

September 2023

RETAINING EXCELLENCE

Compensation Committee Meeting



**Teacher Retirement System of
Texas**

1000 Red River Street
Austin, Texas
78701-2698

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

*(Committee Chair: Dick Nance; Members: Michael Ball, John Elliott, Jarvis V. Hollingsworth
and Elvis Williams)*

*All or part of the September 14, 2023, meeting of the TRS Compensation Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

The open portions of the September 14, 2023, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at www.trs.texas.gov. A recording of the meeting will be available at www.trs.texas.gov.

AGENDA

September 14, 2023 – 1:30 p.m.

1. Call roll of the Committee members.
2. Consider the approval of the proposed minutes of the July 2023, committee meeting – Chair.
3. Consider recommending to the Board continuation and adoption of the Investment Management Division and TRICOT's Performance Incentive Pay Plans for the 2023 – 2024 Performance Period – Katy Hoffman; Josh Wilson and Susan Lemke, Mercer.
4. Consider recommending to the Board continuation and adoption of the Executive Director's Performance Incentive Pay Plan for the 2023 – 2024 Performance Period – Shunne Powell; Josh Wilson and Susan Lemke, Mercer.

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

**Minutes of the Compensation Committee
July 13, 2023**

The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas met on July 13, 2023, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

Committee members present:

Mr. James D. Nance, Chair
Mr. Michael Ball
Mr. John Elliott
Mr. Jarvis V. Hollingsworth
Mr. Elvis Williams

Other TRS Board Members present:

Ms. Brittny Allred
Mr. David Corpus
Ms. Nanette Sissney
Mr. Robert H. Walls, Jr.

Others who participated:

| | |
|-------------------------------|---------------------|
| Brian Guthrie, TRS | Susan Lemke, Mercer |
| Andrew Roth, TRS | Josh Wilson, Mercer |
| Heather Traeger, TRS | |
| Don Green, TRS | |
| Jase Auby, TRS | |
| Shunne Powell, TRS | |
| Christine Bailey, TRS | |
| Monica Durham, TRS | |
| Katherine Farrell, TRS | |
| Suzanne Dugan, Cohen Milstein | |

Compensation Committee Chair, Mr. James D. Nance, called the meeting to order at 11:22 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 April 2023 committee meeting – Chair.

On a motion by Mr. Ball, seconded by Mr. Elliott, the committee approved the proposed minutes for the April 2023 Compensation Committee meeting as presented.

3. Receive an update on staffing and turnover timeline regarding annual evaluation of Board Direct Reports and TRS Classification Plan– Shunne Powell, Monica Durham and Christine Bailey.

Ms. Shunne Powell provided an update on the Board direct reports, noting the evaluations were on schedule. Ms. Monica Durham reported the application, hiring and onboarding has continued to improve in fiscal year 2023. She said the increase in applications are attributed to a couple of factors, one being the 20 percent increase for remote positions, direct recruiting, and a market shift, specifically in the IT sector. She said turnover also continued to improve and continued to trend lower than state turnover rates. She said the internship program launched on June 5, 2023 and is the largest to date with 39 interns. She said the positions range from contract management, to information security, to compensation analysts, to investment management, creating a strong pipeline of potential applicants.

Ms. Christine Bailey reviewed the recently passed legislation that mandated an across the board salary increase. She said everyone with the exception of the Executive Director and CIO were eligible for the increase.

4. Receive an overview of TRS Compensation including determination, evaluation and philosophy for compensation, and an update from Board’s Compensation Consultant – Shunne Powell and Christine Bailey.

Ms. Powell stated there are many factors that are included in a compensation package. She said most focus on the compensation and benefits piece of it. She noted consideration should also be given to what helps attract, reward and retain employees, such as well-being, development, recognition and awards are also as important. She said the focus would be on compensation. Ms. Bailey reviewed TRS compensation philosophy. She said Board direct reports are tied directly to the by-laws and the market data will be provided by the Board compensation consultant, Mercer. Ms. Powell stated all employees receive a performance evaluation at least annually.

Ms. Powell then introduced Mr. Josh Wilson and Ms. Susan Lemke from Mercer. Mr. Wilson noted the RFP asked for independent evaluation and advice on compensation-related matters and he said that was squarely in their wheelhouse. Ms. Lemke said Mercer will be back in September to provide recommendations for the Board direct report’s performance reviews.

With no further business before the Committee, the meeting adjourned at 12:20 p.m.

Approved by the Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas on September 14, 2023.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3

IMD Performance Pay Plans

Katy Hoffman, Chief of Staff

September 2023



IMD Compensation Philosophy

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

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

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

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

- In 2007, the Board approved a compensation strategy based on compensation study results
 - IMD’s compensation philosophy is designed to attract and retain a talented investment organization
- Board Compensation Philosophy for IMD
 - Base Pay targets 1st quartile among leading public funds
 - Performance Pay targets 4th quartile among private sector firms
- Awards emphasize longer-term results and alignment with TRS member
 - 67% on 3-year results/33% on 1-year results
 - Paid only when Trust returns are positive
- Compensation evaluations occur on a regular schedule
 - Base Pay review is every 2 years
 - Performance Pay review is every 5 years

Recommended PPP Changes

Adjust Excess Return Targets

Proposal

- Adjust alpha targets as shown in tables
- Change Private Equity (PE) and Real Estate (RE) peer group from plans with greater than \$1 billion (~66 peers) to greater than \$10 billion (~20 peers)
- Eliminate Senior Director title, moving FTEs to Managing Director

Rationale

- Proposed changes move IMD closer to target compensation
- Targets remain “stretch goals” for a plan of our size
 - Maximum award paid when Trust produces \$1.4 billion of excess performance
- Historical results demonstrate areas where achievability was both too high and low
- TUCs now has ample number of constituents for PE and RE at the higher fund size
 - Changes to PE and RE peer sets together with the proposed asset class excess return target changes result in a harder to achieve target

| Passive: Total Fund and Asset Class Excess Return Target | | |
|--|---------|----------|
| <i>In basis points</i> | Current | Proposed |
| Total Fund | 100 | 75 |
| Active Public Markets | 100 | 75 |
| Internal Fundamental | 100 | 75 |
| External Public Markets | 100 | 75 |
| Multi-Asset Strategies | 100 | 75 |
| Special Opportunities | 100 | 150 |
| Private Equity | 200 | 125 |
| Real Estate | 125 | 150 |
| ENRI | 125 | 125 |

| Peer: Total Fund and Asset Class Excess Return Target | | |
|---|---------|----------|
| <i>In basis points</i> | Current | Proposed |
| Total Fund | 100 | 75 |
| Trading | 8 | 9 |
| Private Equity | 200 | 175 |
| Real Estate | 125 | 150 |
| Risk Parity | 25 | 30 |

Shading indicates change in target is harder to achieve

Performance

- Excess performance is measured on benchmarks for the Total Trust and each asset class, as set by the Board of Trustees
- The Trust has grown by \$112.8 billion and produced \$9.9 billion in excess returns for members over the last 10 years

| Trust Returns and Value Added (as of June 30, 2023) | | | | | |
|--|---------------|------------------|--------------|---------------------------------|--|
| | Return | Benchmark | Alpha | Dollar Value Added (\$B) | Relative Dollar Value Added (\$B) |
| 1 Year | 4.0% | 3.5% | 0.4% | \$7.2 | \$0.8 |
| 3 Year | 9.0% | 7.6% | 1.4% | \$44.9 | \$7.1 |
| 5 Year | 7.0% | 6.6% | 0.4% | \$57.2 | \$3.6 |
| 10 Year | 7.8% | 7.3% | 0.5% | \$112.8 | \$9.9 |
| 20 Year | 7.5% | 7.2% | 0.4% | \$180.0 | \$15.0 |
| 30 Year | 7.9% | 7.6% | 0.3% | \$227.4 | \$35.4 |

APPENDIX

Key Elements of Performance Pay Plan

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

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

- Three main components to the award:
 - Performance relative to benchmarks
 - Performance relative to peer public funds
 - Individual performance as assessed by manager
- Trust performance drives meaningful portion of the award (30% minimum) while promoting importance of asset class and team performance
- Longer term results prioritized with 67% of the award based on 3-year results and 33% on 1-year results
- Awards paid only when Trust return is positive

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Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

Effective October 1, ~~2022~~2023

This Plan is effective only for the Performance Period beginning on October 1, ~~2022~~2023 and ending September 30, ~~2023~~2024. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods. No modification of this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

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Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

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

2. PLAN OBJECTIVES AND STRATEGY

2.1 *Plan Objectives*

The Plan serves these objectives:

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

2.2 *Plan Strategy*

Implementation of the Plan strategy includes:

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

3. BASE SALARY ADMINISTRATION

3.1 *Salary Structure*

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

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

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

3.2. *Salary Adjustments*

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

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIODS

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

- (a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The Performance Period for this Plan begins on October 1, ~~2022-2023~~ and ends September 30, ~~2023-2024~~. An award for performance in prior performance periods can only become earned and payable subject to the terms and conditions stated in the relevant plan.

4.2. *Participation in the Plan; Proration*

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

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

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

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

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

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

4.3. *Performance Components; Potential Awards*

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

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

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

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

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

4.4. Compliance with TRS Policies

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

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

4.5. *Performance Standards and Measurements*

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

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

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

4.6. *Potential Award Calculations*

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

4.7. *Earning Performance Payments*

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

The payment dates of Earned Awards for the Performance Period shall be the same for all Participants.
- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards following a Performance Period in which the Fund experiences a total return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become Earned Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until January 1 following the next Performance Period in which the Total Fund has a return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.
- (c) If an employee ceases to be a Participant during the Performance Period due to termination of TRS employment for any reason other than involuntary termination of employment due to a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards under plans from previous performance periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during the Performance Period due to involuntary termination of TRS employment because of a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. However, notwithstanding Sections 4.7(a) and (b), Potential Awards under plans from previous performance periods beginning October 1 and ending September 30 will immediately become Earned Awards. Payments under this subsection will be made as applicable to the terminated employee, the estate of the deceased employee, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the Reduction in Force, death or disability occurred.
- (e) A Participant who changes employment from TRS to TRICOT without a break in service pursuant to subsection (c) or (d) will be treated as employed by TRS for purposes of Potential Awards becoming Earned Awards under Section 4.7 of this Plan so long as the Participant remains continuously employed by TRICOT from the first day of employment with TRICOT through (i) the applicable January 1 for

purposes of Sections 4.7(a) and (b) or (ii) the date of involuntary termination of TRICOT employment because of a Reduction in Force, death, or disability for purposes of Section 4.7(d).

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

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

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

5.2 Plan Administration

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

5.3 Record Keeping and Reporting

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

5.4 Compliance with State and Federal Law

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

6. AT-WILL EMPLOYMENT

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

7. OTHER PLAN PROVISIONS

7.1. Non-transferability of Awards

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

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

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

7.3 Tax and Other Deductions

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

7.4 Payments Not Eligible for Retirement Purposes

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

7.5 Grievances

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

7.6 TRS Secondees; Subsidiary Employee Eligibility

- (a) TRICOT is a wholly owned subsidiary of the Teacher Retirement System of Texas incorporated in the United Kingdom on August 28, 2015. TRICOT has its principal office in London, England. TRS organized TRICOT for the purpose of establishing a representative office in London to provide investment services to TRS relating to private investment opportunities in the United Kingdom and Europe, and TRICOT provides such services exclusively to and on behalf of TRS. Employees directly hired by TRICOT are not eligible for performance pay under this Plan. From time to time, TRS second employees in the TRS Investment Management Division to TRICOT to provide services to TRICOT. Seconded employees participate in this Plan as part of their employment with TRS, including during the term of their secondment to TRICOT. TRS provides funding and services to TRICOT under an intercompany agreement.

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

(c) TRS and TRICOT intend that any employee who transfers employment between TRS and TRICOT as of the beginning of any calendar quarter without a break in service, and who is eligible to participate in the TRS Plan while employed by TRS and in the TRICOT Plan while employed by TRICOT, shall be eligible for performance pay during the Performance Period in aggregate that the employee would have received had they not changed employers, taking into account any changes to the employee's employment position, but without any adjustments for currency exchange rates.

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

8. DEFINITIONS

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

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

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

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

Investment Areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and Addendum B, and which are used to calculate Potential Awards for

Participants in Eligible Positions. In this Plan, Investment Areas are synonymous with IMD employee teams or groups.

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

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

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

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

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

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

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

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

| | | |
|--|-------------------------|---|
| Administrative Policy | Current effective date: | October 1, 2022 2023* |
| | First issued: | October 1, 2007 |
| Reviewers: Executive Director, Chief Investment Officer, Organizational Excellence, Legal & Compliance | Last reviewed | September 15 6 , 2022 2023 |
| Review Cycle: Annual | Next review due: | September 2023 2024 |
| Authorized by: Board of Trustees | Date authorized: | September 14 5 -15 6 , 2022 2023 |
| Approved: | | |
| By: _____ Brian K. Guthrie, Executive Director | Approved as of: | October 1, 2022 2023 |

*This Plan is effective only for the Performance Period beginning on October 1, ~~2022~~2023 and ending September 30, ~~2023~~2024.

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

| | Total Fund | Active Public Markets(1) | Internal Fundamental | External Public Markets | Multi-Asset Strategies Group | Special Opportunities | Private Equity | Real Estate | Energy Natural Resources Infrastructure | Total | |
|---|--|---|----------------------|-------------------------|------------------------------|-----------------------|--|--------------------|---|-------|--|
| Index | Total Fund Policy Composite Index | Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement | | | | | State Street Private Equity Index | NCREIF ODCE | 40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI | | |
| Excess Return Target | 100-75 bps | 100-75 bps | 100-75 bps | 100-75 bps | 100-75 bps | 100-150 bps | 200-125 bps | 125-150 bps | 125 bps | | |
| Executive | 100% | | | | | | | | | 100% | |
| Risk and Portfolio Management | 100% | | | | | | | | | 100% | |
| Internal Fundamental | 30% | 50% | 20% | | | | | | | 100% | |
| External Public Markets | 30% | 50% | | 20% | | | | | | 100% | |
| Multi-Asset Strategies Group | 30% | 50% | | | 20% | | | | | 100% | |
| Special Opportunities | 30% | 50% | | | | 20% | | | | 100% | |
| Private Equity | 30% | | | | | | 70% | | | 100% | |
| Real Estate | 30% | | | | | | | 70% | | 100% | |
| Energy Natural Resources & Infrastructure | 30% | | | | | | | | 70% | 100% | |
| Trade Management | 60% | 40% | | | | | | | | 100% | |
| Investment Operations | 100% | | | | | | | | | 100% | |
| IMD Legal & Compliance | 100% | | | | | | | | | 100% | |

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

ADDENDUM B

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

| Fund Level | Total Fund | Trade Management | Private Equity | Real Estate | Risk Parity Portfolio | Total |
|---|--|--------------------|---|--|-----------------------|-------|
| Index | TUCS Public Funds >\$10 Billion Universe | Virtu Financial | TUCS Private Equity > \$10 billion Universe | Real Estate vs. TUCS Real Estate > \$10 billion Universe | Risk Parity Benchmark | |
| Excess Return Target: | 100-75 bps | 8-9 bps | 200-175 bps | 125-150 bps | 25-30 bps | |
| Executive | 60% | 10% | 10% | 10% | 10% | 100% |
| Risk and Portfolio Management | 30% | 10% | 10% | 10% | 40% | 100% |
| Public Markets | 90% | 10% | | | | 100% |
| Private Equity | 30% | | 70% | | | 100% |
| Real Estate | 30% | | | 70% | | 100% |
| Energy Natural Resources & Infrastructure | 30% | | 35% | 35% | | 100% |
| Trade Management | 30% | 70% | | | | 100% |
| Investment Operations | 60% | 10% | 10% | 10% | 10% | 100% |
| IMD Legal & Compliance | 60% | 10% | 10% | 10% | 10% | 100% |



Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

Effective October 1, 2023

This Plan is effective only for the Performance Period beginning on October 1, 2023 and ending September 30, 2024. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods. No modification of this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

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Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

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

2. PLAN OBJECTIVES AND STRATEGY

2.1 *Plan Objectives*

The Plan serves these objectives:

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

2.2 *Plan Strategy*

Implementation of the Plan strategy includes:

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

3. BASE SALARY ADMINISTRATION

3.1 *Salary Structure*

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

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

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

3.2. *Salary Adjustments*

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

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIODS

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

- (a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The Performance Period for this Plan begins on October 1, 2023 and ends September 30, 2024. An award for performance in prior performance periods can only become earned and payable subject to the terms and conditions stated in the relevant plan.

4.2. *Participation in the Plan; Proration*

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

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

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

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

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

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

4.3. *Performance Components; Potential Awards*

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

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

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

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

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

4.4. *Compliance with TRS Policies*

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

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

4.5. *Performance Standards and Measurements*

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

measurement during the three full performance measurement periods ending on September 30 of the Performance Period.

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

4.6. *Potential Award Calculations*

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

4.7. *Earning Performance Payments*

- (a) Notwithstanding the Executive Director's approval of Potential Award calculations, and except as provided in this Section 4.7 and Section 7.6, Potential Awards will only become an Earned Award subject to Section 4.7(b) if a Participant is employed by TRS on January 1 following the end of the Performance Period during which that employee was a Participant. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.
- The payment dates of Earned Awards for the Performance Period shall be the same for all Participants.
- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards following a Performance Period in which the Fund experiences a total return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become Earned Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until January 1 following the next Performance Period in which the Total Fund has a return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.
- (c) If an employee ceases to be a Participant during the Performance Period due to termination of TRS employment for any reason other than involuntary termination of employment due to a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards under plans from previous performance periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during the Performance Period due to involuntary termination of TRS employment because of a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for the Performance Period will not become an Earned Award and will not be paid or payable. However, notwithstanding Sections 4.7(a) and (b), Potential Awards under plans from previous performance periods beginning October 1 and ending September 30 will immediately become Earned Awards. Payments under this subsection will be made as applicable to the terminated employee, the estate of the deceased employee, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the Reduction in Force, death or disability occurred.
- (e) A Participant who changes employment from TRS to TRICOT without a break in service pursuant to subsection (c) or (d) will be treated as employed by TRS for purposes of Potential Awards becoming Earned Awards under Section 4.7 of this Plan so long as the Participant remains continuously employed by TRICOT from the first day of employment with TRICOT through (i) the applicable January 1 for

purposes of Sections 4.7(a) and (b) or (ii) the date of involuntary termination of TRICOT employment because of a Reduction in Force, death, or disability for purposes of Section 4.7(d).

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

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

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

5.2 Plan Administration

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

5.3 Record Keeping and Reporting

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

5.4 Compliance with State and Federal Law

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

6. AT-WILL EMPLOYMENT

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

7. OTHER PLAN PROVISIONS

7.1. Non-transferability of Awards

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

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

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

7.3 Tax and Other Deductions

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

7.4 Payments Not Eligible for Retirement Purposes

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

7.5 Grievances

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

7.6 TRS Secondees; Subsidiary Employee Eligibility

- (a) TRICOT is a wholly owned subsidiary of the Teacher Retirement System of Texas incorporated in the United Kingdom on August 28, 2015. TRICOT has its principal office in London, England. TRS organized TRICOT for the purpose of establishing a representative office in London to provide investment services to TRS relating to private investment opportunities in the United Kingdom and Europe, and TRICOT provides such services exclusively to and on behalf of TRS. Employees directly hired by TRICOT are not eligible for performance pay under this Plan. From time to time, TRS second employees in the TRS Investment Management Division to TRICOT to provide services to TRICOT. Seconded employees participate in this Plan as part of their employment with TRS, including during the term of their secondment to TRICOT. TRS provides funding and services to TRICOT under an intercompany agreement.

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

(c) TRS and TRICOT intend that any employee who transfers employment between TRS and TRICOT as of the beginning of any calendar quarter without a break in service, and who is eligible to participate in the TRS Plan while employed by TRS and in the TRICOT Plan while employed by TRICOT, shall be eligible for performance pay during the Performance Period in aggregate that the employee would have received had they not changed employers, taking into account any changes to the employee's employment position, but without any adjustments for currency exchange rates.

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

8. DEFINITIONS

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

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

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

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

Investment Areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and Addendum B, and which are used to calculate Potential Awards for

Participants in Eligible Positions. In this Plan, Investment Areas are synonymous with IMD employee teams or groups.

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

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

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

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

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

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

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

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

| | | |
|--|-------------------------|-----------------------|
| Administrative Policy | Current effective date: | October 1, 2023* |
| | First issued: | October 1, 2007 |
| Reviewers: Executive Director, Chief Investment Officer, Organizational Excellence, Legal & Compliance | Last reviewed | September 15, 2023 |
| Review Cycle: Annual | Next review due: | September 2024 |
| Authorized by: Board of Trustees | Date authorized: | September 14-15, 2023 |
| Approved: | | |
| By: _____ | Approved as of: | October 1, 2023 |
| Brian K. Guthrie, Executive Director | | |

*This Plan is effective only for the Performance Period beginning on October 1, 2023 and ending September 30, 2024.

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

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

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

ADDENDUM B

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

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



Teacher Retirement Investment Company of Texas Ltd.

PERFORMANCE PAY PLAN

Effective October 1, ~~2022~~2023

This Plan is effective only for the Performance Period beginning on October 1, ~~2022~~2023 and ending September 30, ~~2023~~2024. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.

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

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PERFORMANCE PAY PLAN

1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

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

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

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

2. PLAN OBJECTIVES AND STRATEGY

2.1 Plan Objectives

The Plan serves these objectives:

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

2.2 Plan Strategy

Implementation of the Plan strategy includes:

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

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

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

3. BASE SALARY ADMINISTRATION

3.1 *Salary Structure*

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

3.2 *Salary Adjustments*

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

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIOD

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

- (a) The purpose of the Plan is to provide the opportunity for TRICOT employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The Performance Period for this Plan begins on October 1, [2022-2023](#) and ends September 30, [2023-2024](#). A potential award for performance in a prior plan's performance period can only become earned and payable subject to the terms and conditions stated in the relevant plan.

4.2 *Participation in the Plan; Proration*

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

employees and are not eligible to participate in the Plan. An Eligible Position under this Plan is not automatically an Eligible Position under any successor or superseding performance pay plan or other plan of TRICOT or TRS.

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

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

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

4.3 Performance Components; Potential Awards

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

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

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

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

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

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

4.4 *Compliance with TRICOT and TRS Policies*

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

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

4.5 *Performance Standards and Measurements*

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

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

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

4.6 *Potential Award Calculations*

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

4.7 Earning Performance Payments

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

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

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

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

5.2 Plan Administration

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

5.3 Record Keeping and Reporting

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

5.4 Compliance with Applicable Law

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

6. EMPLOYMENT

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

7. OTHER PLAN PROVISIONS

7.1 *Non-transferability of Awards*

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

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

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

7.3 *Tax and Other Deductions*

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

7.4 *Payments Not Eligible for Retirement Purposes*

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

7.5 *Grievances*

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

7.6 *TRS Secondees; Subsidiary Employee Eligibility*

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

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

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

8. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

Administrative Policy

Current effective date: October 1, ~~2022~~2023*

Reviewers: TRS Executive Director (as Shareholder Representative), TRICOT Senior Managing Directors, TRS Organizational Excellence, TRS Legal & Compliance

First adoption: October 1, 2021

Review Cycle: Annual

Next review due: September ~~2023~~2024

Authorized by: TRS Board of Trustees

Date adopted : September ~~1514-1615,~~ ~~2022~~2023

Approved:

By:
Brian K. Guthrie,

Approved as of: October 1, ~~2022~~2023

*This Plan is effective only for the Performance Period beginning on October 1, ~~2022-2023~~ and ending September 30, ~~2023~~2024.

ADDENDUM A

Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark

| | Total Fund | Active Public Markets (1) | Internal Fundamental | External Public Markets | Multi-Asset Strategies Group | Special Opportunities | Private Equity | Real Estate | Energy Natural Resources Infrastructure | Total |
|---|--|---|-----------------------|-------------------------|------------------------------|------------------------|--|------------------------|---|-------|
| Index | Total Fund Policy Composite Index | Daily Weighted Excess Return Based on Actual Portfolio Weights and Investment Policy Statement | | | | | State Street Private Equity Index | NCREIF ODCE | 40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI | |
| Excess Return Target | 100-75 bps | 100-75 bps | 100-75 bps | 100-75 bps | 100-75 bps | 100-150 bps | 200-125 bps | 125-150 bps | 125 bps | |
| Executive | 100% | | | | | | | | | 100% |
| Risk and Portfolio Management | 100% | | | | | | | | | 100% |
| Internal Fundamental | 30% | 50% | 20% | | | | | | | 100% |
| External Public Markets | 30% | 50% | | 20% | | | | | | 100% |
| Multi-Asset Strategies Group | 30% | 50% | | | 20% | | | | | 100% |
| Special Opportunities | 30% | 50% | | | | 20% | | | | 100% |
| Private Equity | 30% | | | | | | 70% | | | 100% |
| Real Estate | 30% | | | | | | | 70% | | 100% |
| Energy Natural Resources & Infrastructure | 30% | | | | | | | | 70% | 100% |
| Trade Management | 60% | 40% | | | | | | | | 100% |
| Investment Operations | 100% | | | | | | | | | 100% |
| IMD Legal & Compliance | 100% | | | | | | | | | 100% |

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

ADDENDUM B

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

| Fund Level | Total Fund | Trade Management | Private Equity | Real Estate | Risk Parity Portfolio | Total |
|---|--|--------------------|---|--|-----------------------|-------|
| Index | TUCS Public Funds >\$10 Billion Universe | Virtu Financial | TUCS Private Equity > \$10 billion Universe | Real Estate vs. TUCS Real Estate > \$10 billion Universe | Risk Parity Benchmark | |
| Excess Return Target | 100-75 bps | 8-9 bps | 200-175 bps | 125-150 bps | 25 30 bps | |
| Executive | 60% | 10% | 10% | 10% | 10% | 100% |
| Risk and Portfolio Management | 30% | 10% | 10% | 10% | 40% | 100% |
| Public Markets | 90% | 10% | | | | 100% |
| Private Equity | 30% | | 70% | | | 100% |
| Real Estate | 30% | | | 70% | | 100% |
| Energy Natural Resources & Infrastructure | 30% | | 35% | 35% | | 100% |
| Trade Management | 30% | 70% | | | | 100% |
| Investment Operations | 60% | 10% | 10% | 10% | 10% | 100% |
| IMD Legal & Compliance | 60% | 10% | 10% | 10% | 10% | 100% |



Teacher Retirement Investment Company of Texas Ltd.

PERFORMANCE PAY PLAN

Effective October 1, 2023

This Plan is effective only for the Performance Period beginning on October 1, 2023 and ending September 30, 2024. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.

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

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PERFORMANCE PAY PLAN

1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

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

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

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

2. PLAN OBJECTIVES AND STRATEGY

2.1 Plan Objectives

The Plan serves these objectives:

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

2.2 Plan Strategy

Implementation of the Plan strategy includes:

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

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

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

3. BASE SALARY ADMINISTRATION

3.1 *Salary Structure*

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

3.2 *Salary Adjustments*

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

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIOD

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

- (a) The purpose of the Plan is to provide the opportunity for TRICOT employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The Performance Period for this Plan begins on October 1, 2023 and ends September 30, 2024. A potential award for performance in a prior plan's performance period can only become earned and payable subject to the terms and conditions stated in the relevant plan.

4.2 *Participation in the Plan; Proration*

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

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

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

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

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

4.3 Performance Components; Potential Awards

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

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

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

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

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

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

4.4 Compliance with TRICOT and TRS Policies

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

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

4.5 *Performance Standards and Measurements*

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

portfolio's three-year performance measurement during the three full performance measurement periods ending on September 30 of the Performance Period.

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

4.6 *Potential Award Calculations*

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

4.7 *Earning Performance Payments*

- (a) Notwithstanding the Shareholder Representative's approval of Potential Award calculations, and except as provided in this Section 4.7 and Section 7.6, Potential Awards

will only become an Earned Award subject to Section 4.7(b) if a Participant is employed by TRICOT on January 1 following the end of the Performance Period during which that employee was a Participant. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.

(i)

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

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

payments would be consistent with and in furtherance of the fiduciary duties of the TRS Board in administering the retirement system, and if such payments are not prohibited by applicable law.

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

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

5.2 Plan Administration

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

5.3 Record Keeping and Reporting

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

5.4 Compliance with Applicable Law

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

6. EMPLOYMENT

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

7. OTHER PLAN PROVISIONS

7.1 Non-transferability of Awards

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

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

- (a) Neither the establishment of the Plan nor the calculation of Potential Awards or Earned Awards shall be deemed to create a property interest, trust or entitlement. The Plan is an

unfunded, unsecured liability of TRICOT to make payments in accordance with the provisions of the Plan and applicable law. Any amounts budgeted for performance pay under the Plan are TRICOT assets until properly disbursed in accordance with, this Plan, and applicable law, and no employee or third party shall have any property, security, expectancy, contractual right, lien, security interest, encumbrance, or other interest in any TRICOT assets by reason of the Plan.

- (b) Nothing in the Plan shall be deemed to create or confer any right, interest, expectancy, or title to any specific property of TRICOT or TRS to any Participant, or to any estate, trust, personal representative, heir, family member, or beneficiary of a Participant.

7.3 Tax and Other Deductions

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

7.4 Payments Not Eligible for Retirement Purposes

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

7.5 Grievances

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

7.6 TRS Secondees; Subsidiary Employee Eligibility

- (a) Only employees directly hired by TRICOT are eligible for performance pay under this Plan. From time to time, TRS seconded employees in the TRS Investment Management Division to TRICOT to provide services to TRICOT. Seconded employees participate in the TRS Performance Pay Plan as part of their employment with TRS, including during the term of their secondment to TRICOT, and are not eligible for awards under this Plan. TRS provides funding and services to Tricot under an intercompany agreement and administers this Plan under that agreement.
- (b) The Board has authorized TRICOT's adoption of a separate performance pay plan that, to the extent legally permissible under UK law, is designed and intended to provide eligibility for performance pay awards comparable to that provided to TRS employees under this Plan (taking into account differing compensation rates, but not currency exchange rates), but there is no assurance that the TRICOT Plan will be comparable in all respects. TRS, as one of the services it provides to Tricot, will administer the Tricot-adopted plan by and through the TRS Executive Director as the Shareholder Representative on behalf of TRICOT.
- (c) TRS and TRICOT intend that any employee who transfers employment between TRS and TRICOT as of the beginning of any calendar quarter without a break in service, and who is eligible to participate in the TRS Plan while employed by TRS and in the TRICOT Plan while employed by TRICOT, shall be eligible for performance pay during the Performance Period in aggregate that the employee would have received had they not changed

employers, taking into account any changes to the employee's employment position, but without any adjustments for currency exchange rates.

- (d) If a TRICOT Participant leaves an Eligible Position under the Tricot plan during the Performance Period because the TRICOT Participant changes employment from TRICOT to TRS without a break in service, then the TRICOT Participant's Potential Award for the partial Performance Period under this Plan will be prorated based on the number of complete calendar quarters worked in a TRICOT Eligible Position during the Performance Period. For the avoidance of doubt, a Participant under this Plan will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position under this Plan for the entire quarter.

8. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

Administrative Policy

Current effective date: October 1, 2023*

Reviewers: TRS Executive Director (as Shareholder Representative), TRICOT Senior Managing Directors, TRS Organizational Excellence, TRS Legal & Compliance

First adoption: October 1, 2021

Review Cycle: Annual

Next review due: September 2024

Authorized by: TRS Board of Trustees

Date adopted : September 14-15, 2023

Approved:

By:
Brian K. Guthrie,

Approved as of: October 1, 2023

*This Plan is effective only for the Performance Period beginning on October 1, 2023 and ending September 30, 2024.

ADDENDUM A

Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark

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

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

ADDENDUM B

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

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

TAB 4



Updates to the Executive Director Performance Incentive Pay Plan

Shunne Powell, Chief Organizational Excellence Officer

September 2023



Items for Discussion

| Category | Agenda Item | Timing |
|---|---|---|
| Areas of Focus (AOF) | Discuss and review the Executive Director's proposed Areas of Focus for Fiscal Year 2024 | Strategic Planning Committee: Agenda Item #3 |
| ED Incentive Plan | Consider recommending to the Board continuation and adoption of the Executive Director's Performance Incentive Pay Plan for the 2023-2024 Performance Period | Compensation Committee: Agenda Item #4 |
| Evaluation Process | Overview of proposed evaluation process for the Executive Director, the Chief Investment Officer, Chief Audit Executive and Ombudsman for Fiscal Year 2023 | Board of Trustees: Agenda Item #8 |
| Board Discussion and Consideration | Discuss and consider personnel matters including the appointment, selection, compensation, duties, discipline, or dismissal of the Executive Director, the Chief Investment Officer, Chief Audit Executive and Ombudsman (Agenda item #9) | Board of Trustees: Agenda Item #9 |

Background

- First plan adopted in 2015, last updated in 2022
- Designed to reward the executive director for TRS performance beyond agency benchmarks for:
 - Leadership Performance (50% MAO)
 - Investment Management Oversight (50% MAO)
- Incentives are paid out annually in February
- Plan year timeframe coincides with IMD Incentive Plan year

2023-2024 Proposed Plan Changes

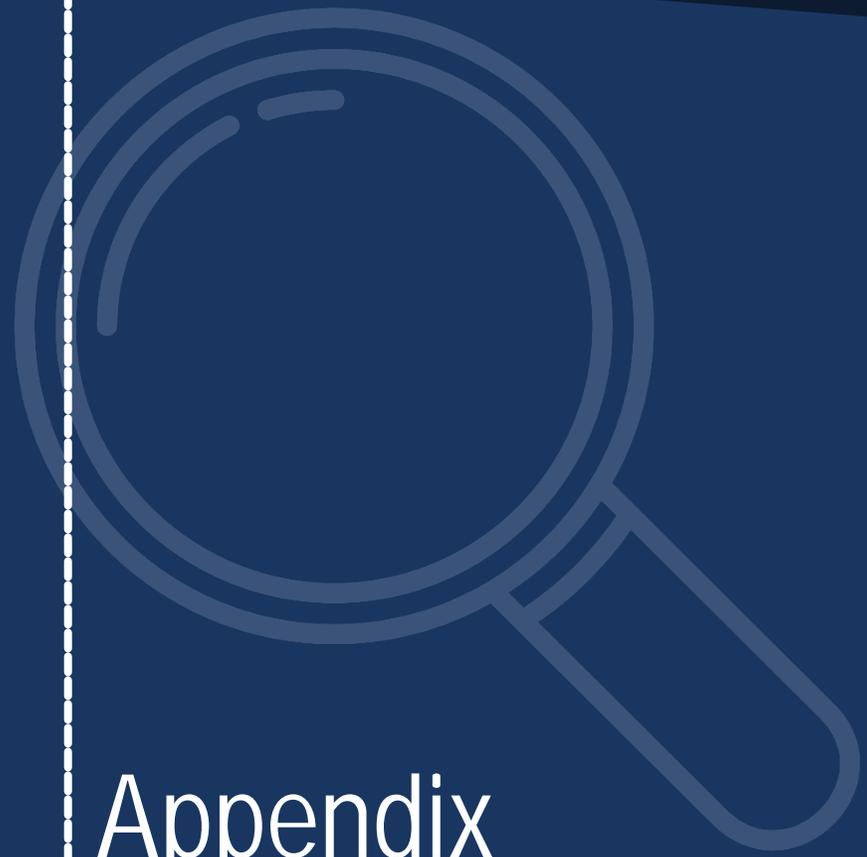
- Minor updates to reflect 2023-2024 plan year
- Updates Investment Management Oversight Component calculation to align with IMD plan
 - Current plan calculates Percent of Target Alpha Achieved at 100 bps (basis points)
 - IMD Incentive Plan changes propose lowering the target to 75 bps (basis points)*

*Note: Plan update contingent on Board approval of IMD Incentive Plan, Agenda item #3

Overview of ED Incentive Plan Components

| 2023-2024 ED Incentive Plan | | |
|--|---|--|
| Leadership Performance (MAO up to 50%)* | | |
| <p>5 Key Accountabilities</p> <ul style="list-style-type: none"> • Member Focused • Leadership Effectiveness • Talent Effectiveness • Continuous Improvement • Operational Effectiveness |  | <p>Total MAO for both components = 100%</p> |
| <p>10 Areas of Focus</p> <ul style="list-style-type: none"> • Tied to Strategic Plan objectives | | |
| <p>37 Success Measures</p> <ul style="list-style-type: none"> • Deliverables (qualitative) • KPIs (quantitative) | | |
| <p>Investment Management Oversight (MAO up to 50%)</p> | | |
| <p>Percent of Target Alpha Achieved</p> | | |

*Note: Board determines award based on Key Accountabilities, Areas of Focus, 360 assessments and other related data. Mercer Consulting will assist the Board in determining amount of the award.



Appendix



Teacher Retirement System of Texas

Executive Director Performance Incentive Pay Plan

Effective October 1, ~~2022~~2023

*This version of the ~~This~~ Plan is effective for Leadership Performance Periods beginning on or after October 1, 202~~2~~3, and for Investment Oversight Performance Periods beginning on or after October 1, 202~~2~~3. Any Incentive Awards for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.

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Executive Director Performance Incentive Pay Plan

Effective October 1, ~~2022~~2023, for Leadership Performance Period and Investment Oversight Performance Period

I. Establishment

The Board of Trustees (the “Board”) has established this Executive Director Performance Incentive Pay Plan (the “Plan”) for the purposes described below. It is effective for Performance Periods beginning on or after October 1, ~~2022~~2023. The Plan consists of two separate incentive compensation components, namely Leadership ~~Incentive-Performance Incentive Compensation~~Compensation described in Section VI and Investment Oversight Incentive Compensation described in Section VII. Performance Periods for both components run from October 1, ~~2022-2023~~ to September 30, ~~2023~~2024.

II. Plan Objectives

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

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

III. Plan Authority and Responsibility

A. Plan Administration

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

B. Plan Modification, Suspension and Termination

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

C. Record Keeping and Reporting

All employee performance, salary and incentive pay records for the Plan shall be maintained by

TRS's Chief Organizational Excellence Officer.

D. Compliance with State and Federal Law

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

IV. At-Will Employment

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

V. Eligibility and Participation

A. Eligible Positions

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

B. Termination of Participation

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

C. Proration

A Participant who begins employment in an eligible position after the beginning of a Performance Period may receive a prorated incentive payment based on the number of months worked during the Performance Period. Notwithstanding the foregoing, a Participant must work at least three (3) months of the Performance Period ~~in order to~~ be eligible for a prorated share of the incentive payment.

VI. Leadership Performance Incentive Compensation

A. Leadership Performance Period Cycle

Prior to the start of a Leadership Performance Period, the Board reviews and adopts Areas of Focus (AOF) for the Executive Director (see timeline below in Table A). These outline success measures including key performance indicators and deliverables that are tied to TRS' Strategic Plan and are set forth in Appendix A. The Executive Director's maximum Leadership Performance Award opportunity is 50% of Base Salary.

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

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

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

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

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

| Table A: Leadership Performance Period Cycle | | | | | |
|---|---|--|---|---|--|
| Leadership Performance Period | Areas of Focus Adopted by the Board* | Leadership Performance Period Start Date | Leadership Performance Period Close Date | Evaluation Conducted* | Payment Date |
| 2022 2023- 2024 2023 | September 15, 202 3 ² | October 1, 202 3 ² | September 30, 20 4 ²³ | September 202 4 ³ | February 202 5 ⁴ |
| 2023 2024- 2025 2024 | September 202 4 ³ * | October 1, 202 4 ³ | September 30, 202 5 ⁴ | September 202 5 ⁴ | February 202 6 ⁵ |

*Dates to be determined based on scheduled board meetings

B. Payment of Leadership Performance Awards

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

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

VII. Investment Management Oversight Incentive Compensation

A. Purpose of Investment Oversight Performance Awards

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

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

B. Investment Oversight Performance Period Cycle

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

C. Determination of Investment Oversight Performance Awards

- (1) In addition to Leadership Performance Awards, the Executive Director is eligible for Investment Oversight Performance Awards for his or her oversight of the Investment Management Division. Such Investment Oversight Performance Awards are based on the percentage of target alpha achieved by the total investment fund, as follows:
 - Investment performance is measured at the total fund level vs. TRS’s established passive total fund index. The total fund alpha target follows the methodology established in the IMD Performance Pay Plan, where the one-year and three-year alpha target equals 400-75 BPS (basis points).
 - Investment performance is measured for the Investment Oversight Performance Period in the same way it is measured under the IMD Performance Pay Plan.
- (2) The Executive Director’s maximum Investment Oversight Performance Award opportunity (MAO in Table D below) is 50% of Base Salary, and his or her earned Investment Oversight Performance Award for the Investment Oversight Performance Period is determined by multiplying the following: Base Salary, MAO, and the percentage of the target alpha achieved. In determining the Investment Oversight Performance Award amount, weighted averages are used, with 1/3 weighting allocated to one-year returns, and 2/3 weighting allocated to three-year returns, and the one and three-year return periods ending on the last day of the Investment Oversight Performance Period.

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

D. Payment of Investment Oversight Performance Awards

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

VIII. Other Plan Provisions

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

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

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

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

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

C. Tax Withholding and Other Deductions

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

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

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

E. Compliance with TRS Policies and Procedures

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

IX. Definitions

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

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

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

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

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

"Investment Oversight Performance Period" means the period beginning on October 1

and ending on the next following September 30.

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

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

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

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

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

| | |
|---|--|
| | Current effective date: October 1, 2022 2023* |
| | First approved: November 19, 2015 |
| Reviewers: Organizational Excellence and Legal & Compliance | Last reviewed September 15 14, 20222023 |
| Review Cycle: Annual | Next review due: September 20232024 |
| Authorized by: Board of Trustees | Date authorized: September 16 15, 2023 2 |
| Acknowledgment of Official Version of the Plan: | |
| By: _____ | |
| Janet Bray Shunne Powell, Chief Organizational Excellence Officer | |

~~*This version of the Plan is effective for Leadership Performance Periods beginning on or after October 1, 2022, and for Investment Oversight Performance Periods beginning on or after October 1, 2022. Any Incentive Awards for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.~~

| Member Focused | |
|--|--|
| Areas of Focus | Success Measures |
| <p>Improve the customer service experience for members and employers. (G2.01)</p> | <p>Deliverable: Execute on the Customer Service Improvement Initiative (G2.01.S5)</p> <p>Deliverable: Increase capacity to serve members. (G2.01.S1)</p> <p>Deliverable: Build and define operational support for Benefit Services. (G2.01.S4)</p> <p>Deliverable: Develop and fully implement foundational training for Benefit Processing and Benefit Accounting.</p> <p>Deliverable: Assign trainers to each department in Benefit Services to develop classroom and on the job training curriculum specific to departmental needs.</p> <p>Deliverable: Improve response time to reporting employers. (G2.01.S2)</p> <p>Deliverable: El Paso Regional Office opened and operational during calendar year 2022.</p> <p>Deliverable: Staff in El Paso Regional Office trained to conduct Benefit Presentations for El Paso and surrounding areas.</p> <p>KPI: Recruit, hire and train new positions that were authorized in fiscal year 2022 — Target: 90%</p> <p>KPI: Reduce Benefit Estimates backlog by 50 percent — Target: 1,000</p> <p>KPI: Decrease telephone counseling hold time by 25% — Target: 15 minutes</p> <p>KPI: Retiree receiving first annuity payment on time — Target: 98%</p> <p>KPI: Death claims payments issued within 31 days of receipt of all required paperwork — Target: 95%</p> <p>KPI: Number of counseling appointments available in Austin — Target: 20,000</p> <p>KPI: Attain a reported response time within 48 hours or sooner based on Reporting Employer Satisfaction Survey — Target: 90%</p> <p>KPI: Health & Insurance Benefits (HIB) calls answered within 3 minutes — Target: 80%</p> <p>KPI: Number of counseling appointments available in El Paso — Target: 5,000</p> |
| <p>Increase the value of health care benefits. (G3.02)</p> | <p>Deliverable: Re-engineer TRS ActiveCare to better meet employer needs. (G3.02.S2)</p> <p>Deliverable: Implement regional rating by September 1, 2022.</p> <p>Deliverable: Offer joint and back pain programs in high prevalence regions.</p> <p>Deliverable: Monitor and evaluate Prudent RX program to reduce participants' out of pocket costs for specialty drugs.</p> <p>KPI: Increase the percentage of TRS ActiveCare enrollees in the primary care driven plans from prior year — Target: 3%</p> <p>KPI: Member engagement metrics as measured by percentage of members who either open the Pulse email and then click to read articles — Target: 23% email / 3% articles</p> |
| Leadership Effectiveness | |
| Areas of Focus | Success Measures |
| <p>Improve communication regarding pension and health care funding needs. (G1.01 & G3.01)</p> | <p>Deliverable: Serve as a trusted resource and engage with policymakers on pension funding. (G1.01.S1)</p> <p>Deliverable: Serve as a trusted resource and engage with policymakers on health care funding. (G3.01.S1)</p> |
| <p>Achieve the trust's actuarial assumed rate of return as measured on rolling 20-year periods. (G1.03)</p> | <p>Deliverable: Review Pension Funding Policy.</p> <p>Deliverable: Find and hire diverse emerging managers.</p> <p>KPI: Trust rate of return measured on a rolling 20-year period — Target: 7.00%</p> <p>KPI: Return in excess of the benchmark return for the Total Trust (3-year rolling) — Target: +100bp</p> <p>KPI: External manager annual fee savings in CY 22 — Target: \$138 million</p> <p>KPI: Percent of portfolio capital plan in principal investments approved (cumulative year to date) — Target: 42%</p> |
| <p>Improve communication regarding the impact of changing pension plan design. (G1.04)</p> | <p>Deliverable: Serve as a trusted resource and engage with policymakers on pension plan design. (G1.04.S1)</p> |

| Improve strategic communications. (G4.07) | <p>Deliverable: Execute on the Member and Employer Outreach Plan to better help members and employers plan for retirement. (G4.07.S2)</p> <p>KPI: Increase number of visits/views of outreach plan communications products (e.g., videos, web pages)—Target: 20%</p> <p>KPI: Increase social media followers and email subscribers for real-time TRS updates/resources—Target: 15%</p> |
|--|---|
| Talent Effectiveness | |
| Areas of Focus | Success Measures |
| Attract, retain, and develop a diverse and highly-competent staff. (G4.01) | <p>Deliverable: Continue to evolve as an employer of choice to attract and retain best talent, including exploring TRS becoming a multi-state employer.</p> <p>Deliverable: Explore tactics for improving the number of qualified applicants for open positions.</p> <p>Deliverable: Track turnover rates for contact center positions, identify reasons for leaving, and develop tactics to reduce turnover.</p> <p>KPI: Employee satisfaction index score (Energage/Top Workplaces survey)—Target: 4.0 or greater</p> <p>KPI: TRS voluntary turnover rate vs. state turnover rate—Target: 10% or less of state average</p> |
| Improve diversity representation at all levels of the organization. (G4.01.S3) | <p>Deliverable: Successful implementation of DE&I tool, including using related data for identification of potential opportunities for improvement.</p> <p>Deliverable: Work in partnership with DE&I and Organizational Excellence/IMD Talent Management Teams to develop a Diversity Recruitment Plan.</p> |
| Operational Effectiveness | |
| Areas of Focus | Success Measures |
| Enhance the information security program to effectively counter-current and emerging threats and risks facing TRS. (G4.03) | <p>Deliverable: Optimize security architecture and operational capabilities to thwart advanced threats and mitigate vulnerabilities. (G4.03.S1)</p> <p>Deliverable: Work collaboratively with Legal & Compliance and appropriate business units to identify and implement options for enhancing detection of potential cyber-based fraud.</p> |
| Execute on TRS facilities needs. (G4.04) | <p>Deliverable: Begin Alpha move-in and move-out of 816 Congress by May 2023.</p> <p>Deliverable: Complete core and shell construction for Bravo by April 2023.</p> <p>Deliverable: Execute sale of current headquarters by the end of calendar year 2022.</p> <p>Deliverable: Evaluate El Paso regional office and consider possible locations for future regional offices.</p> |
| Continuous Improvement | |
| Areas of Focus | Success Measures |
| Advance and enhance IT systems and services. (G4.02) | <p>Deliverable: Implement modern information systems across all lines of business divisions with priority on modernization of legacy systems. (G4.02.S4)</p> |
| Evaluate automation and technology solutions to enhance existing processes. (G4.08) | <p>Deliverable: Solicitation for Investment Management System solution posted by spring 2023.</p> <p>Deliverable: Core Data Hub capabilities ready for Investment Data Modernization implementation phases by end of fiscal year 2023.</p> <p>Deliverable: Approved positions posted by end of fiscal year 2023.</p> |

Compensation Process: Overall Timing

| | | | | | Fiscal Year | | | | | | | |
|------------------------------|--|-----|---------------------------------------|-----|---------------------|-----|-----|-----|-----|-----|-----|-----|
| | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
| Board Direct Reports | 360 Evaluation Process: Led by Focus Consulting | | | | | | | | | | | |
| | | | Compensation Review: Led by Mercer | | | | | | | | | |
| | | | | | Incentive Plan Year | | | | | | | |
| | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
| Incentive Plans (ED and IMD) | Review of Incentive Plans | | | | | | | | | | | |
| | | | | | Board Approval | | | | | | | |

Note: Items highlighted in gold are Board-related activities