations, using the participant's and spouse's attained ages as of the participant's and spouse's birthdays in the calendar year that contains the annuity starting date.

### (e) Requirements for Minimum Distributions Where Participant ~~[Member]~~ Dies Before Date Distributions Begin.

(1) Participant Survived by Designated Beneficiary. If the participant ~~[member]~~ dies before the date that distribution of his or her interest begins (as described in subsection (b)(3) ~~[(b)(2)]~~ of this section) and there is a designated beneficiary, the entire interest payable with respect to

## APPENDIX 2

the participant [member] is required to be distributed, beginning no later than the time described in subparagraph (A) or (B) of subsection (b)(3) [(b)(2)] of this section, over the life of the designated beneficiary or over a period certain not exceeding:

(A) unless the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the participant's [member's] death; or

(B) if the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the annuity starting date.

(2) No Designated Beneficiary. If the participant [member] dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the participant's [member's] death, distribution of the participant's [member's] entire interest is required to be completed by December 31 of the calendar year containing the fifth anniversary of the participant's [member's] death.

(3) Death of Surviving Spouse Before Distributions to Surviving Spouse Begin. If the participant [member] dies before the date distribution of his or her interest begins, the participant's [member's] surviving spouse is the participant's [member's] sole designated beneficiary, and the surviving spouse dies before distributions to the surviving spouse begin, this subsection will apply as if the surviving spouse were the member, as described in §1.401(a)(9)-3(b)(3), (d) of the Treasury regulations, except that the time by which distributions must begin will be determined without regard to subsection (b)(3)(A) [(b)(2)(A)] of this section.

(f) Election To Apply 5-Year Rule to Distributions to Designated Beneficiaries. Notwithstanding subsection (e) of this section, if the participant [member] dies before distributions begin and there is a designated beneficiary entitled to a lump sum distribution, distribution of the lump sum to the designated beneficiary is not required to begin by the date specified in subsection (e)(1) of this section, if the participant's [member's] entire interest is distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the participant's [member's] death. If the participant's [member's] surviving spouse is the participant's [member's] sole designated beneficiary and the surviving spouse dies after the member but before distributions to either the participant [member] or the surviving spouse begin, this provision will apply as if the surviving spouse were the participant [member], as described in §1.401(a)(9)-3(b)(3), (d) of the Treasury regulations.

(g) Requirements for Minimum Distributions Where Participant Dies After Distributions Begin. If a participant dies after retirement benefits have commenced, benefits must continue to be

## APPENDIX 2

distributed to the beneficiary at least as rapidly as provided for under the option elected by the participant pursuant to §29.8 of this title (relating to Retirement Payment Plans).

(h) An eligible participant ~~[member]~~ who has applied for service or disability retirement and who dies on or after the retirement date will be considered to have retired and commenced distributions.

(i) A participant or beneficiary is required to initiate and complete appropriate TRS processes to take distributions in accordance with this section. A participant or beneficiary who fails to take distributions in accordance with this section is subject to federal tax law establishing an additional tax on minimum distributions that are required but not taken.

(j) Grandfather Provisions. Notwithstanding any provision of this section to the contrary, with respect to any annuity option or other plan provision as in effect on April 17, 2002, TRS will apply a reasonable and good faith interpretation of the requirement of Internal Revenue Code §401(a)(9). TRS is exercising the authority granted to governmental plans in the Pension Protection Act of 2006 in establishing this section as its good faith interpretation of the requirements of Internal Revenue Code §401(a)(9). The provisions of this section, including subsections (d) and (e) of this section, affecting payment options otherwise available under the TRS plan are applicable to retirements with an effective date after December 31, 2007, or to a benefit payable as a result of the death of a participant after December 31, 2007.



**TAB 11**



## **TRS Rules 25.21, 31.3 & 41.4 – HB 2 implementation**

Dec. 4, 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 89<sup>th</sup> 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

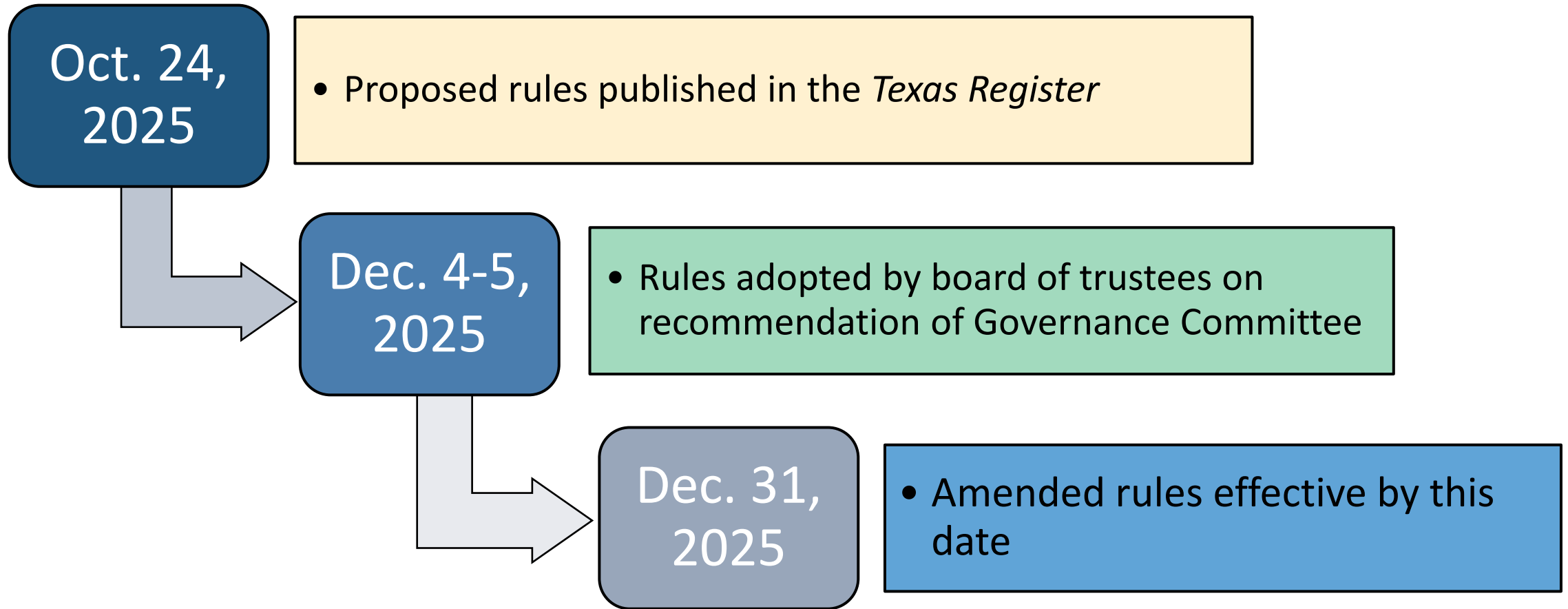
- TRA & SSRA provide raises to classroom teachers and other public school employees.
- To ensure raises are creditable, HB 2 amended Gov't Code 822.201 to expressly provide that they are.
- Staff proposes to amend TRS Rule 25.21 to conform with this change.

## 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.



# Timeline; Next Steps





## Legal & Compliance

# Memorandum

**DATE:** Dec. 4, 2025

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

**FROM:** Heather Traeger, General Counsel & Chief Compliance Officer

**THROUGH:** Brian Guthrie, Executive Director

**RE:** Adoption: Proposed Amendments to TRS Rules 25.21, 31.3 & 41.4

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### **Requested Action**

TRS staff asks the Governance Committee to recommend that the board of trustees (“board”) adopt the proposed amendments to the following TRS rules without changes to the text as proposed:

§ 25.21 - Compensation Subject to Deposit and Credit.

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

§ 41.4 - Employer Health Benefit Surcharge.

### **Background of the Proposed Amended Rules**

At the Sept. 17, 2025 Governance Committee meeting, TRS staff asked the committee to authorize publication in the *Texas Register* proposed amendments to TRS Rules 25.21, 31.3 and 41.4. The Governance Committee authorized publication and the proposed amended rules were published in the *Texas Register* on Oct. 24, 2025 (50 TexReg 6994-7000). TRS did not receive any public comments on the proposed amended rules.

### **Reason and Summary of Proposed Amended Rules**

Staff is recommending the adoption of the proposed amendments to TRS Rules §§ 25.21, 31.3 and 41.4 in order to conform with legislation passed during the regular session of the 89<sup>th</sup> Texas 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.

### **Conclusion**

For these reasons, TRS staff recommends that proposed amended § 25.21, § 31.3 and § 41.4 be adopted without changes.

The proposed language of amended §§ 25.21, 31.3 and 41.4 is attached as Appendix 1, and a redlined version of the proposed amendments is attached as Appendix 2.

## **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.

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### **§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

## APPENDIX 2

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.]~~