

Minutes of the Board of Trustees

February 15, 2024

The Board of Trustees of the Teacher Retirement System of Texas met on Thursday, February 15, 2024, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

The following Board members were present:

Jarvis V. Hollingsworth, Chair
Nanette Sissney
Brittney Allred
Michael Ball
David Corpus
John Elliott
James Nance
Robert H. Walls, Jr.
Elvis Williams

Others present:

Brian Guthrie, TRS	Suzanne Dugan, Cohen Millstein
Andrew Roth, TRS	Keith Brown, Investment Advisor
Heather Traeger, TRS	Steve Voss, AON
Jase Auby, TRS	Michael McCormick, AON
Don Green, TRS	Benita Harper, AON
Barbie Pearson, TRS	Amy Danly, ExpressScripts
Katrina Daniel, TRS	Steve Alexander, BCBSTX
Amanda Jenami, TRS	Karen Haywood, BCBS
Adam Fambrough,	
Mark Chi, TRS	
Meghan Bludau, TRS	
Kyle McKay, TRS	
Sandy Mitchell, TRS	
Lori LaBrie, TRS	
Kate Rhoden, TRS	
Kirk Sims, TRS	
Chris Bailey, TRS	
Katherine Farrell, TRS	

Mr. Hollingsworth called the meeting to order at 8:00 a.m.

1. Call roll of Board members.

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

2. Consider the following administrative matters – Jarvis V. Hollingsworth

A. Approval of the December 2023 proposed meeting minutes; and

On a motion by Mr. Ball and seconded by Ms. Sissney, the Board unanimously voted to approve the proposed minutes of the December 2023 meeting as presented.

B. Setting, rescheduling or canceling future Board meetings including considering dates for May 2024.

Mr. Hollingsworth said due to conflicts with the April meeting new meeting dates were being proposed, May 2 – 3, 2024. Mr. Elliott noted he had a conflict with the proposed dates but had no objection with moving the meeting.

On a motion by Mr. Corpus, seconded by Mr. Nance, the Board unanimously voted to approve the rescheduling of the April meeting to May 2 – 3, 2024.

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

- A. Administrative operational matters, including updates on financial, audit, investments, legal, staff services, special projects, strategic planning, legislative personnel matters, and Moving Forward Together Update;**
- B. Board operational matters, including a review of draft agendas for upcoming meetings; and**
- C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.**

Mr. Brian Guthrie said the February meeting is designed for trustee education and to dig deeper into the issues facing the system and programs we run. He reviewed upcoming and past conferences and reviewed TRS' workforce. He noted the average age of employees was 44 years and average TRS tenure at around 6 years. He said the number of employees eligible to retire was at 7.6 percent which is slightly down from last year's 8 percent. He then shared how he has reorganized the Executive Council to include only the 13 chiefs of divisions around the agency, and created the Enterprise Leadership Team to incorporate a larger group of deputies and senior managers in an effort to build bench strength.

Mr. Guthrie announced that NCTR had made following 2024 committee assignments: Mr. Ball on the Legislative Committee, Ms. Sissney on the Trustee Education Committee and Mr. Williams on the Resolutions Committee. He announced his advancement in rank for NASRA to First Vice President and chair of the Special Programs Committee and that Heather Traeger was chair of FINRA National Adjudicatory Council.

He provided an update on headquarters. The Alpha building was finishing up and shared Bravo's interior build-out progress including the second floor where the board room will be located.

Mr. Guthrie reviewed the upcoming board meeting proposed agendas.

4. Receive a Benefit Services Overview regarding the Members Journey – Barbie Pearson, Adam Fambrough and Mark Chi.

Ms. Barbie Pearson stated the member journey covers the different paths TRS members take as they go through the System and would include resources available to members and employers at the various stages. Mr. Mark Chi reviewed the role that employers play in a member's experience including reporting requirements that are uploaded into a portal, such as payroll reports, on a monthly basis and eligibility requirements for TRS. He reviewed employer resources such as TRS Update newsletter, Employer Toolkit and TRS payroll manual. He also noted TRS members receive a welcome to membership letter or packet encouraging the member to register for MyTRS.

Mr. Adam Fambrough reviewed when a member leaves employment. He noted the options for the member were to leave the money or withdraw it in a lump sum, taking a refund. He expanded upon the various resources available to a member who wishes to consider a refund. Ms. Pearson and Mr. Fambrough reviewed the scenario of an active member's death and the beneficiaries' choices. Mr. Fambrough then reviewed the scenario of member who returns to TRS service and the resources available to assist in making service credit repurchasing decisions. The next scenarios reviewed were applying for disability retirement, retirement, employment after retirement and retiree's death benefit.

5. Receive an update on TRS-Care and TRS-ActiveCare health plans including a review of annual performance with benchmark comparisons as well as updates on data analytics enhancements and new pharmacy benefit manager installation – Katrina Daniel, Meghan Bludau and Kyle McKay.

Ms. Meghan Bludau provided a review of the plan performance for fiscal year 2023, the current state of the plans and a look ahead at key initiatives. She said the plans were entering a new generation. She noted under Senate Bill 1444 districts were allowed to leave ActiveCare. This is the third year of that legislation and there has been a high retention rate of districts and project growth in ActiveCare for the upcoming year. She reviewed the benchmarking of ActiveCare with comparable plans and reported the primary plan, the most popular plan offered, was 14 percent lower in total cost. For Care she said it was the seventh straight year of steady premiums. She reviewed how TRS has provided in-person events with retirees including 21 health fairs. Ms. Bludau emphasized the pride TRS has in being cost efficient. She noted for every dollar received at TRS for health benefits, 97 cents goes directly to health care and 3 percent to administrative costs.

Ms. Bludau discussed that under Senate Bill 1444 ActiveCare moved to 20 different regional rates. She reported in Region 18 Midland-Odessa area ActiveCare is 38 percent lower and in Beaumont it is 8 percent lower than competing plans. Ms. Daniel described how ActiveCare is really a product for the employer. She said they present to TASBO and engage with superintendents, directors of HR, CFOs to share the value proposition of ActiveCare. She said in September they expect to enrollment grow by more than 10,000 lives.

Ms. Daniel reviewed the impact of supplemental funds on ActiveCare. She said receiving \$638 million in federal funds resulted in lowering the revenue collected from employers. Last session the State provided \$588.5 million to help revenues get back to cost to prevent a dramatic increase in premiums. She said in order to keep the increase in revenue at or below a 10 percent increase another \$386 million will be needed for the coming legislative biennium. Further discussion ensued regarding funding by State and districts. Mr. Kyle McKay concluded by reviewing examples of how data was used to identify key trends and to make health care plan decisions.

6. **Consider authorizing for publication in the Texas Register notice of the following proposed new rules in Subchapter A of Chapter 31 of Title 34, Part 3 of the Texas Administrative Code, related to Retiree Health Care Benefits (TRS-Care) – Heather Traeger, Roberto Cortes-Moreno and Katrina Daniel:**
 - A. [NEW] §41.15 Optional Dental Benefits Plan; and
 - B. [NEW] §41.16 Optional Vision Benefits Plan.

Ms. Sandy Mitchell presented the proposed dental and vision rules for TRS-Care. She said the offering of optional vision and dental benefits was a new statutory requirement. She stated in order to roll out the vision and dental benefits timely the rules and procurement process are occurring at the same time.

On a motion by Mr. Ball, seconded by Mr. Nance, the Board voted unanimously to publish the proposed rules for the dental and vision plans as presented by staff.

7. **Receive the Ombudsman’s Annual Report – Lori LaBrie.**

Ms. Lori LaBrie reviewed the function and purpose of the Ombudsman’s Office (Ombuds). She said calendar year 2023 had a total of 664 communications to the Ombuds. She noted email was the most preferred method of contact. She reviewed the demographics of those reaching out to the office with active members being the highest. She reported the social media topics that received the most comments were the COLA/stipend, health and social security. Ms. LaBrie said the point in time complaints totaled 206 for 2023 with the top trending matters being: extended wait time, timeliness of response and incomplete information provided. She concluded with highlights for the year one being traveling with Health and Benefits to teams to meet with members. She said another being the first installment of “The Ombuds Corner” in the TRS News.

8. **Receive report on investment practices and performance evaluation and consider resolution directing submission of the report to the Pension Review Board as directed by Texas Gov’t Code §802.109 – Kate Rhoden, Mike McCormick and Benita Harper, Aon.**

Ms. Kate Rhoden provided an overview of the statutory requirements regarding the independent firm evaluating the System’s investment practices and performance. She noted the statute does allow for the firm to have an existing relationship with the System, as long as the firm does not directly or indirectly manage investments for the System. She reported Aon was selected to perform the evaluation and had performed the inaugural evaluation for TRS back in 2020. Ms. Benita Harper reported that Aon reviewed documents, interviews and research to draft the report.

She and Mr. Mike McCormick reviewed the five areas the report covers concluding that the system is performing in a manner consistent with best-in-class peers.

On a motion by Mr. Corpus, seconded by Ms. Sissney the Board unanimously voted to adopt the following resolution:

**RESOLUTION RELATING TO REPORT REQUIRED BY
SECTION 802.109, TEXAS GOV'T CODE February 15, 2024**

WHEREAS, Government Code Section 802.109 requires the Teacher Retirement System of Texas, a public retirement system ("TRS" or the "system"), to select an independent firm to evaluate the system's investment practices and performance and recommend improvements to its investment policies, procedures and practices;

WHEREAS, Section 802.109 authorizes a public retirement system to engage a firm with an existing relationship with the system that does not directly or indirectly manage investments of the system, and TRS engaged Aon Hewitt Investment Consulting, Inc., the Board of Trustees' general investment consultant ("Aon Hewitt"), to study the system's investment practices and performance and prepare the report and recommendations, if any, as required by Section 802.109;

WHEREAS, Section 802.109 requires that the report under Section 802.109 be filed with the governing body of the system, the TRS governing body being the Board of Trustees, not later than May 1; and

WHEREAS, Section 802.109 requires the Board to submit the report to the Pension Review Board not later than the 31st day after the date the Board receives the report;

Now therefore, be it:

RESOLVED, That the Board having received the report from Aon Hewitt pursuant to Government Code Section 802.109, hereby authorizes and directs the Executive Director or his designee to submit the report to the Pension Review Board not later than the 31st day after the Board received the report.

9. Review and discuss the CIO Update including Talent Management; Accomplishments; Notices, Key Dates and Upcoming Events – Jase Auby.

Mr. Jase Auby provided the CIO update and the semi-annual market update. He noted the Trust ended the calendar year 2023 with a preliminary one-year return of 9.7 percent, 200 basis points of alpha to the portfolio. He said last month IMD held its annual town hall with Mr. Hollingsworth as the keynote speaker. He announced the Excellence in Investing award was given to Will Carpenter and D'Oncee Brockington, with the Spotlight award going to Gay Clifton. He noted in September a recommendation would likely be coming forward to add a second securities lending agent. He concluded by providing the market update commenting on the markets in general.

10. Receive the Strategic Asset Allocation Study Education Session – James Nield, Mike Simmons and Dr. Keith Brown.

Mr. Auby provided an introductory overview of Strategic Asset Allocation (SAA). Dr. Keith Brown noted the SAA was a vital process. He reviewed the decisions the Board will be asked to make and provided a historical perspective in terms of asset allocation in the pension fund world

over the last 20 years. He noted finding the right solution, the right portfolio mix is impossible without understanding the nature of the problem, the liabilities that need to be paid. He said the liabilities drive the way one thinks about managing and constructing the portfolio. He said in addition to allocating assets at a strategic level but also in an indirect way of controlling the amount of risk within the portfolio, the policy-level allocation.

Mr. Mike Simmons reviewed the timeline for the SAA where in December there was a discussion of best practices and long-term objectives. He said for this meeting, asset class review, peer review and capital market assumptions would be covered. He said TRS divides assets into three categories based on how they respond to economic conditions: global equity assets, stable value assets and real return. He noted risk parity crossed all three categories of assets to balance risk from all three categories of assets. He then reviewed peer performance and industry trends noting the largest trend has been moving towards private equity and away from public equity. He then discussed the survey of TRS 16 different external partners who have expertise in cross-asset forecasts. Mr. Auby noted over the past 18 months staff has conducted research and have developed four key questions. He reviewed the questions, focusing on risk, the mix of public equity, private equity and government bonds. He concluded by emphasizing the Board keeping in mind the long-term time horizon of the System.

11. Receive the Annual Review of Emerging Manager Program – Kirk Sims.

Mr. Kirk Sims began by announcing the Emerging Manager Program outperformed its benchmark by 227 basis points over the one-year period. He said the program continues to be allocated to 53 percent diverse managers since its inception. He reported there were three additional graduates from the program in 2023, bringing the total to six in the last two years. He said the virtual Emerging Manager Conference will be held on February 28th with 1,200 people already registered for the conference. He noted the program was entering its 19th year with \$6.2 billion and 14 graduates having backed 232 managers and 299 investments.

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

Mr. Josh Wilson reviewed the compensation philosophy for the Investment Management Division (IMD) that was put in place in 2007 where the base salaries are targeted at the top quartile of public pension peers. He said the question rises as to who the public peers are and that group currently consisted of eight Systems surveyed by McLagan, a leading financial services survey. He said the philosophy for incentive pay was to target the bottom quartile of private asset management group from McLagan which had surveyed 450 private entities. Mr. Wilson said McLagan was certainly the leader in this space but expressed concerns of the public peer survey containing just eight participants. He also compared the way IMD had everyone within the incentive plans with peers that segmented the adjacent investment and non-investment related positions. He concluded by noting different philosophies exist and every System does it differently. He said it was important to find what works for the organization, for the people and the culture. He recommended having a complementary survey to McLagan for the public pension peers. Ms. Chris Bailey noted that additional survey data was available to TRS regarding the public pension set to meet the request to expand on the base salaries' side.

Mr. Hollingsworth announced agenda items 13 and 14 both will be taken up in executive session.

- 13. Consider personnel matters, including the appointment, employment, evaluation, compensation, performance, duties, discipline or dismissal of the Executive Director and Chief Audit Executive – Jarvis V. Hollingsworth**
- 14. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs, investment matters and open records and on legal or regulatory matters involving certain TRS vendors, investment managers, or other counterparties – Heather Traeger and J.R. Morgan.**

At 4:00 p.m., Mr. Hollingsworth announced the board would recess into executive session on the following agenda items and sections of the Government Code: Items 13 under Section 551.074 and 557.071 to discuss personnel matters and consult with legal counsel as needed; and Item 14, under Section 551.071 of the Government Code to consult with legal counsel as needed.

At 6:14 p.m., Mr. Hollingsworth reconvened the Board meeting.

At 6:14 p.m., Mr. Hollingsworth noted there was no more scheduled business before the Board and announced the meeting was recessed until 8:00 a.m. tomorrow morning.

February 16, 2024

The Board of Trustees of the Teacher Retirement System of Texas met on Thursday, February 16, 2024, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

The following Board members were present:

Jarvis V. Hollingsworth, Chair
Nanette Sissney
Brittney Allred
Michael Ball
David Corpus
John Elliott
James Nance
Robert H. Walls, Jr.
Elvis Williams

Others present:

Brian Guthrie, TRS	Suzanne Dugan, Cohen Millstein
Andrew Roth, TRS	Keith Brown, Investment Advisor
Heather Traeger, TRS	Steve Voss, AON
Jase Auby, TRS	Michael McCormick, AON
Don Green, TRS	Benita Harper, AON
Barbie Pearson, TRS	Josh Wilson, Mercer
Katrina Daniel, TRS	Jordan Ash, Private Equity Stakeholder Project
Amanda Jenami, TRS	
Michelle Pagan, TRS	
Martin Cano, TRS	
Frank Williams, TRS	
Katherine Farrell, TRS	

Mr. Hollingsworth called the meeting to order at 8:00 a.m.

15. Provide an opportunity for public comment.

Mr. Jordan Ash, representing the Private Equity Stakeholder Project, expressed concern that the Texas Teachers Retirement System was one of the largest investors in Blackstone Real Estate Partners X that was buying Tricon Residential, and the result would worsen the housing affordability crisis and harm tenants.

16. Receive an update on proposed changes to the Fiscal Year 2025 – 2029 Strategic Plan Goals, Objectives and Strategies – Don Green and Michelle Pagan.

Mr. Don Green reviewed the State's biennial strategic planning and budgeting process. He noted the Board was to adopt the new strategic plan at the upcoming May meeting and the budget at the July meeting. He provided a draft of the proposed changes to the strategic plan continuing to

simplify the plan by reducing the objectives by three and strategies by nine. Ms. Michelle Pagan noted the focus was to streamline and continue to maintain the strategic direction for many of the major projects currently underway. She provided greater detail regarding the additional strategies and the deletion of three objectives and 14 strategies that were combined or completed.

17. Receive an Overview of Social Security and TRS Benefits – Andrew Roth.

Mr. Andrew Roth provided a background on the enabling legislation of Social Security, the high-level funding and benefits compared to TRS Pension. He also discussed the Windfall Elimination Provision (EP) and the Government Pension Offset (GPO).

18. Receive annual ethics and fiduciary training – Heather Traeger and Suzanne Dugan.

Ms. Heather Traeger and Ms. Suzanne Dugan, provided the annual ethics and fiduciary training reviewing scenarios, with the assistance of Mr. Guthrie and Mr. Roth, that focused on the roles and responsibilities of Trustees and their fiduciary responsibilities.

19. Receive a Data Management and Protection Update – Martin Cano, Heather Traeger and Frank Williams.

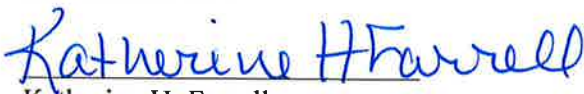
At 10:00 a.m., Mr. Hollingsworth announced the Board would go into executive session under the following agenda item and sections of the Government Code: Item number 19 under sections 551.076, 551.089 and 551.071, to discuss data management and protection and consult with legal counsel as needed.

At 10:52 a.m., Mr. Hollingsworth reconvened the open meeting.

At 10:55 a.m., Mr. Hollingsworth adjourned the meeting.

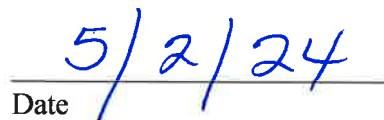
APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM
OF TEXAS ON THE ___ DAY OF MAY 2024.

ATTESTED BY:



Katherine H. Farrell

Secretary to the TRS Board of Trustees


Date