

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

*All or part of the December 7, 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, 5<sup>th</sup> Floor, Boardroom.***

*The open portions of the December 7, 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](http://www.trs.texas.gov). A recording of the meeting will be available at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA**

**December 7, 2023 – 11:30 a.m.**

1. Call roll of the Committee members.
2. Consider the approval of the proposed minutes of the September 2023, committee meeting – Chair.
3. Receive an update on Talent Management and the TRS Workforce – Michelle Gray and Monica Durham.
4. Receive an update from the Board’s Compensation Consultant – 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 September 14, 2023**

The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 14, 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. Allred Brittny  
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  
Shunne Powell, TRS  
Katy Hoffman, TRS  
Chris Bailey, TRS  
Katherine Farrell, TRS  
Suzanne Dugan, Cohen Milstein

Compensation Committee Chair, Mr. James D. Nance, called the meeting to order at 1:05 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 July 2023 committee meeting – Chair.**

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

**3. Consider recommending to the Board continuation and adoption of the Investment Management Division and TRICOT's Performance Incentive Pay Plan for the 2023 – 2024 Performance Period – Katy Hoffman; Josh Wilson and Susan Lemke, Mercer.**

Ms. Katy Hoffman reviewed the history and compensation philosophy of the performance pay plan which started back in 2007. She said in order to keep with the compensation philosophy the practice of reviewing, with a compensation consultant, base pay every two years and then performance pay every five years. She noted this year happened to be a year where both were reviewed and the proposals stem from that work. She said the results of the review were to adjust the alpha targets. She said the review of the last 10 years found that there were some portfolios where the achievability was too low. In order to equalize, where each group had the same opportunity to outperform and be compensated, she said the proposal is to raise those.

Ms. Hoffman reviewed the other significant proposal which was to change the peer set for the private equity and real estate groups, to move them in line with the rest of the Trust. She said these groups were measured against a peer set of funds \$1 billion and higher and now recommend they be measured on funds \$10 billion and higher for there are now a sufficient number of peers within the larger plans. She said the final change was to eliminate the senior director title that only has nine employees who are all on the Management Committee and believe the managing director title is more appropriate for those individuals.

Mr. Josh Wilson stated Mercer reviewed the proposals and noted there is a gap between the stated compensation philosophy and the current status. He said the proposed changes are all reasonable. Ms. Lemke noted that the changes would have a modest impact, because there is some up, some down and based on the actual performance. She said they were comfortable with the proposal for historically the payout has been about 48 percent over a 10 year period.

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

September 15, 2023

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

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

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

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

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

**Resolved**, That effective for the annual performance period beginning October 1, 2023, the Board hereby adopts the amended Plan as presented by staff.

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

Ms. Hoffman noted the IMD and TRICOT performance plans were identical except where there are regulatory differences between the U.K. and U.S. She said the same changes proposed in the IMD plan are proposed for the TRICOT plan.

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

September 15, 2023

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

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

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

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

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

**Resolved**, That effective for the annual performance period beginning October 1, 2023, the Board hereby adopts the Plan as presented by staff.

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

**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.**

Ms. Shunne Powell reviewed the proposed changes to the Executive Director's (ED) Performance Incentive Pay Plan. She said the proposed changes are minor and include updating the dates of the plan and incorporating the changes made to IMD's Performance Incentive Pay Plan for Investment Management which is part of the ED plan.

On a motion by Mr. Williams, seconded by Mr. Ball, the committee voted to recommend to the Board adoption of the following resolution for the continuation and adoption of the ED's Performance Incentive Pay Plan, as presented by staff.

September 14, 2023  
RESOLUTION READOPTING  
EXECUTIVE PERFORMANCE INCENTIVE PAY PLAN

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

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

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

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

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

**Whereas**, The Board desires to continue the Plan and readopt performance categories, category weights, performance goals, and key performance indicators for the Plan year beginning October 1, 2023; now, therefore be it

**Resolved**, That effective September 14, 2023, the Board hereby readopts the Executive Performance Incentive Pay Plan, as presented by Staff, including the key accountabilities and areas of focus.

**Resolved**, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between

TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.

With no further business before the Committee, the meeting adjourned at 2:20 p.m.

Approved by the Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas on December \_\_\_\_, 2023.

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Katherine H. Farrell  
Secretary of the TRS Board of Trustees

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Date

**TAB 3**





# Talent Management and the TRS Workforce

**Monica Durham, Talent Manager**  
**Michelle Gray, Deputy Chief of  
Organizational Excellence**

December 2023



# The Current State of Talent Acquisition



- Talent acquisition is more strategic
- Compensation remains a key factor
- Current staff remains a talent pipeline
- Hybrid is here to stay



## Austin Labor Market is Competitive

- Austin is the fastest growing job market in Texas
- 3.6% unemployment rate September 2023
- August 2022 - August 2023, Austin experienced a 2.7% increase in jobs

## TRS Hiring Challenges are Stabilizing

- Candidate pools are increasing
- Declines and withdraws are decreasing
- Hiring managers have adapted to an agile recruitment methodology

## Staff Retention Remains Critical

- Current employees are seeking new internal opportunities
- Market-aligned salaries and more internal opportunities have decreased turnover
- Hybrid and remote work is a talent retention tool

## Culture is Key

- TRS remains a top workplace
- Engagement scores are trending upwards
- Higher engagement results in lower turnover





# Turnover and Staffing



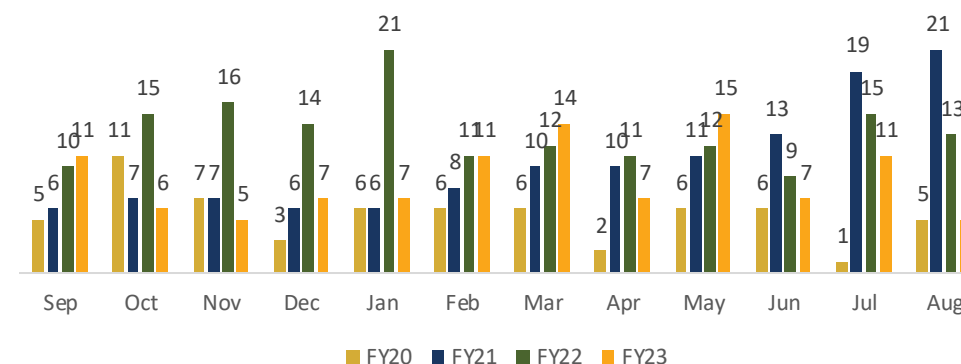
## Turnover stabilized in FY23

- FY23 turnover was 10.2%, the lowest in six years (except for FY20)
- In FY24 to date, 15 employees have separated

## Vacant positions are lowering

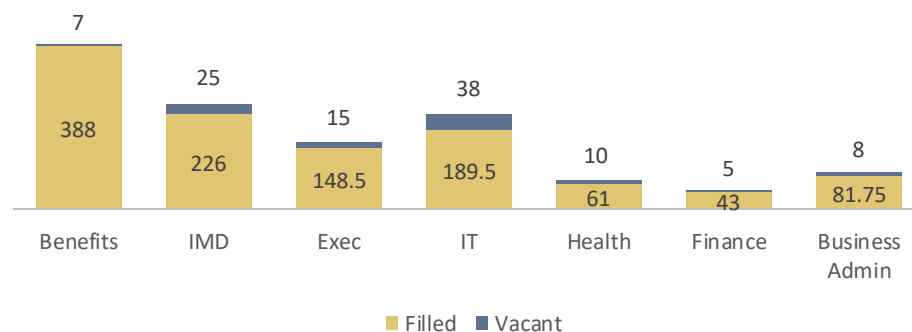
- As of Nov. 1, 2023, 8.7% of positions (108) are vacant
- In FY 2023, TRS filled 290 positions and received 15,190 applications

## Turnover by Month

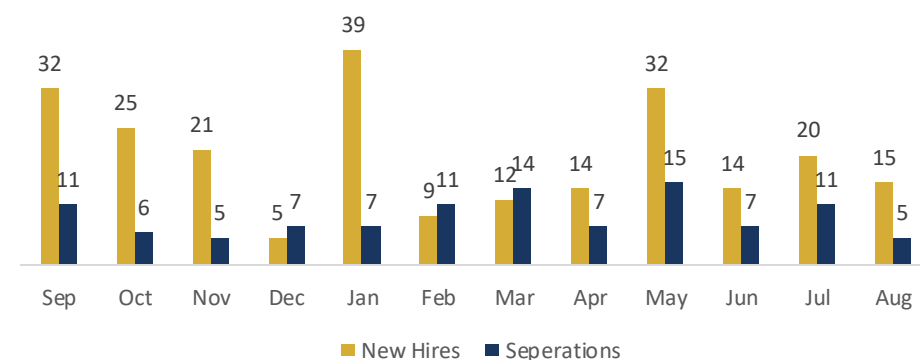


## POSITIONS BY DIVISIONS

(AS OF NOV. 1, 2023)



## FY 2023 - Staffing by Month



# How has TRS mitigated talent challenges in FY23?



## Staffing and Workloads

- Explored opportunities to hire TRS staff outside of Austin and expand remote work in Texas
- Continued to grow internships and fellowship opportunities to create early career pipelines

## Compensation

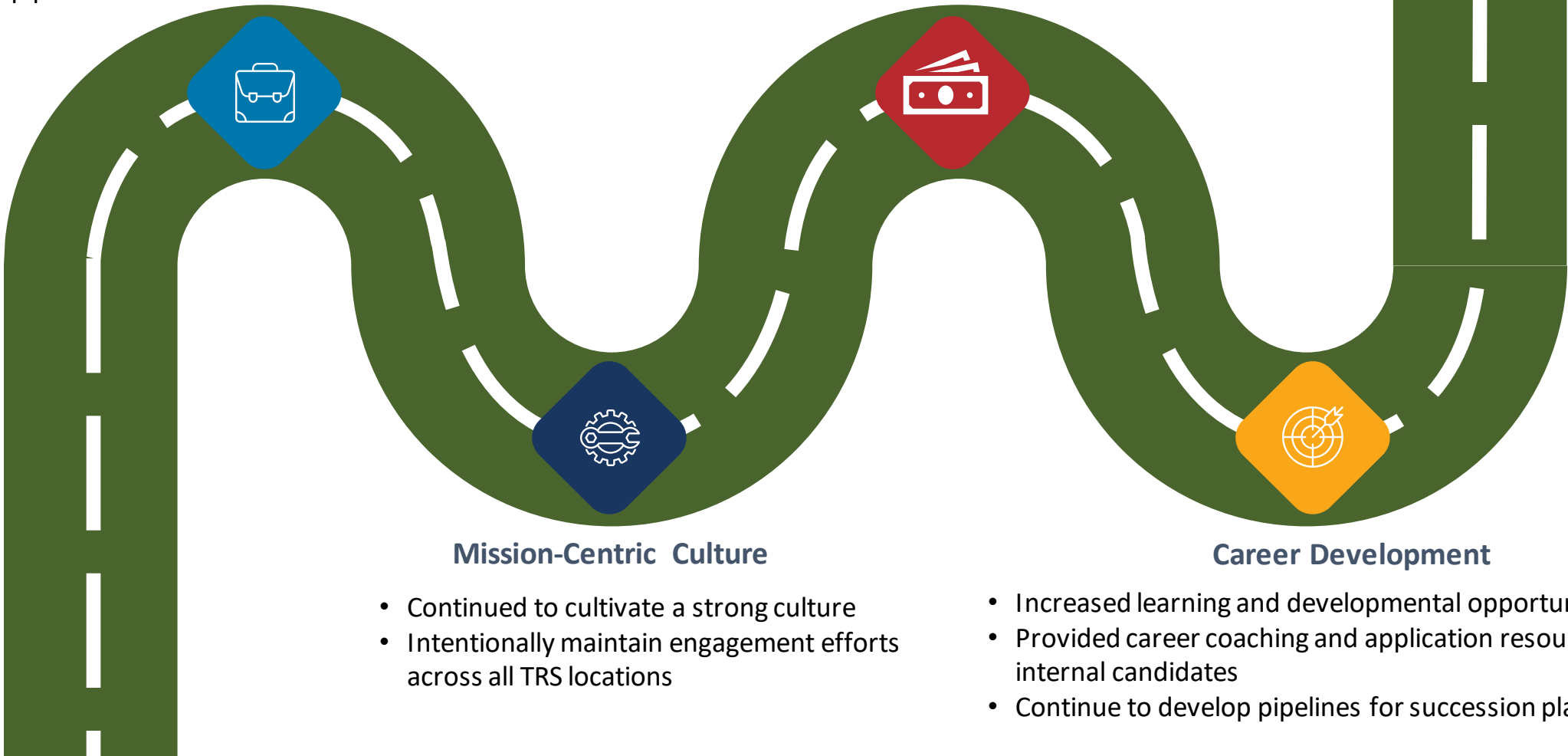
- Fully implemented the TRS Classification Plan (effective September 2022)

## Mission-Centric Culture

- Continued to cultivate a strong culture
- Intentionally maintain engagement efforts across all TRS locations

## Career Development

- Increased learning and developmental opportunities
- Provided career coaching and application resources for internal candidates
- Continue to develop pipelines for succession planning



**TAB 4**

# Teacher Retirement System of Texas (TRS) Compensation Advisors

Update to the Board

December 7, 2023

Susan Lemke  
Josh Wilson

A business of Marsh McLennan

# IMD Incentive Plan Review

## Project Overview

Texas TRS requested Mercer conduct a **comprehensive audit of IMD's incentive program**:

“Completing 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**. Mercer will present findings and make recommendations to the Board on potential changes, and opportunities to strengthen the process.”

Mercer agrees that a **thorough review of IMD's incentive program would necessitate an assessment of all the foundational compensation elements** contextualizing the incentive design





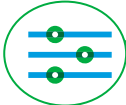
# Project Overview



Understand **current state practices and compensation philosophy** and **assess market competitiveness** of IMD compensation through a consistent market benchmarking methodology

## Questions for consideration

- What is IMD's compensation philosophy? What should it be?
- How does IMD compensation compare to the market?
- Can the market assessment process be repeated year over year?



Review and **make recommendations to the salary ranges and pay administration practices** currently in place to align with compensation philosophy and market best practices

## Questions for consideration

- Do IMD's salary ranges and administration align with the TRS Classification Plan?
- Should IMD's structures differ from the rest of the organization?



**Review IMD incentive program** (incl. eligibility, metrics, performance standards, and measurement period) and make recommendations to align with market best practices and talent strategy

## Questions for consideration

- What is the goal of the IMD incentive program? Does it drive and reward the right performance?
- How does the incentive program align with the broader total rewards framework?

# Desired Project Outcomes

By the end of this process, TRS will be able to:

- ✓ Discuss **strengths and weaknesses of current compensation program**
- ✓ **Articulate IMD's compensation philosophy** and target pay mix
- ✓ Utilize a **consistent and repeatable benchmarking methodology**
- ✓ Discuss **current and target market positioning** for base salary and total cash
- ✓ Implement and describe the **elements of IMD salary structures** and salary administration
- ✓ Understand the strengths and weaknesses of the **current IMD performance pay plan**
- ✓ Consider **changes to the IMD performance pay plan** based on internal review and market research

# Timeline

	December	January	February	March	April	May
Interviews & data gathering						
Market Assessment (Philosophy & Benchmarking)						
Salary Structure Review						
Performance Pay Plan Review						

Project updates to be provided to the Board in the April Board meeting prior to final decisions and discussions in July 2024

# Additional Projects for Consideration

1

Review the Executive Director's Performance Incentive Pay Plan, including recommendations for updates and changes to structure and design if appropriate.

2

Review the TRS Classification Plan including an evaluation of methodology and internal controls and provide recommendations to strengthen the process and align with best practices.

3

Conduct an independent review of data OE receives from surveys and evaluate how that's used to make compensation recommendations to the Executive Director and Deputy Director regarding TRS executives.

4

Provide ad hoc review of pay program policies including bilingual pay, spot bonuses, and project bonuses.

