

May 2024

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 and Members: Mr. Nance, Chair; Mr. Ball,
Mr. Elliott, Mr. Hollingsworth and Mr. Williams)

*All or part of the May 2, 2024, 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 May 2, 2024, 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

May 2, 2024 – 2:30 p.m.

1. Call roll of the Committee members.
2. Consider the approval of the proposed minutes of the December 2023, committee meeting – Chair.
3. Receive an overview of the Compensation Committee’s Calendar Year 2024 Work Plan – Shunne Powell.
4. Receive an update on staffing and turnover– Michelle Gray.
5. Receive an update from the Board’s Compensation Consultants – Josh Wilson and Susan Lemke, Mercer Consulting.

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
December 7, 2023**

The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas met on December 7, 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. Brittany Allred
Mr. David Corpus
Ms. Nanette Sissney
Mr. Robert H. Walls, Jr.

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Heather Traeger, TRS
Don Green, TRS
Jase Auby, TRS
Michelle Gray, TRS
Monica Durham, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Compensation Committee Chair, Mr. James D. Nance, called the meeting to order at 2:03 p.m.

1. Call roll of Committee members.

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

2. Consider the approval of the proposed minutes of the September 2023 committee meeting – Chair.

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

3. Receive an update on Talent Management and the TRS Workforce – Michelle Gray and Monica Durham.

Ms. Michelle Gray provided an overview of talent management for the end of fiscal year 2023 and the beginning of fiscal year 2024. Ms. Monica Durham reviewed changes in talent acquisition since the pandemic. She noted talent acquisition needed to be more agile and fluid in getting the most qualified applicant to an offer as quickly as possible. She described how they source for highly skilled specialists alerting potential applicants of opportunities within TRS. She noted the increased focus on branding and how TRS is presented to external applicants. She then reviewed the Austin and Central Texas labor market. She discussed the staffing turnover for fiscal year '23, noting turnover was 10.2 percent compared to the State rate of 14.6 percent.

Ms. Gray highlighted programs in place that have helped attract and retain staff throughout fiscal year '23. She referenced efforts such as hybrid or remote work, the internship and fellowship program, internal career development and the mission driven culture as positives.

4. Receive an update from the Board's Compensation Consultant – Josh Wilson and Susan Lemke, Mercer.

Mr. Josh Wilson outlined the review Mercer will perform over the next couple of months. He said they would look at the salary ranges, the benchmarking, methodology and compensation philosophy which has been in place since 2007. Ms. Susan Lemke stated the outcome is to discuss strengths and weaknesses of the compensation program and to identify and recommend any changes to the program. Mr. Wilson provided a timeline over the next five to six months to accomplish the review which included providing updates to the Board.

With no further business before the Committee, the meeting adjourned at 2:28 p.m.

Approved by the Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas on May ____, 2024.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3



Organizational Excellence

May 02, 2024
Presented By:
Shunne Powell, Chief Organizational Excellence Officer
Michelle Gray, Deputy Chief of Organizational Excellence



[Compensation Committee] – CY 2024



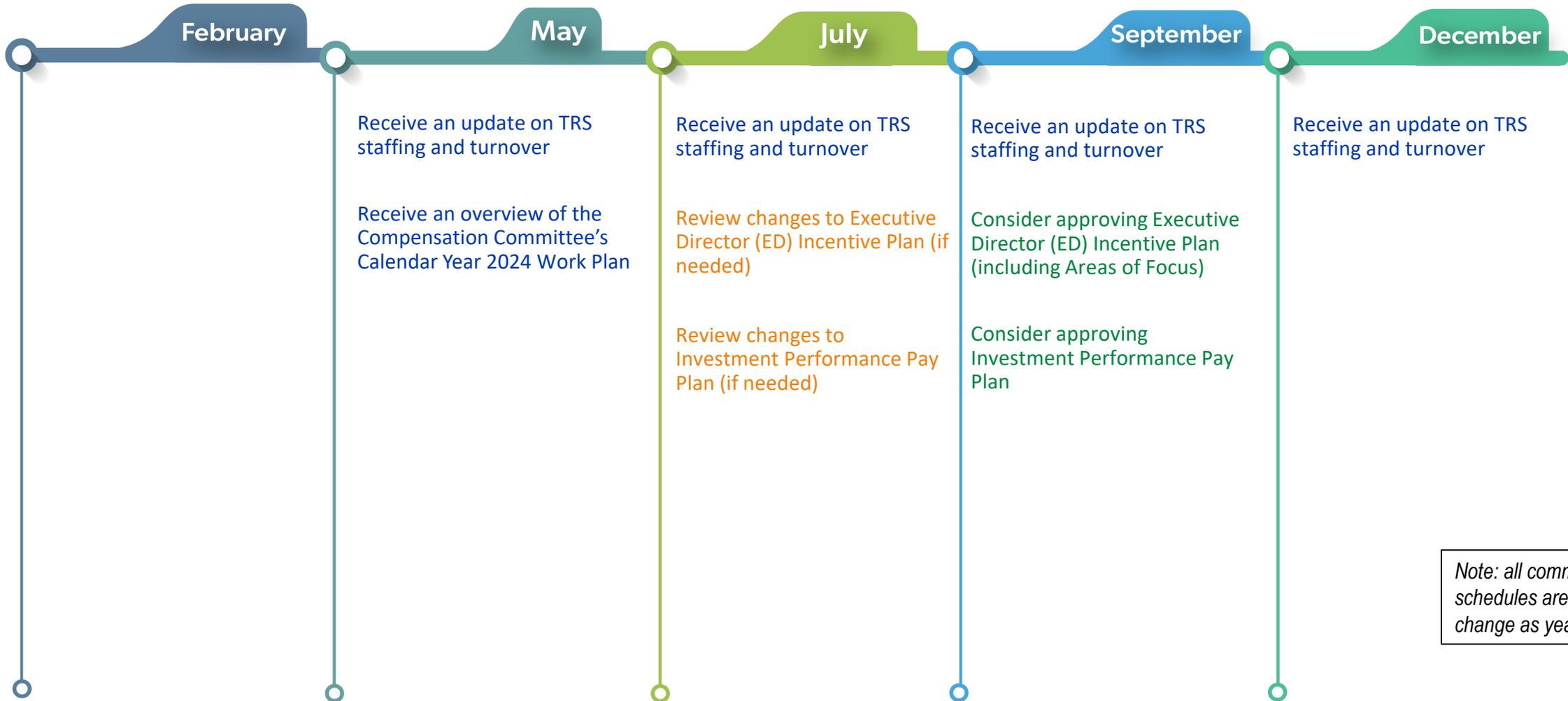
Committee Workplan

Schedule as of April 2024

Informative (Receive)

Pre-Action (Review)

Action (Consider)
*Approved by committee only



Note: all committee schedules are subject to change as year progresses.

Fiscal Year 2024

Fiscal Year 2025

Overall Timing by Committees



	February	May	July	September	December
Compensation Committee			Proposed Changes to Performance Pay Plans (ED and Investment)	<ul style="list-style-type: none"> Adoption of ED Incentive Plans (includes AOF) Adoption of Investment Performance Pay Plans 	
Strategic Planning Committee	Proposed changes to Strategic Plan	Adoption of Strategic Plan	Proposed changes to ED's Areas of Focus	Review of ED's Areas of Focus*	
Full Board			Overview of evaluation process for Board Direct Reports	Actions for Board Direct Reports: <ul style="list-style-type: none"> Review performance evaluations Consider changes to compensation for board direct reports Consider incentive pay amount for ED 	

*Note: Areas of Focus are not formally adopted in Strategic Planning Committee, but rather adopted as an appendix of the ED Incentive Compensation Plan

2024 Evaluation Timeline for Board Direct Reports



Executive Director – Incentive Compensation Timeline



	February	May	July	September	December
How are goals established and areas of focus (AOF) determined?	Board reviews proposed updates/changes to the Strategic Plan (Strategic Planning Committee)	Board approves updates to the Strategic Plan (Strategic Planning Committee)	Areas of Focus for FY25 are laid out for the board to review (Strategic Planning Committee)	Final version of Areas of Focus presented to the board (Strategic Planning Committee)	
How is progress toward those goals and AOF tracked?		Board receives Results Forum Report (Q1) (Strategic Planning Committee)	Board receives Results Forum Report (Q2) (Strategic Planning Committee)	Board receives Results Forum Report (Q3) (Strategic Planning Committee)	Board receives Results Forum Report (Q4) (Strategic Planning Committee)
How is the incentive plan reviewed and approved?			Board receives a report of proposed changes to the performance pay plan, if needed (Compensation Committee)	Board reviews and adopts ED Incentive Plan, which includes AOF discussed in Strategic Planning Committee (Compensation Committee)	
How is incentive compensation determined?				Board considers incentive pay amount for Executive Director (Full Board)	

TAB 4



Talent Update



Turnover and Vacancy Trends



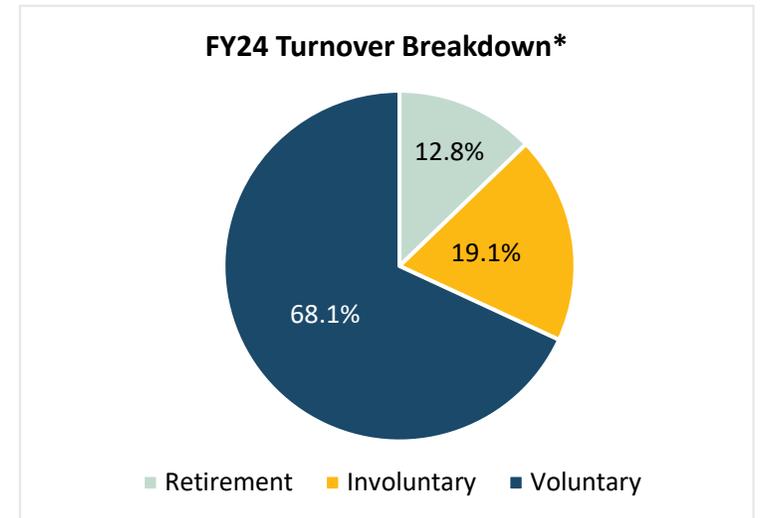
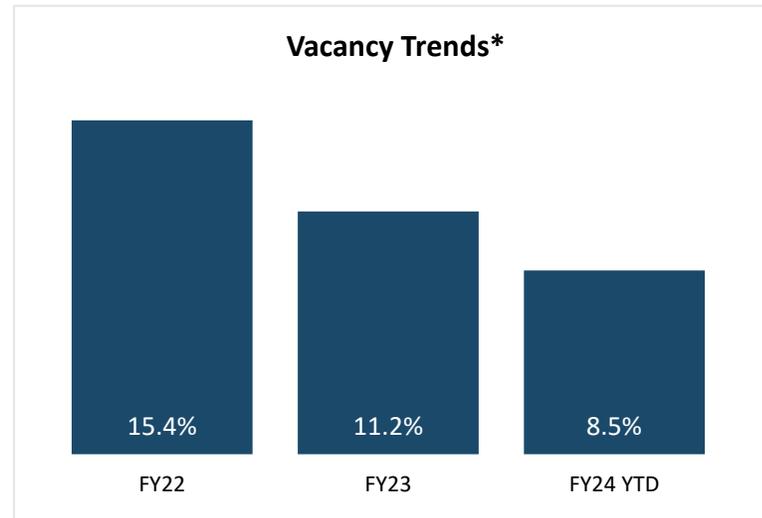
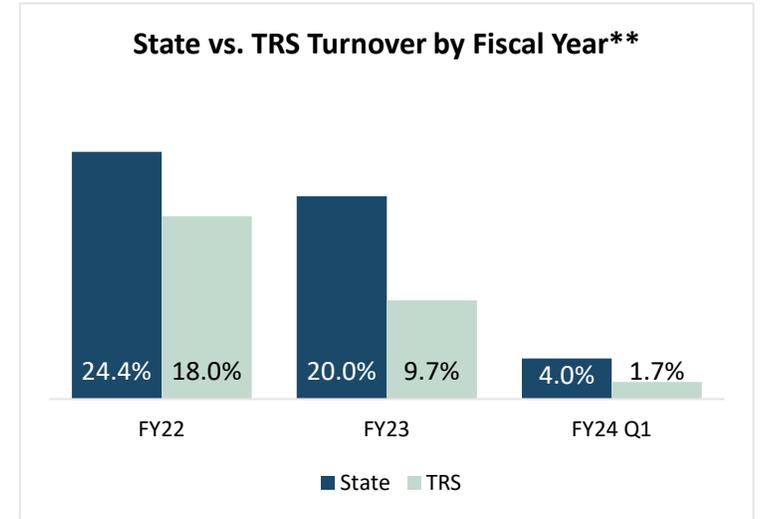
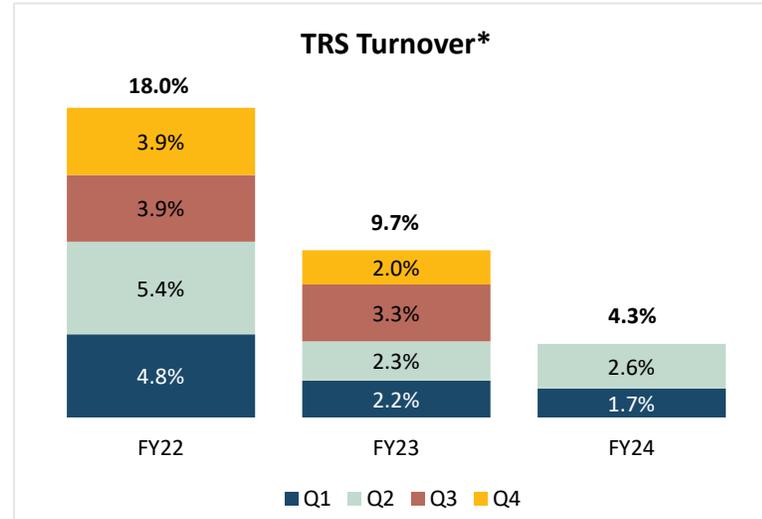
TALENT
Effectiveness

Turnover rates remain stable

- Turnover rates continue to trend downward and now mirror rates seen pre-pandemic
- In FY 23 TRS' turnover rate was more than 50% below the state average – and FY 24 rates continue to follow that trend

Vacancy trends remain low

- Over the past two years the percentage of vacant positions has steadily declined
- As of April 2, 2024, 5.5% of positions approved to be filled are vacant



Notes

*FY 24 data – as of 2/29/2024

**FY 24 Q2 State turnover available was not yet available



Recruiting and Staffing Trends



Recruiting and hiring trends remain strong

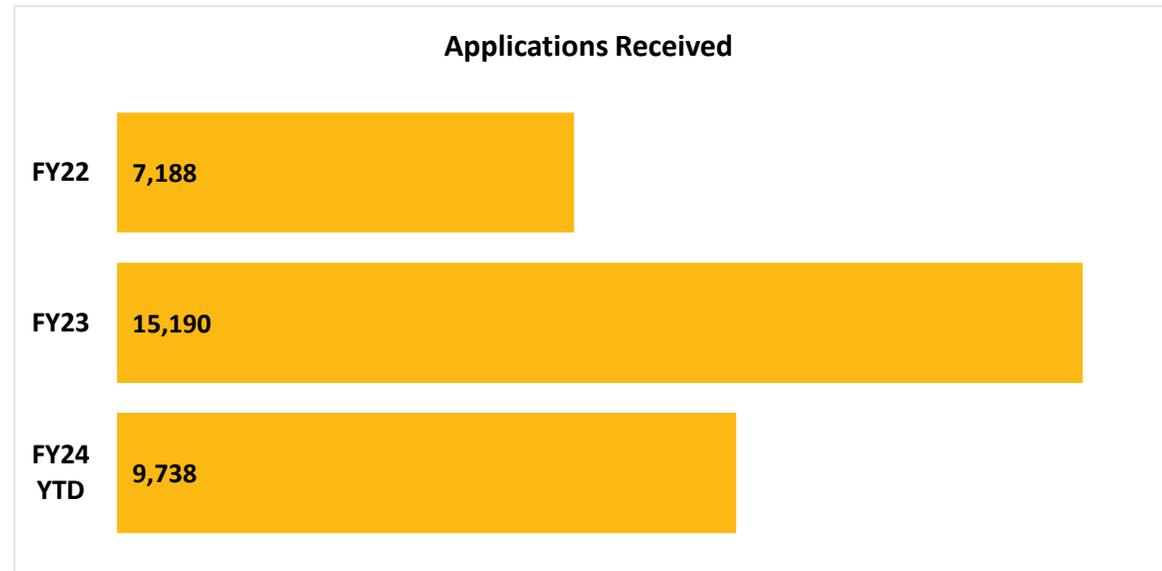
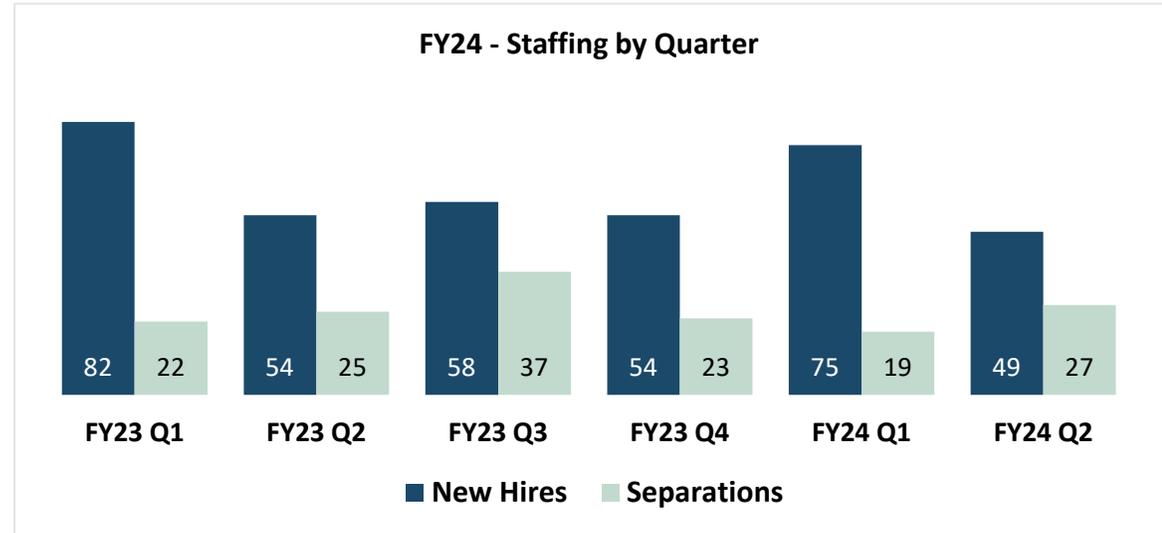
- Year to date, TRS has received more applications than in FY 22 and is on track to exceed number of applicants in FY 23

Summer internship preparation has begun

- For FY 24, TRS estimated 32-35 interns, which is just less than the 38 in FY 23
- Internship program runs 10 weeks, and divisions across the agency participate in providing learning opportunities to students

TRS Fellowship Program continues to grow

- Program currently has 20 Fellows
- Fellowship roles last a maximum of three years and provide training and development for recent graduates





Mercer Update

May 02, 2024

Presented By:

Josh Wilson, Partner Mercer Consulting

Susan Lemke, Senior Principal Mercer Consulting

TAB 5

Teacher Retirement System of Texas

IMD Incentive Compensation Review

Josh Wilson
Susan Lemke
Aimee Kudela
Lanni Barrie

May 2024

A business of Marsh McLennan



Update on Mercer's Audit of IMD's Incentive Program

Mission

Complete a **comprehensive, holistic, and historical review** of the Investment Incentive Plan including a review of the **compensation philosophy, benchmarks, job mapping process, salary ranges, plan design, and incentive titles/targets.**

Project Timeline

	December	January	February	March	April	May
Current State Review						
Market Assessment						
Salary Structure Review						
Incentive Program Review						

Competitive Market Assessment

- Benchmarked all IMD jobs against the market
- Independent review using Mercer methodology
- Looked at salary and total cash (salary + incentives)
- Understanding the competitiveness of the incentives rests on assessing the competitiveness of base salaries

Next Steps

- Begin deep dive on IMD incentive plan
- Review IMD salary structure
- Update Board in June

Competitive Market Assessment

Methodology

- Both base salary and total cash compensation (base salary + short-term incentive) are compared to market
- Base salary is compared to large public pensions; due to TRS's asset size and complexity, TRS base salary is compared to the market 75th percentile
- Total cash compensation is compared to a market composite total cash comprising the public pension 75th percentile base salary (above) and private asset management 25th percentile STI
- TRS outlines maximum short-term incentives as a percentage of base salary with projected realized percentages of that maximum as a target value; figures used are shown to the right

Incentive Title	Max STI %	Projected Realized	
		% of Max ("Target")	Target STI %
CIO	175%	55%	96%
Senior Managing Director	175%	55%	96%
Managing Director	175%	55%	96%
Director	150%	55%	83%
Investment Manager	100%	65%	65%
Senior Associate	75%	65%	49%
Associate	65%	65%	42%
Senior Analyst	40%	65%	26%
Analyst	30%	65%	20%
Junior Analyst	15%	65%	10%
Assistant	5%	65%	3%

Investment Roles

		TRS vs Market Gap	
Level	Sample Titles	Base Salary (Public Pension 75 th)	Total Cash (Public 75 th Base + Private 25 th STI)
High	Managing Director – Private Markets, Senior Managing Director – IMD Chief of Staff, External Public Director, Managing Director – Research, Chief Investment Officer	-5% to 0%	-20% to -15%
Mid	Risk Senior Associate, Private Markets Investment Manager, Trading Investment Manager	-15% to -10%	-10% to -5%
Entry	Private Markets Analytics Junior Analyst, Private Markets Analyst, External Public Senior Analyst, Risk Associate, Research Senior Associate	-10% to -5%	-5% to 0%

Adjacent Roles

		TRS vs Market Gap	
Level	Sample Titles	Base Salary (Public Pension 75 th)	Total Cash (Public 75 th Base + Private 25 th STI)
Mid	Associate – Performance, Information Data Systems Senior Associate, Investment Manager – Operations	0% to 5%	15% to 20%
Entry	Investment Budget Analyst, Investment Operations Senior Analyst, Investment Analytics Associate	-15% to -10%	0% to 5%

Support Roles

		TRS vs Market Gap	
Level	Sample Titles	Base Salary (Public Pension 75 th)	Total Cash (Public 75 th Base + Private 25 th STI)
Mid	Investment Management – Talent Management, Talent Management Senior Associate	-10% to -5%	15% to 20%
Entry	Facilities Assistant, IMD Operations Executive Assistant, Talent Management Senior Analyst	5% to 10%	15% to 20%