

**September 2023**

# GUIDING PRINCIPLES

## **Policy 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  
POLICY COMMITTEE**

*(Committee Chair and Members: Mr. Elliott, Chair;  
Ms. Allred, Mr. Hollingsworth, Mr. Nance and Mr. Walls)*

*All or part of the September 14, 2023, meeting of the TRS Policy Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5<sup>th</sup> 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](http://www.trs.texas.gov). A recording of the meeting will be available at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA  
September 14, 2023 – 11:00 a.m.**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the July 2023 committee meeting – Chair John Elliott.
3. Consider recommending to the Board adoption of the proposed amendments to the Investment Policy Statement – Katy Hoffman and Brad Gilbert.
4. Consider recommending to the Board adoption of the proposed amendments to the General Authority Resolution – Heather Traeger and Elena Barreiro
5. Review and consider recommending to the Board the adoption of the proposed amendments to the Employment at Will Policy – Shunne Powell.
6. Consider recommending to the Board adoption of the proposed new TRS rule, relating to Special Transitional Plan, in Subchapter C of Chapter 41 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger, Katrina Daniel and Roberto Cortés-Moreno:
  - A. [NEW] §41.53 Special Transitional Plan
7. Consider recommending to the Board adoption of the proposed repeal of the following TRS rules in Chapter 41 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger, Katrina Daniel and Roberto Cortés-Moreno:

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

- A. §41.15 Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code
  - B. §41.16 Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
  - C. §41.17 Definitions
  - D. §41.18 Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
  - E. §41.19 Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
  - F. §41.20 Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
8. Consider authorizing for publication in the Texas Register notice of the following proposed amendments to the TRS rules in Chapter 31 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and Nick Gonzalez:
- A. §31.5 Notice and Forfeiture Requirements for Certain Service Retirees
  - B. §31.6 Second EAR Warning Payments
9. Consider updates to the Policy Review Schedule – Katherine Farrell.

## **Minutes of the Policy Committee July 13, 2023**

The Policy 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. John Elliott, Chair  
Ms. Brittney Allred  
Mr. Jarvis V. Hollingsworth  
Mr. James Dick Nance  
Mr. Robert H. Walls, Jr.

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

Mr. Michael Ball  
Mr. David Corpus  
Ms. Nanette Sissney

### **Others who participated:**

Brian Guthrie, TRS  
Andrew Roth, TRS  
Jase Auby, TRS  
Heather Traeger, TRS  
Amanda Jenami, TRS  
Barbie Pearson, TRS  
Katrina Daniel, TRS  
Kevin Wakley, TRS  
Roberto Cortes Moreno, TRS  
Katherine Farrell, TRS  
Suzanne Dugan, Cohen Milstein

Policy Committee Chair, Mr. John Elliott, called the meeting to order at 12:50 p.m.

### **1. Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present, Mr. Walls was absent.

### **2. Consider the approval of the proposed minutes of the April 2023 committee meeting – Chair.**

On a motion by Mr. Nance, seconded by Mr. Walls, the committee unanimously voted to approve the proposed minutes for the April 2023 Policy Committee meeting as presented.

**3. Review and consider recommending to the Board adoption of amendments to the Policy on Negotiated Rulemaking and Alternative Dispute Resolution – Heather Traeger and Sharada Menon.**

Ms. Sharada Menon reported the Policy on Negotiated Rulemaking and Alternative Dispute Resolution is required by Texas statute and 2018 was the last time the policy was reviewed. She said the policy essentially allows for the flexibility to use a collaborative approach for disputes or potential disputes, whether in rulemaking or an administrative appeal. She said the proposed changes are for clarity and readability, there were no substantive changes proposed.

On a motion by Mr. Hollingsworth, seconded by Mr. Nance, the committee unanimously voted to recommend to the Board adoption of the Policy on Negotiated Rulemaking and Alternative Dispute Resolution, as presented by staff.

- 4. Consider recommending to the Board adoption of the proposed amendments to the following TRS rules in Chapters 25, 29, and 47 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger, Adam Fambrough and Nick Gonzalez:**
- A. § 25.162, State Personal or Sick Leave Credit;**
  - B. § 25.302, relating to Calculation of Actuarial Costs of Service Credit;**
  - C. § 25.303, relating to Calculation of Actuarial Cost for Purchase of Compensation Credit;**
  - D. § 29.11, relating to Actuarial Tables;**
  - E. § 29.21, relating to Beneficiary Tables;**
  - F. § 29.71, relating to Tables;**
  - G. § 47.17, relating to Calculation for Alternate Payee Benefits Before a Member's Benefit Begins.**

Mr. Nick Gonzalez provided an overview of the proposed rule to update the actuarial tables. He noted the rule was authorized for publication in April by the Committee and no comments were received. He said if the rules are adopted by the Board they will go into effect on September 1.

On a motion by Mr. Nance, seconded by Mr. Walls, the committee unanimously voted to recommend to the Board to adoption of the proposed amendments to the TRS rules in Chapters 25, 29 and 47 of Title 34, Part 3 of the Texas Administrative Code, as presented by staff:

With no further business before the Committee, the meeting adjourned at 12:58 p.m.

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

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Katherine H. Farrell  
Secretary of the TRS Board of Trustees

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Date

**TAB 3**

# Investment Policy Proposals

Katy Hoffman, Chief of Staff  
Brad Gilbert, Senior Director

September 2023



# Introduction

- The table below summarizes proposed modifications to the Investment Policy Statement (IPS)
  - These modification were presented in July to the Investment Management Committee
  - Marked and clean versions of the IPS are provided for your review as well as memos from Board Advisors discussing their views
    - Control documentation for Internal OTC Derivative transactions have also been included in Board materials
- A formal proposal is presented today to the Policy Committee for consideration in making a recommendation to the Board to adopt proposed changes

Modification #	Proposed Modifications
1	Implement legislative changes
1a	Establish hedge fund limit
1b	Authorize real estate title-holding entities
2	Expand Public Markets additional allocation and termination authority to include Head of Special Opportunities
3	Reduce required Board disclosure items for Investment under Internal Investment Committee (IIC) consideration
4	Authorize derivative transactions between Trust portfolios
5	Change rating requirement for Securities Lending Agent
6	Remove security restriction
7	Expand Investment Integrity Questionnaire to add additional diligence questions
8	Clarify and clean up IPS to improve readability and clarity such as the removal of outdated footnotes or changing Chairman to Chair



# APPENDIX

# Modification #1a

## *Implement Legislative changes: Establish hedge fund limit*

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- **Proposal**

- TRS Board of Trustees to set the limit on hedge fund investments at 15%
- Remove reference to statutory limit on hedge fund investments at 10%

- **Rationale**

- The 88<sup>th</sup> Legislature delegated to the TRS Board of Trustees the responsibility to determine the maximum percentage of the value of the total investment portfolio that may be invested in hedge funds
- Setting the limit at 15% allows TRS to grow the Directional Hedge Fund (DHF) + Overlay program and create a buffer to accommodate market volatility

- **Background Information**

- TRS has invested in hedge funds since 2001. A legislative limit of 5% was introduced in 2007 and subsequently increased to 10% in 2011. Currently, hedge fund exposure is 9%
- Hedge funds provide diversification and access to best-in-class investment talent which help reduce overall portfolio risk and increase expected returns
- Further expansion would be considered as part of the Strategic Asset Allocation study

# Modification #1b

## *Implement Legislative changes: Authorize real estate title-holding entities*

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- **Proposal**

- Include title-holding entities as an additional authorized investment for the Trust and Real Estate portfolio

- **Rationale**

- The 88<sup>th</sup> Legislature clarified TRS authority by defining securities under the law to include interests in wholly-owned real estate title-holding corporations controlled by TRS
- Enables TRS to remove third-party engagements and exert direct control for select real estate holdings and/or strategies

- **Background Information**

- Securities law restricts the type of assets that can be held by title-holding entities. Core real estate mandates likely to be the first use of new authority
- TRS is required to disclose address of these assets while still retaining confidentiality for details of the investment under state law
- As required by Statute, the Board will need to adopt further policies on the governance, management and reporting for title holding entities

# Modification #2

## *Add “Head of Special Opportunities” to Public Markets Portfolio Management Authority*

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- **Proposal**

- Add “Head of Special Opportunities” to Article 2.6(c) & 2.6(d) of External Public Markets Portfolio Authorization in order to allow additions, termination and withdrawal authority

- **Rationale**

- Mirrors the portfolio management authority granted to CIO, CRO, the heads of Public Markets and External Private Markets

- **Background Information**

- Currently Head of Special Opportunities must get either CIO, CRO, Heads of Public Market, or Head of External Public Markets to authorize these Special Opportunities portfolio decisions
- In the past, there have been few portfolio actions, but the activity has been increasing
- Reporting of usage would continue as part of the Transparency report

# Modification #3

## *Reduce required Board disclosure items for Investments under IIC consideration*

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- **Proposal**

- Remove two disclosure items from the list of eleven in 1.7(d)
  1. Projected TRS commitment or funding date
  2. Type of investment representation contemplated
- Amend one disclosure item by adding “anticipated” for the name of the investment vehicle

- **Rationale**

- These select items are difficult to predict or are often not known at the time of disclosure to the Board
- Other key disclosure items remain such as name of investment manager, investment amount, strategy description and placement agent involvement

- **Background Information**

- Required disclosure items are provided to the Board in the Transparency report typically ten business days before IIC consideration
- The IMD would continue to provide the Board with an annual report of all investment representations and individuals serving in those roles

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# Modification #4

## *Authorize derivative transactions between Trust portfolios*

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- **Proposal**

- Allow the Trust to execute internal Over the Counter (OTC) derivative transactions between Trust portfolios

- **Rationale**

- Enable internal trade activity between portfolios to improve efficiency and minimize transaction costs by eliminating need for both portfolios executing trades in the market
  - Expected to generate a few million dollars of cost savings annually
- Reduces need for the Trust to post cash margin or collateral with external counterparty

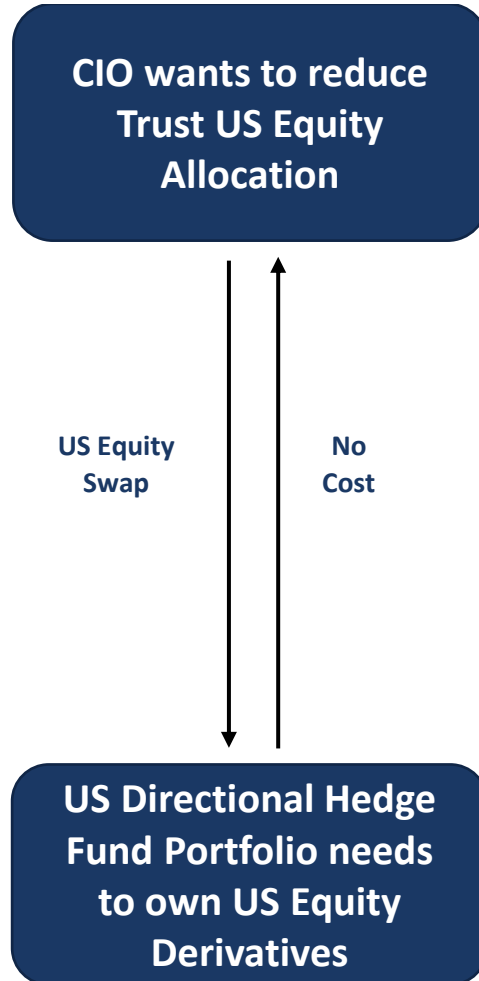
- **Background Information**

- Internal trades will utilize existing workflows for market facing trades for operational and auditability purposes
- Transactions would be captured in existing IPS required performance and risk reporting for the Board

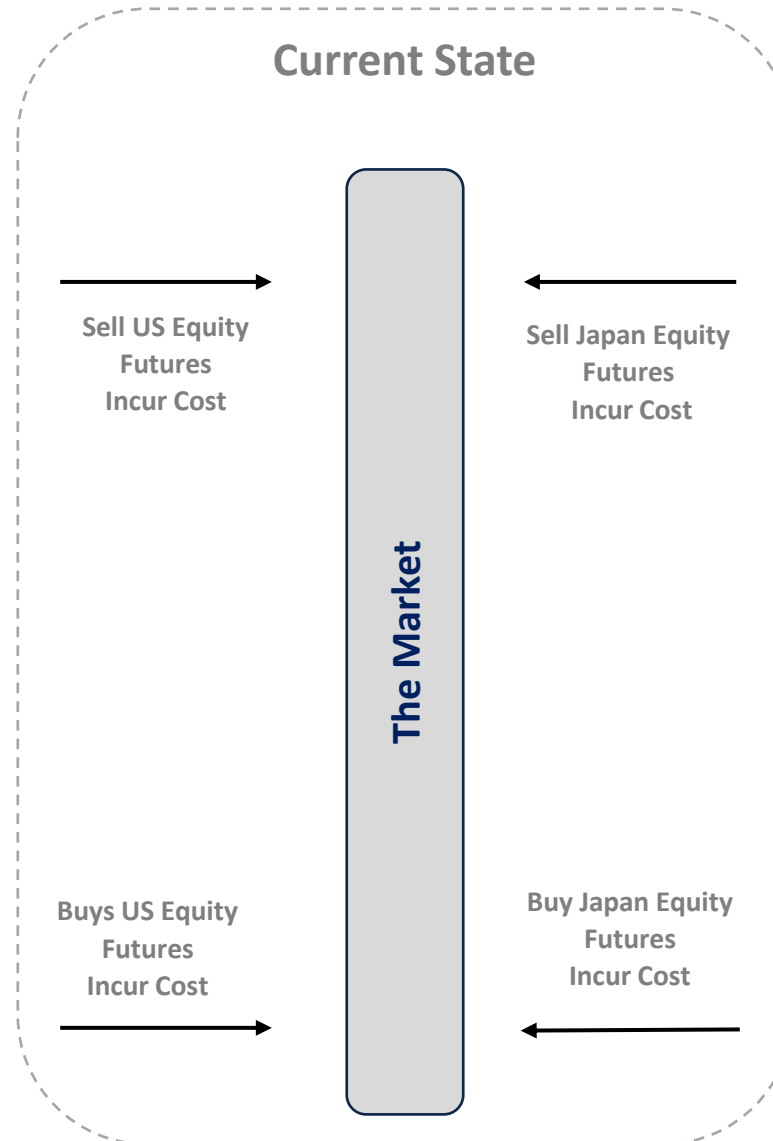
# Modification #4 continued

*Authorize derivative transactions between Trust portfolios*

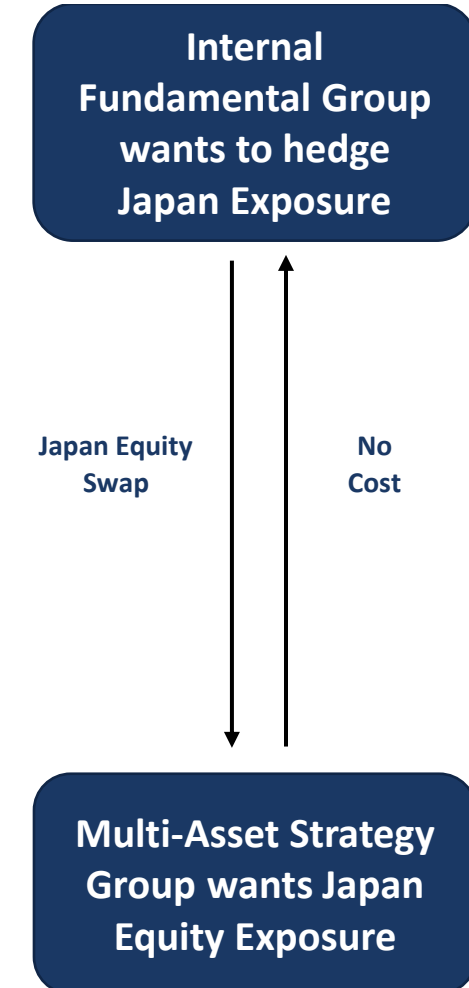
## Illustrative Example #1



## Current State



## Illustrative Example #2





# Modification #5

## *Change rating requirement for Securities Lending Agent*

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- **Proposal**

- Change current requirement to add bolded text. “A securities lending agent must be **either** rated A- or better by an NRSRO **or insured by an organization rated A- or better by an NRSRO and execute a securities lending agreement as required by applicable law.**”

- **Rationale**

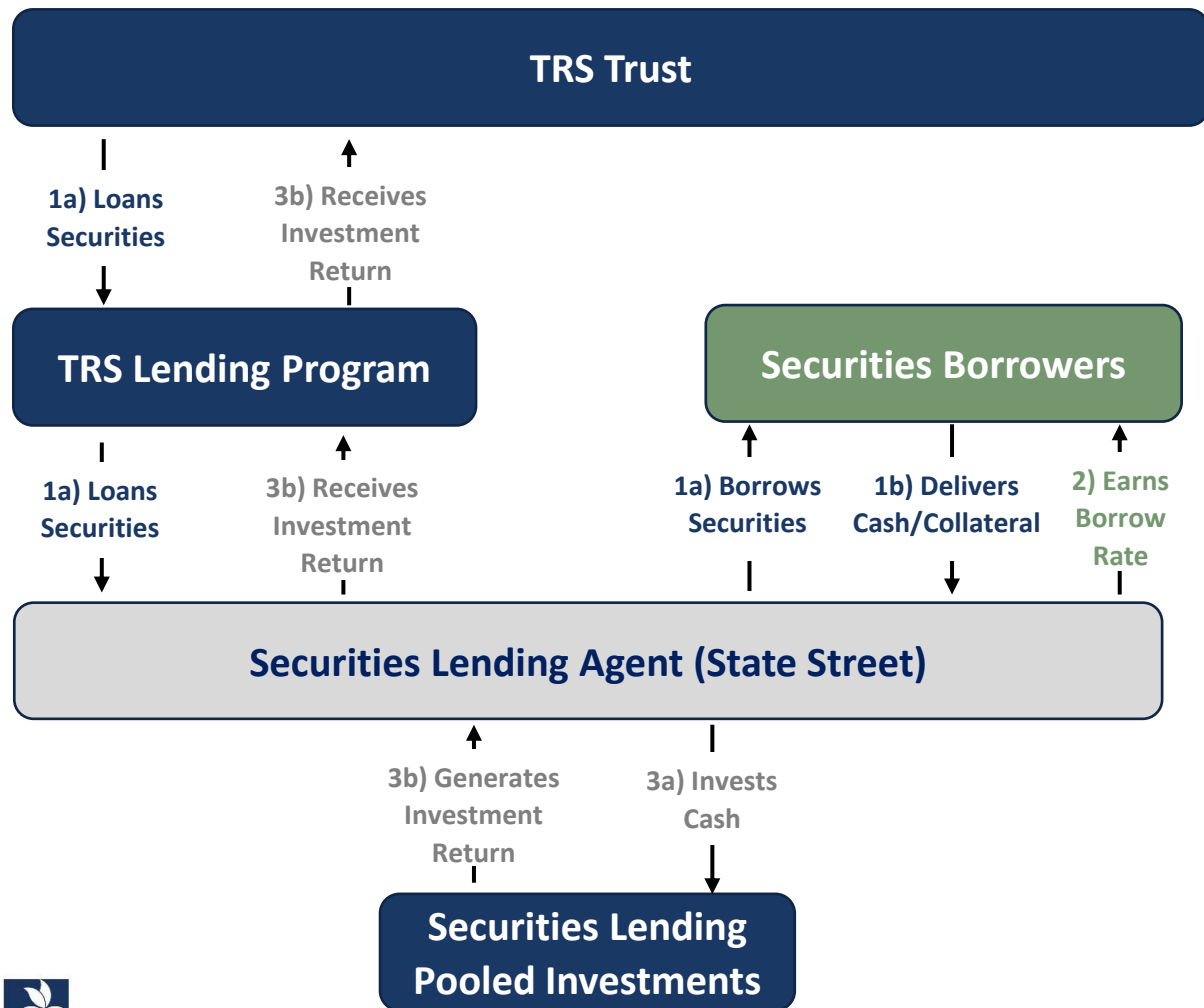
- This change would expand the number of securities lending agents to include those who utilize other entities, such as insurance companies, to support indemnification
- The Board selects the securities lending agent(s) and Texas Gov’t § 825.303 requires an indemnification agreement be satisfactory in form and content to the Board

- **Background Information**

- Currently State Street Bank is our only securities lending agent
- Internal Audit recommended IMD evaluate the benefit of having multiple securities lending agents
- Study found potential benefit of having an additional securities lending agent and TRS plans to RFP for additional securities lending agent for Board consideration

# Modification #5 continued

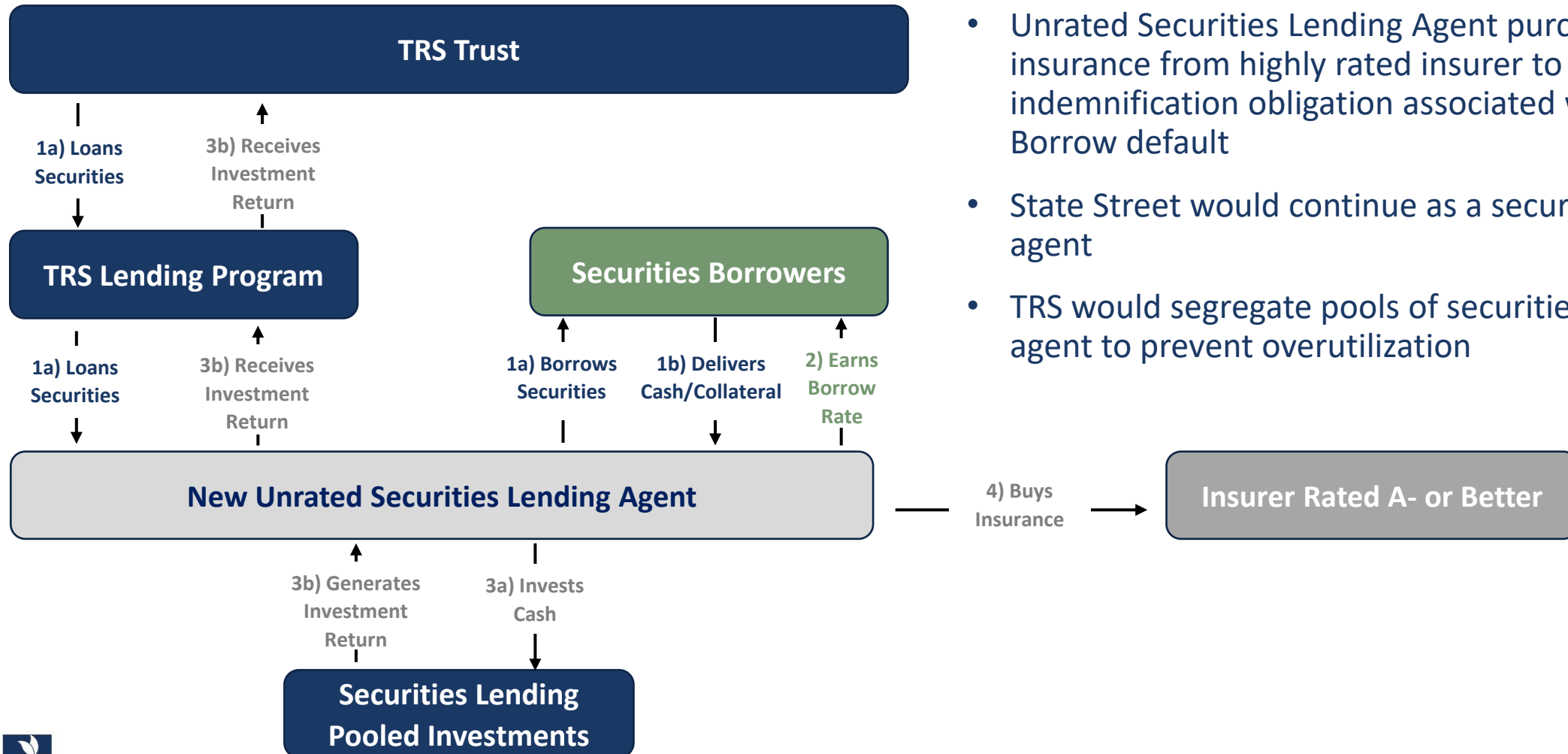
## Change rating requirement for Securities Lending Agent



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

# Modification #5 continued

## Change rating requirement for Securities Lending Agent



- Unrated Securities Lending Agent purchases insurance from highly rated insurer to support indemnification obligation associated with Security Borrow default
- State Street would continue as a security lending agent
- TRS would segregate pools of securities for each agent to prevent overutilization

# Modification #6

## *Remove security restriction*

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- **Proposal**

- Remove Article 1.8(e) that prohibits directly owning securities in prurient oriented companies

- **Rationale**

- The current restriction potentially conflicts with Article 1.5, specifically the statement that, in making investment decisions, IMD will consider factors that are material to long-term returns and levels of risk
- The impact is minimal given that a limited number of restricted securities are publicly traded, and none are in the Trust benchmarks

- **Background Information**

- Restriction added to IPS by the Board in 2006
- Total market capitalization of nine restricted companies is estimated to be \$750mm; immaterial relative to the investible universe
- Initial list was significantly larger and included public companies with sizeable market cap. Over the years, these companies have been acquired or gone private
  - There remains the possibility that a company of size could IPO or become a benchmark constituent

# Modification #7

## *Expand Investment Integrity Questionnaire (IIQ) to add additional diligence questions*

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- **Proposal**

- Add two questions to the IIQ about political contributions and lobbying activity in Texas
- Clean up IIQ for improved reliability of responses and address common mistakes

- **Rationale**

- The additional questions will increase diligence around political contributions and lobbying activities of managers that were not currently captured
- As a result of these clarifications, we expect to receive fewer questions from managers and fewer completed IIQs with errors

- **Background Information**

- Under pay-to-play principles and as fiduciaries, it is important to be aware of the relationships, or appearance of relationships, between entities that seek to do business with TRS and those who can influence the award of such business



**MEMORANDUM**

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

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

**DATE:** August 20, 2023

**RE:** Proposed Revisions to the TRS Investment Policy Statement

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At its September 2023 meeting, the TRS Board will be asked to adopt modifications to the Investment Policy Statement (“IPS”) proposed by TRS staff. The proposed modifications are part of an iterative process and were previously presented to the Investment Committee at its July 2023 meeting. In brief, these modifications will:

- Modifications 1a and 1b: Implement legislative changes by establishing hedge fund limits, and authorizing real estate title-holding companies;
- Modification 2: Expand public markets portfolio management authority to include the Head of Special Operations;
- Modification 3: Reduce required Board disclosure items for investments under consideration by the Internal Investment Committee (IIC);
- Modification 4: Authorize derivative transactions between trust portfolios;
- Modification 5: Change the rating requirements for securities lending agent;
- Modification 6: Remove a security restriction;
- Modification 7: Expand the Investment Integrity Questionnaire to add additional diligence questions; and
- Modification 8: Edit language to improve readability and remove outdated information.

In my role as Fiduciary Counsel to the Board of TRS, I have reviewed the proposed modifications to the IPS and have had multiple discussions regarding these modifications with TRS investment and legal staff, as well as the Board’s investment advisors Aon and Dr. Keith Brown. These discussions have been comprehensive and have provided significant opportunity for input and comment.

In reviewing the process that was undertaken with regard to the drafting of these proposed revisions to the IPS, it appears that the Board has sufficient information before it from its staff as well as the advice of its independent outside experts in order to enable it to engage in a rigorous decision making process in a manner consistent with procedural prudence. The Board should take advantage of the opportunity to fully utilize in-house and outside experts in order to obtain answers to any and all

questions they may have. Following this decision-making process will allow the Board to demonstrate that it has exercised appropriate fiduciary oversight should it choose to adopt the proposed revisions to the IPS.

Staff of the TRS Investment Management Division (IMD) has provided the Board with detailed information regarding the proposed changes to the IPS, the rationale for those proposals, and the background information on each of the proposals. The materials also include marked and clean versions of the IPS for the Board's review. In addition, IMD staff has provided the Board with its internal procedures with regard to one of the proposals in order to provide additional valuable information to assist the Board in its review. Steve Voss and Mike McCormick, from the Board's investment advisor Aon, have provided a memo to the Board with comprehensive discussion regarding each of the proposed modifications; their memo supports the modifications put forward by IMD for reasons that they have provided in their memo. Likewise, the Board's investment advisor Dr. Brown has provided a memo to the Board with detailed analysis that recommends the adoption of the modifications subject to an evaluation of clarifying remarks that he has provided in his memo. To this discussion, I add the following comments from the perspective of fiduciary counsel.

Modifications 1a and 1b: With regard to the Board's establishment of a hedge fund limit as permitted by recent legislation, it is noted that there will be an additional opportunity to review this limit during the Board's Strategic Asset Allocation study, which will provide a further safeguard. Likewise, with regard to including title-holding entities as an additional authorized investment as permitted by recent legislation, the legislation also requires the Board to adopt policies on the governance, management and reporting for such entities, which will establish and provide internal controls surrounding this modification of the IPS.

Modification 2: Expanding public markets portfolio management authority to include the Head of Special Operations does not appear to raise concerns, and reporting of usage will continue as part of the Transparency Report to the Board.

Modification #3: This proposed modification would reduce required disclosure to the Board concerning investments under consideration by the IIC. There are currently 11 items of information provided to the Board for any external investment under consideration, including total fund or strategy size; TRS investment amount under consideration; investment strategy; names of the external manager or fund principals; any placement agent involved; prospective fees; other TRS investments with the firm; and historical fund or manager performance. This proposal would eliminate two additional items – projected TRS commitment or funding date, and type of investment representation contemplated and proposed individual to serve, if any – and modify one item by adding the word “anticipated” in front of the name of the investment vehicle and investment manager.

Disclosure of information to the Board regarding proposed investments is critical in order to promote the integrity of the investment process, to provide transparency, and to enable Trustees to be able to examine whether there is a potential conflict of interest and to appropriately exercise their fiduciary duty. For that reason, it would generally be difficult for fiduciary counsel to support a proposal that reduces the amount of information being provided to the Board on proposed investments. In this case, instead of deleting the two items, it would seem that the word “anticipated” could easily be added before these two items (i.e., projected TRS commitment or funding date, and type of investment representation contemplated and proposed individual to serve, if any) just as it is being added before the name of the investment vehicle and investment manager. That being said, the Board may determine, after consideration, that the removal of the two proposed items from disclosure does not in any way



impede their ability to determine if there is a conflict of interest, or otherwise negatively impact the integrity of the investment process or the exercise of their fiduciary duty.

Modification #4: The proposal to authorize derivative transactions between Trust portfolios is intended to improve efficiency and minimize transaction costs by eliminating the need for both portfolios to execute trades in the market. This would be an amendment to the IPS, which is a Board-level policy that expresses to TRS staff the Board's vision. In my opinion, what is critical to the analysis in this case is that the Board was provided with IMD's procedures - the Internal OTC Derivative Controls - that would implement such a policy change. The Internal OTC Derivative Controls are provided not for Board approval, but rather in order to provide the Board with sufficient information regarding internal controls so as to enable it to make an informed decision regarding its board-level policy. For example, the Internal OTC Derivative Controls provide that internal OTC derivative trades will be marked on a daily basis by State Street using their existing valuation processes in accordance with IPS Section 9.8: "[t]he index close price on trade date will be used as the initial trade price for the internal portfolios as well as the close price on termination date. The trade date must be determined beforehand and no backdating of trades is allowed." Knowledge of these controls that are contained in IMD procedures provides the Board with sufficient understanding in order to vote on the change to policy that is set forth in the IPS.

Modification #5: The proposal to change the rating requirements for a securities lending agent is consistent with an Internal Audit recommendation that IMD evaluate the benefit of having multiple securities lending agents as opposed to the current one agent. Safeguards include the fact that TRS would issue an RFP, which would allow for proper and full vetting of any additional securities lending agents, and Texas law requires an indemnification agreement that is satisfactory to the Board.

Modification #6: The removal of the security restriction would appear to be consistent with the fiduciary duty to ensure that investments are made without promoting interests unrelated to the portfolio's stated objectives of controlling risk and achieving a long-term rate of return.

Modification #7: From a fiduciary perspective, I strongly support this proposal to add two questions to the Investment Integrity Questionnaire regarding political contributions and lobbying activity. This modification is a best practice that would provide additional due diligence in order to better identify and avoid any potential pay-to-play issues that could impact fiduciary duty.

Modification #8: The clean-up language that is proposed to improve readability of the IPS and remove outdated information is not substantive in nature and raises no concerns.

I would like to express my appreciation for the candor of the TRS staff and the TRS Board Advisors in the process of the IPS review. I remain available to discuss my memo should you have any questions.





DEPARTMENT OF FINANCE


THE UNIVERSITY OF TEXAS AT AUSTIN

1 University Station · B6600 · Austin, Texas 78712-0217

(512) 471-4368 · Fax: (512) 471-5073

## MEMORANDUM

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

From: Keith C. Brown   
Advisor to the TRS Board

Re: Proposed Changes to the TRS Investment Policy Statement

Date: August 19, 2023

I have reviewed the modifications to the Investment Policy Statement (IPS) that the Investment Management Division (IMD) has proposed recently. *Overall, I endorse these modifications and recommend their adoption*, subject to an evaluation of a few important clarifying remarks that I have listed in my comments.

Below, I include discussion and analysis of the recommended changes. Please note that, where relevant, I refer to the language and data used in IMD's "Investment Policy Proposals" presentation to the Board of September 2023.

- *#1: Implement Legislative Changes*

Two distinct changes are being proposed due to recent legislative adjustments to the way in which the System is allowed to operate. The first adjustment involves the statutory limit on the hedge fund allocation. Specifically, the proposed change amends the language in the IPS to (i) acknowledge that this allocation limit is determined by the Board rather than by legislative statute (cf. Articles 1.7.c and 1.8.b); and (ii) increases that allocation limit for hedge funds from 10% to 15% (cf. Article 2.3.e). So, beyond recognizing the shift in authority to set the hedge fund limit for the TRS portfolio, this proposal would also increase the level of that limit.

For context, it is worth noting that a 15% allocation limit in this asset class would be on the high side for the pension fund universe; a recent Willis Towers Watson study of Fortune 1000 corporate plans in 2021 showed that the aggregate hedge fund allocation for the largest plans in that sample was 4.0%. Conversely, hedge fund allocations for other types

of sophisticated, long-term institutional investors can often exceed that proposed threshold (e.g., as of December 2022, the UTIMCO endowment portfolio had 15.3% of its AUM in various hedge fund categories, which represented a slight *underweight* relative to its strategic policy allocation). It is also worth noting that no adjustment to the strategic and tactical asset allocation weights listed in Article 1.6 is included with this proposal—the Stable Value Hedge Fund target allocation remains set at 5%, with an allowable tactical range of 0-10%. Presumably, any effort to adjust that weighting scheme would be part of the Strategic Asset Allocation study that will be conducted in the coming months.

The second change involved with this proposal embeds language in the IPS to acknowledge that TRS is authorized to invest in “title-holding entities that are wholly owned, organized, and controlled by the retirement system (cf. Article 3.1)”. As this modification is expected to be applied to core real estate investments, this authorization language is also repeated in Article 5.2. It should also be noted that this language does not include a set of specific policies regarding the governance, management, and delegated investment authority for these securities. The Board will need to address that issue at a future date.

- *#2: Expand Public Markets Additional Allocation and Termination Authority*

Articles 2.6.c and 2.6.d would be amended to include the head of the Special Opportunities portfolio to the set of people authorized to make asset allocation adjustments, as well as holding-level termination and withdrawal decisions. This proposal would place the Special Opportunities head on par with the CIO, CRO, and head of the External Public Markets team with respect to this decision-making ability.

Given the relatively autonomous nature of how the Special Opportunities operation is run, from the deals it sources to the way in which some of its transactions are structured, this is a reasonable expansion of the authorization-eligible Public Markets team. It is somewhat ironic, however, that this authority would be granted to the head of a segment in the TRS portfolio with a standing strategic allocation target of 0%.

- *#3: Reduce Required Board Disclosure Items Under IIC Consideration*

At the inauguration of TRS’ alternative asset investment program in the early 2000s, the Board adopted an approval process that required external managers being considered to present directly to a committee consisting of almost all the sitting Trustees, in addition to the IMD staff. This was a great way for everyone connected to the investment of the TRS portfolio to learn the intricacies of these new asset classes, but it proved to be a cumbersome approach to decision-making as time passed. After a few years of that practice, the Board adopted a delegated management approach whereby it specified the parameters and limits under which the IMD staff could make investments without direct oversight of every transaction. That is largely the approach to delegated investment authority that remains in place today.

A key component of that delegation system is the regular reporting of relevant information from the IMD staff to the Board regarding investments being contemplated. Article 1.7 in

the IPS details the nature of this reporting requirement, with Article 1.7.d listing the specific set of 11 informational items about external investments under consideration to be delivered. This proposal would slightly modify one of those items (adding “Anticipated” in front of the name of the investment being considered), but would eliminate two others altogether. The two pieces of information slated for removal are: “Projected TRS commitment of funding date” (current Item vi in Article 1.7.d), and “Type of investment representation contemplated and proposed individual to serve, if any” (current Item xi).

The rationale offered for the proposed removal of these two items is that they are either unknown or hard to predict at the time the disclosure of information to the Board is required. I am not sure how to judge that argument, but inserting the word “Anticipated” in front of both—as was done with Item i—would seem to address that concern. However, the bigger question for the Board to consider is whether losing the information contained in these two items would have a material impact on your fiduciary oversight responsibilities? While reducing the amount of data reported for each prospective transaction does seem curious, it may well be that sufficient information remains to offer an adequate picture of the deal.

- *#4: Authorize Derivative Transactions Between Trust Portfolios*

In what may be the most impactful of the new proposals, this modification would amend the “Authorized Uses of Derivatives” section of the IPS (i.e., Article 9) to allow for internal trading of derivative agreements between the various groups comprising the IMD. Currently, if an IMD investment team wants to execute a derivative position, such as an exchange-traded futures contract or an OTC swap agreement, it would have to do so in the external marketplace, incurring transaction costs (e.g., bid-offer spread, market impact) and the need to post collateral to mitigate the credit risk imposed on their counterparty. With adoption of the proposed language inserted at the end of Article 9.3, two IMD teams (with presumably opposite portfolio-adjustment strategies) could execute an OTC derivative agreement amongst themselves, thereby saving most or all the expenses incurred with otherwise comparable external trades. To be clear, then, the motivation for this proposal is one of cost savings, trade execution efficiency, and reduced collateral commitments.

In spirit, this adjustment to the IPS makes a great deal of sense. At some large institutional investment operations, executing security trades in an “internal market” is an established practice; for example, a major mutual fund complex I am familiar with always attempts to clear sizeable stock trades between their existing fund managers before routing them to external dealers. However, that investment company currently manages about \$4.5 trillion, much of which is held in publicly traded equities, meaning that their internal market is frequently active. By contrast, the need for the asset managers at TRS to execute derivative contracts is likely to be far more limited in both scale and frequency, which calls into question how dramatic the anticipated cost savings might end up being. A rough estimate provided by the IMD places this expected annual savings at “a few million dollars,” but it is hard to evaluate this forecast without having a better idea of how often and how large any internally generated exchanges could be.

That sense of what the tangible benefits to this program will be is important because there are likely to be costs involved in implementing such a scheme, even if those incremental expenses take the form of increased organizational burdens. For example, it is not fully established how appropriate trading partners will be identified. The IMD's "Internal OTC Derivative Controls" document anticipates that the information necessary to identify potential counterparties at any moment in time will flow through the Asset Allocation Committee or the Portfolio Construction Team, but this process has yet to be implemented.

There are other questions of information provision and behavior monitoring that any new internal marketplace would need to establish before commencing operations. For instance, how can managers agree to a "bespoke" OTC deal without having specific pricing information available? Would the two managers in this situation be allowed to negotiate those terms with one another? Finally, who would monitor the transactions to confirm that each manager's—and ultimately TRS'—best interest is being served?

So, while this proposal has the potential to meaningfully increase the efficiency of how the IMD operates, the Board needs to be comfortable that it has what it needs to decide whether the anticipated benefits unambiguously exceed the potential costs.

- *#5: Change Rating Requirement for Securities Lending Agent*

Currently, Article 10.3.e specifies that the agent(s) used in the Securities Lending program must come from the set of organizations that have achieved a credit rating of A- (or its equivalent) or better from a nationally recognized statistical rating organization (NRSRO). This restriction, while certainly reasonable from a risk management perspective given the credit exposure that TRS has to its lending agent in the securities lending process, does limit the number of organizations that can be considered as candidates.

Under this proposal, the IPS language would be expanded to include in the set of eligible lending agents those organizations whose obligations are insured by a third-party company that has a credit rating from a NRSRO of A- or better. This method of using insurance to enhance an organization's credit rating is a well-established practice in various segments of the capital market (e.g., municipal bond issuers). In this case, the proposed modification should increase the pool of potential lending agents without diminishing the credit risk protections that TRS already has in place.

- *#6: Remove Security Restriction*

Many years ago, very late in a Board meeting with an already crowded agenda, a Trustee whose term was soon to expire gave an apparently spontaneous speech arguing that holding in the TRS portfolio the stock of any company engaged in pornographic business practices was "antithetical to our role and responsibilities as teachers". After an expedited discussion of the matter, the following investment constraint was ultimately adopted into the IPS (cf. Article 1.8.e):

*TRS will not invest directly in securities of any company that derives a significant portion of its revenues from products or services intended exclusively to appeal to*

*a prurient interest in sex through explicit depictions of sexual activity. These include sexually explicit films, videos, publications, and software; topless bars and strip clubs; and explicit sexually-oriented telephone and Internet services. The restriction does not apply to pooled investment vehicles, provided that the Investment Division shall engage with the managers of such vehicles and use commercially reasonable efforts during due diligence to determine whether such vehicles invest in any company that would not be eligible for direct investment by TRS.*

Looking past the principle on which it is based, it has always been a challenge to implement this restriction in practice as it requires an interpretation of what “a significant portion of its revenues” means. If memory serves, the initial application of what constituted a materially prurient-oriented company led to the expulsion of only about a half dozen companies from the portfolio, out of the thousands of actual or potential holdings available in those days. This proposal, which would remove the above language from the IPS, appears to be borne of the practical judgment that this constraint, while no less high-minded than it was when adopted almost 20 years ago, is impractical and largely immaterial in today’s market.

- *#7: Expand Investment Integrity Questionnaire to Add Additional Diligence Questions*

The Investment Integrity Questionnaire (IIQ), the use of which falls under the Investment Integrity Policy in Article 12, would be modified in two ways with this proposal. Chiefly, two new questions (listed as Questions 1B and 1C on the IIQ form in Appendix E) are being added to further clarify the nature of political contributions made by a person seeking to transact with TRS, as well as that person’s potential status as a registered political lobbyist. Further, more precise language has been added to Question 1A and Question 3 to reduce confusion amongst IIQ respondents.

Not having been personally involved in the evaluation of IIQ information in the past, it is difficult for me to judge the necessity of the two proposed new questions (e.g., Question 1B appears to be a more general version of what the response to the current version of Question 1 elicits). However, these additions do not appear to place an undue burden on the respondent, so if they are considered valuable additions to the IIQ by those responsible for interpreting the form, they should be adopted.

- *#8: Clarify and Clean Up IPS to Improve Readability*

There are several minor wording adjustments proposed for the IPS document, such as removing gender-centric title references (e.g., changing “Chairman” to “Chair” in Articles 9.7 and 10.8 and Appendix B) as well as outdated language regarding the transition scheme for the asset allocation chart in Article 1.6.







## Memo

To Board of Trustees, Teacher Retirement System of Texas ("TRS")

From Steve Voss; Mike McCormick

Date September 14, 2023

Re 2023 Review of Investment Policy Statement

### Introduction

As we have discussed with the Board many times in the past, it is difficult to underestimate the importance of a well written and unambiguous Investment Policy Statement (IPS). The IPS provides the means for the Board to control various critical aspects of the investment portfolio, including: long-term asset allocation, rebalancing ranges, monitoring and reporting practices, risk limits, governance practices, and benchmarks.

The Board reviews the TRS IPS on a reoccurring basis. The purpose of such reviews is to ensure the document reflects desired long-term asset allocation, the evolving investment portfolio, legal and regulatory developments, current best practices, and that it reflects input from relevant parties both outside and within TRS. As an advisor to the Board, it is Aon's responsibility to participate fully in dialogue with IMD and other internal and external stakeholder, as necessary, to ensure we understand the context of any and all suggested modifications to the IPS.

Over the years, this document has evolved to become quite comprehensive. This year's revisions are the result of the continued evolution of IMD, current best practice, and changes within the investment industry. Overall, we think the level of detail in the document is appropriate given the context of TRS – that of a large and sophisticated institutional investor. We also believe the proposed modifications are reasonable and appropriate to keep the current policy in-line with best practice.

As an appendix to this memorandum we have included a list of items we think are indicative of best practices for investment policy, and TRS' IPS covers these items well. We have shared this in the past but thought it worth including again, putting into better context the key elements of investment policy.

### Proposed Changes

*We are comfortable with the proposed changes and recommend the Board adopt them as presented by the Investment Management Division (IMD).* As noted, these changes represent the reflection in policy of the continued evolution of IMD, current best practice, and the investment industry. The changes are based on thorough discussion and debate and include feedback and comments from



fiduciary counsel, TRS Legal and Compliance, and the Board's investment advisors. Below we have grouped the proposed changes into the categories described above. For consistency purposes we have numbered our modifications to match the presentation and redline document provided by IMD.

#### **Evolution of IMD**

- Modification 1
  - 1a – Establish a maximum portfolio percentage that may be invested in hedge funds
  - 1b – Add title holding entities as an authorized investment for the Trust and Real Estate portfolio
- Modification 2 – Add “Head of Special Opportunities” to Public Markets Portfolio Management Authority
- Modification 3 – Modify the Board disclosure for investments under IIC consideration
- Modification 4 – Allow for the execution of Over the Counter (OTC) derivative transactions between Trust portfolios
- Modification 6 – Remove language that conflicts with IMD's mandate to only consider factors that are material to long-term returns and levels of risk

#### **Evolution of Current Best Practice**

- Modification 7 – Expand IIQ to facilitate good governance, and obtain political contribution and lobbying activity

#### **Evolution of the Investment Industry**

- Modification 5 – Allow for “A-” rating requirement of the Securities Lending Agent to be achieved through insurance with a third party (to insure indemnification)

Below we provide a detailed review of each proposed modification.

#### **Modification 1a: Establish a maximum portfolio percentage that may be invested in hedge funds**

Since 2007 there has been a legislative limit on the percentage of the Trust that can be invested in hedge fund strategies. The initial limit in 2007 was 5% and it was increased in 2011 to 10%. The 88<sup>th</sup> Legislature has delegated the authority to set this limit to the TRS Board. The TRS portfolio has ~9% allocated to hedge funds. IMD is proposing that the limit on hedge fund investments be set at 15%.

IMD believes that Hedge funds provide diversification and access to best-in-class investment talent which help reduce overall portfolio risk and increase expected returns, and that the 15% limit will allow TRS to grow the Directional Hedge Fund (DHF) + Overlay program and create a buffer to accommodate market volatility.

Our views on hedge funds are similar to IMD. We believe that hedge funds can be utilized to enhance risk adjusted investment results and we agree with IMD that increased use of hedge funds should be the result of the Strategic Asset Allocation study. We are comfortable with a 15% limit on hedge fund



investments and expect this to be further considered during the upcoming Strategic Asset Allocation study.

**Modification 1b: Add title holding entities as an authorized investment for the Trust and Real Estate portfolio**

The 88<sup>th</sup> Legislature has clarified an interest in a wholly-owned title-holding entity as a security. This clarification allows TRS to exert direct control for select real estate holdings and/or strategies, which would previously been controlled by a third party. IMD is looking to add title-holding entities as an additional authorized investment for the Trust and Real Estate portfolio, and it is their expectation that title holding entities would be first utilized for core real estate mandates.

The 88<sup>th</sup> Legislature also articulated that the Board shall adopt policies for the governance, management, and reporting for title-holding entities. It is the expectation of IMD and Aon that the Board will be involved in the development of policies related to title holding entities as the law requires. It is our expectation that the Board will adopt the overarching policies and then delegate authority to implement the policies to IMD. It is also expected that IMD will create internal procedures to document their process. It has not yet been determined if these policies will be incorporated into the IPS, a stand-alone policy, or resolution.

We are in favor of the inclusion of title-holding entities as an additional authorized investment for the Trust and Real Estate portfolio, given the actions of the 88<sup>th</sup> Legislature. This addition will necessitate further policy development associated with these securities prior to investment, and we look forward to working with the Board, IMD, and other appropriate parties to develop them.

**Modification 2: Add “Head of Special Opportunities” to Public Markets Portfolio Management Authority**

The Chief Investment Officer, Chief Risk Officer, Head of Public Markets, and Head of External Public Markets all have authority to add to previously approved funds or investments for the purposes of rebalancing, increasing allocations or adjusting risks (Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio). They also have the authority to transfer, sell, withdraw or terminate interests across these portfolios. The proposed change would grant this same authority to the Head of Special Opportunities. Currently, the Head of Special Opportunities must get authorization from the individuals outlined above to implement decisions in the Special Opportunities portfolio. This evolution in authority is seen as desirable by IMD given the growth in the Special Opportunities portfolio and the increasing level of investment activity.

We believe this evolution in authority is commensurate with the evolution of the TRS portfolio and will allow for effective implementation of the investment program. We are supportive of adding the “Head of Special Opportunities” to Public Markets Portfolio Management Authority.



### **Modification 3: Modify Board disclosure for investments under IIC consideration**

IMD is proposing three changes to the “Investments under consideration” section of the IPS. The first change represents a broadening of the information being requested and the two remaining changes represent removals.

The first change allows IMD to provide an anticipated name for an investment. Given IMD’s involvement in the early stages of investment opportunities, investment vehicle names are not always finalized. The inclusion of the word anticipated reflects the fact that some investment vehicle names will change, and that this is an expected part of the process.

IMD is proposing the removal of the commitment or funding date. This date is often not known to IMD at the time the Board disclosure is made, and often changes. IMD’s level of conviction in the accuracy of this data is low, and therefore IMD has expressed a desire to remove this information from the disclosure.

IMD is also proposing the removal of the type of investment representation contemplated and the proposed individual to serve, as this information is also often uncertain. Investment representation is referring to the potential for TRS to receive a board seat as part of its investment in a fund. Having a board seat is typically deemed desirable as it gives TRS an increased level of insight and control over the investments. As the TRS allocations get smaller, representation on boards is reduced. TRS is often able to secure a board seat but sometimes is included as an observer or not at all. As part of ongoing transparency, the board receives a list of advisory roles across the portfolio.

Based on our discussions with IMD there is a desire to include any and all information that the Board deems beneficial in its governance process. IMD has a low level of conviction that this information will not change, and therefore is proposing it be removed from the disclosure. Continued collaboration between the Board, its advisors, and IMD can ensure that the disclosure information is sufficient to the Board and meets their governance needs. Given the Board’s comfort with the removal of this information, we are comfortable with the approval of IMD’s suggested change.

### **Modification 4: Allow for the execution of Over the Counter (OTC) derivative transactions between Trust portfolios**

Derivative positions are desirable in institutional investment programs given their ability to allow investors to efficiently obtain market exposure, create leverage, and manage investment risk. Over the Counter (“OTC”) derivative positions allow an investor to tailor the position to meet their unique needs. IMD utilizes OTC derivative positions when they are deemed to be the best available tool to implement their investment views.

The proposed policy change will allow for OTC derivative transactions between Trust Portfolios. Trading between Trust portfolios is desirable as it reduces transaction costs on both sides of the trade and will reduce transaction costs for the Trust in aggregate (expected to be a few million dollars annually). The potential concerns with allowing these trades include the pricing of the security



(transacting at a value that doesn't represent fair value) and timing of the transaction (backdating of trades). We have received and reviewed the working CIO approved draft of the Internal OTC Derivative Controls, and we believe they appropriately consider these risks. The procedure document outlines that all pricing must be sourced from Bloomberg and the positions will be marked on a daily basis by State Street using the existing valuation processes. The procedure document also states that the trade date must be determined beforehand and no backdating of trades is allowed.

We believe the CIO approved draft of the Internal OTC Derivative Controls appropriately manages the potential risks, and we are supportive of IMD's proposed amendment to the IPS.

**Modifications 5: Allow for "A-" rating requirement of the Securities Lending Agent to be achieved though insurance with a third party (to insure indemnification)**

The proposed change to the IPS will expand the number of securities lending agents available to TRS. This expansion is achieved by allowing the possible inclusion of entities who meet the minimum rating requirement associated with their indemnification by utilizing third parties (likely insurance companies) to support their indemnification program.

TRS is indemnified by its securities lending agent (State Street Bank) against any losses associated with a default by a borrower of TRS securities. If a borrower were to default and the cash collateral was insufficient to repurchase the security, the agent would cover any cost difference between the value of the cash collateral and the security. The credit quality of the entity providing the indemnification is important to TRS as it represents their financial ability to meet their obligation. It is important to note that the use of balance sheet assets of a lending agent to cover borrower losses is extremely uncommon and dating back to the 1970's we are not aware of any publicly disclosed events. Given this, it is a recent trend for some investors to forgo the indemnity to provide for higher earnings.

TRS utilizes State Street Bank as its only securities lending agent. Changing or adding additional lending agents will require Board approval. We believe that having the lending activities divided amongst multiple agents can be accretive to earnings for large institutional investors, like TRS. We believe the proposed change will give TRS access to best in class securities lending agents. We are supportive of the change to the policy, and the expansion of potential securities lending agents to be considered.

**Modifications 6: Remove language that conflicts with IMD's mandate to only consider factors that are material to long-term returns and levels of risk**

Article 1.5 of the TRS investment policy states:

*All investments must be made prudently and in accordance with fiduciary and ethical standards, without promoting interests unrelated to the portfolio's stated objectives of controlling risk and achieving a long-term rate of return.*



This language is consistent with Aon's best thinking, and succinctly articulates our understanding of the investment objectives of the Board to IMD. We believe that section 1.8(e) could be reasonably seen as conflicting with section 1.5 and given this we believe the removal of 1.8(e) is prudent.

**Modifications 7: Expand IIQ to facilitate good governance, and obtain political contribution and lobbying activity**

IMD is proposing the expansion of the Investment Integrity Questionnaire (IIQ) to add additional diligence questions associated with political contributions and lobbying activities. These changes are expected to increase clarity and efficiency, as well as reduce the number of errors associated with the IIQ. We believe the proposed questions are reasonable and reflect good governance. We are supportive of the change proposed by IMD.

**Modifications 8: Clarify and clean up IPS to improve readability and clarity**

The remaining modification primarily represent clarifying changes, and wordsmithing. We do not have any concerns with these proposed changes.

**Summary**

As previously stated, the IPS is an important instrument related to the Board's delegation of authority to IMD, and it is also an important articulation of the high-level investment strategy to be used in the future. We believe the changes are appropriate and reflect the evolution of IMD, current best practice, and the investment industry. We continue to see the TRS IPS as being best-in-class.

As in years past, IMD has led the review process and worked closely with other departments within TRS: namely, Legal, Internal Audit, and Compliance. Lastly, feedback and input was solicited from Suzanne Dugan, external fiduciary counsel, Dr. Keith Brown, advisor to the Board, and from Aon.

We are supportive of the modifications put forward by IMD for the reasons cited above and look forward to discussing the IPS review with you.



## **Appendix: Aon's Key Elements of Investment Policy:**

### **1. Introduction**

- Reference to state or local law creating the plan
- Reference the board's right to have an investment committee and to set policy
- Intended beneficiaries of the plan (e.g., the plan is created for certain employees and their dependents and other beneficiaries of special trusts)
- Scope of policy (e.g., limited in application to pension fund assets or it may also include other assets)

### **2. Statement of Purpose**

- The sole or fundamental purpose of the Retirement System (e.g., to provide retirement and other benefits to plan participants)
- Plan fiduciaries must act in the sole interest of plan participants and beneficiaries and for the exclusive purpose of providing benefits

### **3. Investment Goals or Objectives**

- To preserve the actuarial soundness of the plan in order to meet benefit obligations
- To obtain a long-term rate of return (one or two market cycles), net of fees, equal to or in excess of the policy benchmark.
- The policy benchmark and asset allocation targets should be defined

### **4. Identification of Roles and Responsibilities**

- Board of trustees – general and investment related duties
- Investment committee – role to make recommendations or final decisions
- Internal staff – general and investment related duties
- External investment consultants – duties, reporting lines, expectations regarding the frequency of communications and acknowledgement of fiduciary responsibilities
- Other external providers' duties, expectations and fiduciary responsibilities

### **5. Asset Allocation**

- Describe the importance of asset allocation as the most important decision to be made in the investment management process
- Purpose is to provide an optimal mix of investments to produce desired returns and meet current and future liabilities, with minimal volatility
- Frequency and methodology of asset liability modeling and resetting allocation
- Describe permissible asset classes as well as minimum, maximum, and target ranges
- Diversification should be covered in regard to a single issuer, single asset class, economic sector, or country



#### **6. Asset Class Guidelines and Benchmarks**

- Benchmarks – who sets them and how often they are revisited, and their rationale
- Prohibited investments – short selling, margin, investments precluded by law or regulation

#### **7. Rebalancing Policy**

- Purpose of rebalancing – to ensure that the investment program adheres to its strategic asset allocation
- Describe how often the portfolio will be reviewed for rebalancing and whether a fixed threshold or proportional threshold will be used

#### **8. Risk Management**

- Acknowledgement and definition of risk to be managed in investment portfolio (active risk, credit risk, counterparty risk, market risk, operational risk, etc.)
- Risk Budget – articulation of risk guardrails for public traded asset classes and total fund relative to appropriate benchmarks
- Derivative usage permitted in risk management process, by internal or external parties

#### **9. Monitoring and Reporting**

- Purpose – to ensure compliance with the investment policy and applicable law, to manage risk, and assess the performance of managers
- Describe quarterly reporting for both external managers and other external investment professionals.
- Annual and more frequent reporting – define purpose and scope

#### **10. Shareholder Activity**

- Proxy positions -- describe the policy and how votes are cast and recorded
- Identify core principals of the Board (Board independence, Board management, shareholder rights) and communicate importance of fiduciary duty, integrity, and transparency
- Outline compensation for CEOs and other directors
- Structure of committees including audit, director nominating, board evaluation and governance, CEO Evaluation, and compliance and ethics
- Annual review of investment policy statement

#### **11. Governance**

- Identify core principals of the Board such as integrity and transparency
- If applicable, the emerging manager language could go here
- Discuss delegation and incorporate by reference the CIO position description
- Require an annual review of investment policy statement



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## INVESTMENT POLICY STATEMENT

(Adopted September 15~~6~~, 202~~23~~, to be effective ~~September 19~~October 1, 202~~23~~)

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## EXECUTIVE SUMMARY

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This Executive Summary is not intended to replace, and must be read in conjunction with, the Investment Policy Statement (the “Policy”). In the event of a conflict between the Executive Summary and the Policy, the Policy shall govern. Capitalized terms have the meanings assigned to them in the Policy.

### **Introduction / Background**

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy. The Board also monitors the actions of the Investment Division to ensure compliance with its policies. The Board and Investment Division are assisted by outside Advisors, Consultants and internal and external legal counsel.

See “Section 1.3 – Roles of Board, Staff, Advisors, and Consultants.”

The Investment Policy Statement provides a formal plan for investing pension trust fund (the “Trust”) and health insurance program assets. The Policy defines the roles and responsibilities of the Investment Division and other parties granted and approved by the Board.

### **Objectives**

The Trust’s objectives are to (a) control risk and (b) achieve a long-term rate of return that exceeds (i) the assumed actuarial rate of return adopted by the Board, (ii) inflation plus 5% and (ii) the Trust’s Policy Benchmark. The Trust is subject to a “prudent person” standard of care under the Texas Constitution.

### **Authority and Key Restrictions**

The Board assigns implementation authority to the Investment Division and as such the Investment Division has created a committee to oversee and implement Board-approved investment policy. The Internal Investment Committee’s (IIC) authority is limited by the size of the investments it can approve without also obtaining approval from the Board. The Chief Investment Officer (CIO) has Special Investment Opportunity authority of up to \$1 billion.

See “Appendix B – IIC Approval Authority and Manager Organization Allocation Limits.”

### **Asset Allocation**

Each broad asset class category outlined below provides a distinct and purposeful role within the Total Fund. The Board sets these asset class targets based on periodic asset allocation and asset/liability studies while seeking to achieve the Trust’s stated

Broad Asset Class Category	Target	Min	Max
Global Equity	54%	47%	61%
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	8%	0%	13%
Net Asset Allocation Leverage	-4%		
Total	100%		

objectives.

In addition to the target for each broad asset class category target, there are specific targets for subcategories with minimum and maximum ranges that are +/-5% around the target allocation, with certain exceptions.

See “Section 1.6 – Total Fund Asset Mix and Benchmarks.”

**Measurement and Reporting**

Investment performance, peer performance, policy compliance, asset allocation, external investments activities, derivatives usage, risk limits, liquidity, leverage, private markets strategy, staffing, board and board observer seats, use of placement agents and other information will be monitored and reported to the Board.

See “Section 1.7 – Total Fund Measurement and Reporting Criteria.”

**Risk Management**

The Investment Division will monitor and manage risk of the Total Fund Portfolio and report to the Board on a periodic basis. Key risks include, but are not limited to: Market Risk, Foreign Exchange Risk, Credit and Counterparty Risk, Leverage, Liquidity, and Tracking Error.

See “Article 10 – Risk Management and Oversight.”

**Tracking Error**

Neutral tracking error targets are established for certain portfolios of the Trust:

	Neutral	Max
Equity (US)	300 bps	
Equity (International; Non-US, EAFE)	300 bps	
Equity (International; Emerging Markets)	300 bps	
Equity (World Equity)	300 bps	
Stable Value Hedge Funds	400 bps	
Risk Parity	400 bps	
Government Bonds		300 bps
Total Public Fund	100 bps	300 bps

See “Appendix A – Tracking Error Neutral (in annualized basis points).”

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## ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN

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### 1.1. Introduction

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The Teacher Retirement System of Texas (“TRS”) administers a pension trust fund and other health insurance programs for retirees and certain active public education employees under State of Texas constitutional and statutory provisions. TRS is governed by a Board of Trustees (the “Board”). TRS provides service and disability retirement benefits and death and survivor benefits for Texas public education employees and their beneficiaries. Benefits are funded by state and member contributions and investment returns.

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### 1.2. Purpose and Design

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The purpose of this Investment Policy Statement (this “Policy”) is to provide a formal plan for investing pension trust fund and health insurance program assets to achieve defined investment objectives consistent with the TRS mission statement adopted by the Board and with applicable law.

This Policy also defines the roles and responsibilities of the various entities involved in the investment process and facilitates internal and external communication of investment policy.

The appendices to this Policy are incorporated into and form part of this Policy for all purposes.

Terms that are not defined within the body of this Policy have the meanings assigned to them in the “Definitions” at the end of this Policy.

Other policies relevant to this Policy and its subject matter include the Code of Ethics for Contractors, Employee Ethics Policy, Trustee Ethics Policy, Personal Trading Policy, Commission Credits Policy, Confidentiality Policy, Information Security Policy, Proxy Voting Policy, and Securities Lending Policy.

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### 1.3. Roles of Board, Staff, Advisors, and Consultants

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The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff (the “Investment Division”) and Legal and Compliance. The Board also monitors the actions of staff to ensure compliance with its policies. The Board’s standing committees are charged with those responsibilities set forth in the bylaws of the Board. The Board and the Investment Division are assisted by outside investment Advisors, Consultants and internal and external legal counsel.

- a. The Board Investment Advisors (“Advisors”) are selected by the Board to provide education, advice, commentary, and discussion as requested at Board meetings, assist with development and review of investment policies and procedures, assist with the development of the strategic asset allocation, report on the progress of the Fund in meeting its investment objectives, compare the performance of the portfolio to established benchmarks, and perform additional duties as directed by the Board, such as due diligence or analysis of a manager or investment. The Investment Division and Advisors provide information as needed to assist the consulting actuary in performance of actuarial services.
- b. The Investment Division has fiduciary responsibilities delegated by the Board under applicable law. The Investment Division manages the Fund according to the Board’s policies, advises and informs the Executive Director and the Board about investments, and recommends modifications to this Policy. The Investment Division executes all transactions, performs risk-management functions, and prepares investment reports.

- c. The Internal Investment Committee (the “IIC”) reviews, considers, and authorizes proposed investments and external manager engagements as required by this Policy. Additionally, the IIC will manage the currency hedge ratios (set forth in Appendix C) and review as needed.

A prudence or recommendation letter will be required in the following circumstances:

1. When the Board considers authorizing an external investment opportunity because the allocation or commitment exceeds the limits in Appendix B;
2. When the CIO, Executive Director or a Board member requests a letter for any external investment opportunity presented to the IIC; or
3. When an external investment opportunity presented to the IIC meets all three of the following criteria:
  - i. The investment will reside in the principal investment Private Markets Portfolio;
  - ii. The initial allocation or commitment exceeds 0.25% of the Total Fund value; and
  - iii. The investment is the first by TRS with a manager organization.

If a Board member desires that any investment opportunity scheduled for consideration by the IIC be submitted for Board consideration, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board and the appropriate Board committee, as applicable, before the anticipated closing date.

The permanent IIC membership consists of the CIO and the Chief Risk Officer (the “CRO”). There must be a minimum of five members on the IIC and, in addition to the CIO, at least two members must be Investment Division Senior Managing Directors (“SMDs”). The CIO will notify the Chairman of the Investment Management Committee in advance of any designation or removal of a SMD from the IIC. Termination of a member's TRS employment terminates IIC membership as of the date the employee or TRS gives notice of termination, as the case may be. The Investment Division shall notify the Board and the Executive Director if there is any change to the membership of the IIC. The IIC may delegate investment discretion to asset class investment committees as established in IIC procedures and guidelines.

The CIO will establish procedures and guidelines for the operations of the IIC. The IIC procedures and guidelines may provide that the CIO may designate and remove select Directors as non-permanent voting members to the IIC. The IIC procedures and guidelines will define a quorum and establish the vote required to authorize an investment or external manager engagement or, if required by this Policy, recommend an investment or external manager engagement to the Board, which vote may not be less than a majority of the then-incumbent IIC members present and voting at a meeting at which a quorum is present. The CIO shall have the power to veto any investment or delegation of investment discretion authorized or recommended by the IIC pursuant to a vote of its members.

The Executive Director or a designee may attend any meeting of the IIC, and the Investment Division shall deliver to the Executive Director copies of all IIC materials, analyses, correspondence, and agendas as and when delivered to the IIC members or other TRS employees. The Executive Director is not a member of the IIC, however, acting in his or her capacity as the chief executive officer and chief administrative employee of TRS as set forth in the Board's bylaws, the Executive Director shall, after consultation with the CIO, have the power to veto any investment or delegation of investment discretion proposed for IIC consideration or authorized or recommended by the IIC pursuant to a vote of its members whenever he or she deems such veto to be in TRS' best interest.

When this Policy requires that the Board authorize an investment or an engagement of an external manager, the IIC shall vote on whether to recommend such investment or engagement to the Board. The results of the vote shall be reported to the Board in the materials provided to the Board for consideration.

- d. All proposed changes to this Policy will be reviewed by Legal and Compliance for compliance with state and federal laws regarding fiduciary responsibility, investment prudence, regulatory compliance, ethics compliance, and other applicable standards or requirements before submission to the Policy

Committee. Except as authorized by the Executive Director, proposed changes to this Policy will first be presented to the Policy Committee, which will consider recommending the proposed changes to the Board. The Board may consider and adopt proposed changes that have not been considered by the Policy Committee. This Policy shall be reviewed at least once every three years.

- e. The Investment Division is authorized to engage qualified Consultants on an as-needed basis to assist the Investment Division with respect to investment opportunities and to provide other investment due diligence, analysis and advice.

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#### **1.4. Total Fund Objectives**

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In this Policy, the total investment portfolio includes all assets invested by TRS to provide retirement, death, health, and disability benefits administered by the system, including cash and cash equivalents (the “Total Fund” or the “Fund”) and will be structured and managed to achieve the following objectives:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. As applicable to the pension plan, achieve a long-term rate of return that:
  - i. Exceeds the assumed actuarial rate of return adopted by the Board;
  - ii. Exceeds the long-term rate of inflation by an annualized 5%; and
  - iii. Exceeds the return of the Fund Policy Benchmark.

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#### **1.5. Total Fund Investment Standard**

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Article XVI, Section 67(a)(3) of the Texas Constitution and Section 825.301, Texas Government Code, states that the standard of care for TRS investments is a “prudent person” standard. Section 825.301, Texas Government Code, provides that Section 117.004(b), Property Code, applies to TRS investment decisions. Section 117.004(b) generally states that the determination of the prudence of a single investment decision will be made taking into consideration the investment of all of the assets of the trust, or the assets of the collective investment vehicle, as the case may be, rather than a consideration as to the prudence of the single investment of the trust, or the single investment of the collective investment vehicle, as the case may be.

Environmental, social, and governance (ESG) factors influence the performance of TRS’s investments. In making investment decisions, the Investment Division will consider ESG factors that are material to long-term returns and levels of risk. Materiality of specific ESG factors vary across strategies, companies, sectors, geographies and asset classes.

All investments must be made prudently and in accordance with fiduciary and ethical standards, without promoting interests unrelated to the portfolio’s stated objectives of controlling risk and achieving a long-term rate of return.

All investments made by the Total Fund must be in “securities” as provided by Article XVI, Section 67 (a)(3) of the Texas Constitution and defined in Texas Government Code Section 825.301.

The Investment Division may engage External Managers to provide discretionary investment management services under Investment Management Agreements (“IMAs”) as needed.

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#### **1.6. Total Fund Asset Mix and Benchmarks**

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The Investment Division will assist the Board in engaging in an asset-liability study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent

portfolio exposures and a “long-term target” position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within the risk tolerances specified herein.

Each asset class allocation percentage has a “long-term target” position within the overall portfolio and a maximum and minimum range around that target allocation. All percentages refer to market value.

Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the table on the following page, and are referred to as the Policy Benchmarks.

The ultimate expression of risk tolerance by the Board to the Investment Division is the selection of the strategic asset allocation targets, permissible allocation ranges around those targets, and tracking error limits.

[Table appears on following page]

Asset Class	Benchmark	Reference Bloomberg Ticker	Minimum Range <sup>1,2</sup>	Maximum Range <sup>1,2,9</sup>	Target <sup>2</sup>
<b>Global Equity:</b>					
USA	MSCI USA Investible Market <sup>3</sup>	MIMUUSAG	13%	23%	18%
Non-US Developed	MSCI EAFE and Canada <sup>3</sup>	NDDUEC	8%	18%	13%
Emerging Markets	50% MSCI EM/50% MSCI EM ex China <sup>3,40</sup>	NDUEEGF	4%	14%	9%
Private Equity	Customized State Street Private Equity Index – lagged one quarter <sup>4</sup>	M1CXBRV	9%	19%	14%
<b>Total Global Equity</b>	<b>Target-weighted Blend</b>		<b>47%</b>	<b>61%</b>	<b>54%</b>
<b>Stable Value:</b>					
Government Bonds <sup>5</sup>	Bloomberg Barclays Long Treasury Index	LUTLTRUU	0%	21%	16%
Absolute Return (Including Credit Sensitive Investments) <sup>6, 8</sup>	SOFR + 4%	SOFRRATE (Plus 4%)	0%	20%	0%
Stable Value Hedge Funds	HFRI Fund of Funds Conservative	HFRIFOFC	0%	10%	5%
<b>Total Stable Value</b>	<b>Target-weighted Blend</b>		<b>14%</b>	<b>28%</b>	<b>21%</b>
<b>Real Return:</b>					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
<b>Total Real Return</b>	<b>Target-weighted Blend</b>		<b>14%</b>	<b>28%</b>	<b>21%</b>
<b>Risk Parity:</b>					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	13%	8%
<b>INVESTMENT EXPOSURE</b>				<b>115%</b>	<b>104%</b>
<b>Asset Allocation Leverage:</b>					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage <sup>7, 8</sup>	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
<b>Net Asset Allocation Leverage</b>					<b>-4%</b>
<b>TOTAL FUND</b>	<b>Target-weighted Blend</b>				<b>100%</b>



<sup>1</sup> With respect to the maximum range and minimum range, the CIO may increase any maximum range by 5% or decrease any minimum range by 5% (but may not decrease a minimum range below zero) if the CIO concludes in a writing delivered to the Executive Director and to the Board of Trustees stating the action taken and the reasons why the CIO believes that such increase or decrease would be in the best interests of TRS; provided, the maximum range for Total Global Equity may not be increased above 68%. Before taking action, the CIO must request comments from the Chair~~man~~ of the appropriate Board Committee and TRS Advisors. The Board, at the next succeeding Board meeting, must authorize the increase or decrease if the CIO proposes that the changes continue in effect after such Board meeting. The CIO will notify the Chief Compliance Officer of any such change to a maximum or minimum range. If the Board does not authorize the continuation of the change to a maximum or minimum range after the next succeeding Board meeting, the Investment Division shall use best efforts to rebalance the portfolio to bring the asset classes within the ranges in the table above within 90 days.

<sup>2</sup> To calculate the Total Fund benchmark, the benchmark weight of each of Private Equity, Real Estate, and Energy, Natural Resources and Infrastructure, will be set each quarter as the ending actual weight from the prior quarter. Any difference in the calculated Private Equity, Real Estate and Energy, Natural Resources, and Infrastructure benchmark weights from the target benchmark weights will be offset using other asset classes with 25% of such difference applied to USA, 18% to Non- US Developed, 14% to Emerging Markets, 8% Stable Value Hedge Funds, 12% Risk Parity and 23% to Government Bonds.

The Investment Division does not normally manage the allocations to Private Equity, Real Estate and Energy, Natural Resources and Infrastructure on a tactical basis and will use its best efforts to achieve the Target allocation for these assets classes; provided, with notification to and comment sought from the Chair~~man~~ of the appropriate Board Committee, the Investment Division may seek to achieve a higher or lower Target so long as such Target is within the Minimum Range and the Maximum Range.

<sup>3</sup> Benchmarks will be adjusted for securities TRS is not authorized to own or buy because of this Policy or statutory provisions for which no fiduciary exemption has been exercised and have the Bloomberg Tickers of GU722807, NU722808 and [NU752166-NU722809](#).

<sup>4</sup> The Customized State Street Private Equity Index is composed of the quarterly reported SSPEI, one quarter lagged and adjusted for the most recent quarter-end currency spot prices. Quarterly returns are geometrically linked for longer return horizons. The benchmark is adjusted in each quarter to remove any index constituents which did not provide a valuation statement as of the time of publication.

<sup>5</sup> Global sovereign nominal and inflation-linked bonds may be held in the Government Bond portfolio.

<sup>6</sup> Absolute Return is a broad category that includes all assets that have a high probability of generating a positive absolute return regardless of market conditions over a one- to three-year period.

<sup>7</sup> “Asset Allocation Leverage” reflects any excess allocation to the combined cash and investment exposures that is greater than 100%. Asset Allocation Leverage does not include Strategy Leverage. “Strategy Leverage” is leverage used within an asset class to achieve similar return-risk characteristics as the benchmark.

<sup>8</sup> The benchmark will be compounded daily using SOFRRATE index with a one-day lag, Actual/360, and Modified Following day count conventions.

<sup>9</sup> ~~The Maximum Range for the Private Equity Asset Class will be 24% until July 31, 2023.~~

<sup>10</sup> ~~The transition period to the new Emerging Markets benchmark will be October 1, 2022, through March 31, 2023 unless the CIO, upon notification to the Chairman of the Investment Management Committee, elects to terminate the transition period.~~

~~No later than two business days before the beginning of each month during the transition period, the CIO will notify the Chairman of the Investment Management Committee and Chief Compliance Officer of the designated weights for the two component indices of the Emerging Markets benchmark (MSCI EM and MSCI EM Ex China) to be used for the following month. The CIO will also provide notice to the Board of the end of the transition period.~~

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## 1.7. Total Fund Measurement and Reporting Criteria

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The Investment Division will deliver reports to the Board (and the appropriate Board committee, as applicable) adequate to indicate whether the Total Fund is meeting its objectives and that will permit the Board to monitor each portfolio for compliance with this Policy. The Board will establish performance and risk measurement and attribution standards for the Total Fund, each asset class, and component portfolios.

The following comparisons and reviews will be performed quarterly (unless otherwise noted) and presented to the Board:

- a. **Investment Performance** – Investment performance for the Total Fund and each component portfolio, net of external management fees (if applicable), will be compared with their respective benchmark indices. Fund performance will be judged primarily by comparisons to long-term (3, 5 and 10 year) Policy Benchmark returns.
  - b. **Monitoring of compliance with Policy** – Portfolios will be reviewed for compliance with the requirements set forth in this Policy. The Chief Compliance Officer will have overall responsibility for compliance monitoring. However, if considered necessary, TRS will hire external parties to obtain assistance regarding compliance monitoring. To ensure independence in compliance monitoring, the Chief Compliance Officer or external parties hired will not be given the authority to trade securities. To ensure ongoing compliance with this Policy and completeness of disclosures to the Board regarding compliance, the Chief Compliance Officer has authority to require certifications from applicable IIC members or Managing Directors disclosing known compliance violations. The Chief Compliance Officer reports all known compliance exceptions to the Board at the next meeting of the Board. The Chief Compliance Officer is authorized to execute and deliver compliance-related disclosures, reports, filings and certifications on behalf of TRS. The Chief Compliance Officer, with the CIO and Executive Director's approval, is also authorized to develop, disseminate and collect disclosure forms to monitor the requirements of this Policy.
  - c. **Asset class exposures and weight** – The exposure of cash and derivative instruments to each asset class will be aggregated and compared with their respective benchmarks and with the authorized ranges around those benchmarks. The foregoing does not apply to those accounts designated as using Strategy Leverage to better align the investment with the characteristics of the policy benchmark. Hedge Fund exposure will be reported relative to ~~its statutory limit~~ the limit set by the Board, if applicable.
  - d. **Investments under consideration** – For any external investment under consideration by the Investment Division (including Hedge Funds, External Managers, and private markets investments), the Investment Division will provide the Board the following information prior to the date of the applicable IIC meeting:
    - i. Anticipated Name of the investment vehicle and name of investment manager;
    - ii. Total fund or strategy size;
    - iii. TRS investment amount under consideration;
    - iv. Investment strategy;
    - v. Names of the External Manager or fund principals;
    - ~~vi. Projected TRS commitment or funding date;~~
    - ~~vii.vi.~~ Placement agent or firm sponsoring the offering or engagement, if any;
    - ~~viii.vii.~~ Prospective fees;
    - ~~ix.viii.~~ Other TRS investments with the firm;
    - ~~x.ix.~~ Historical fund or manager performance; and
    - ~~xi. Type of investment representation contemplated and proposed individual to serve, if any.~~
- For any internal investment under consideration, the Investment Division will provide the Board similar information prior to the date of the applicable IIC meeting.
- e. **External investments activities**– The Investment Division will provide the Board with a list of all external investments, including any additions, withdrawals, transfers or terminations, on at least a semi-annual basis.

- f. **Derivatives** – The Investment Division will provide a comprehensive report of all outstanding derivative applications (including derivative types, counterparties, notional amounts, and fair values) used by internal managers and External Managers under IMAs on at least a semi-annual basis.
- g. **Risk limits** – The Investment Division will report at least semi-annually the Total Fund and benchmark total estimated risk relative to the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- h. **Liquidity** – The Investment Division will report at least semi-annually to the Board the use of external liquidity funding mechanisms.
- i. **Leverage** – The Investment Division will report Gross Leverage, Net Asset Allocation Leverage, and Strategy Leverage for portfolios including, but not limited to, Risk Parity and Hedge Funds and leverage resulting from use of external liquidity funding mechanisms as outlined in Section 10.4 Liquidity Risk Management on at least a semi-annual basis.
- j. **Transparency report** – The Investment Division will provide a transparency report to the Board that may be used to disclose any of the required information described herein. This report may be delivered in electronic or physical formats.
- k. **Private Markets Long-Term Strategy** – The Investment Division will review with the Board its long-term strategy for each Private Markets Portfolio at least every three years. This review will include information on target sub- strategy allocation, return, risk and liquidity expectations. Tactical deviations from this long-term strategy will be reviewed with the Board on an annual basis.
- l. **Staffing** – The Investment Division will provide an update no less than annually reporting on key positions in the division, including turnover, transfers and the creation or elimination of key positions.
- m. **Investment Integrity Disclosures** – The Investment Division shall compile all responses to the Investment Integrity Questionnaire (Appendix E) for the purposes of Article 12 and report the results to the Board at least semi-annually. Each report shall include the questionnaire responses completed prior to IIC consideration or other investment authorization under this Policy, and which shall be affirmed as of the applicable closing date. Reports shall disclose whether a Placement Agent has been involved (even if TRS is not burdened by a Placement Fee) and include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Elected Official or Candidate, as applicable.
- n. **Board representation** – The Investment Division shall provide the Board with an annual report on all (i) private investment fund advisory committee positions and (ii) all seats and observer positions on company boards or other governing bodies held by employees or, if applicable, third-party representatives.
- o. **ESG** – The Investment Division will report at least annually to the Board on the Trust’s ESG efforts, methods and results.
- p. **Other information** – Any other information or reports as the Board may request or require from time to time.

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## 1.8. Total Fund Portfolio Implementation and Design; Restrictions

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- a. The Total Fund investment portfolio is characterized by the following functional portfolios that are charged with the implementation of day-to-day portfolio investment and management activity:
  - i. Public Markets Portfolios;
  - ii. Private Markets Portfolios; and
  - iii. Overlay Portfolios;

The objectives, authority and limitations of each of these portfolios, and the authorized uses of derivatives, are described throughout the remainder of this Policy.

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- b. In no event shall the aggregate allocation to External Managers pursuant to IMAs exceed 30 percent (or a different percentage of not more than 50 percent, if a greater percentage is specified in the Texas Government Code) of the Total Fund at the time of investment. For avoidance of doubt, this restriction does not apply to assets held by funds (including Hedge Funds) which limit the liability of TRS to the capital contributed and any distributions that TRS might be legally obligated to contribute or repay to the fund.

~~By law, the Hedge Fund Portfolio may not exceed 10% of the Total Fund. Compliance with the statutory limit is determined at the time TRS executes the investment documents for each Hedge Fund investment or additional investment.~~

- c. Subject to Appendix F, the Investment Division is authorized to represent TRS on:
- i. Advisory committees or boards and as board observers in investments in which TRS has an investment interest.
  - ii. After evaluation of the net benefit to TRS, employees in the Investment Division are authorized to represent TRS or to nominate or appoint third-party independent non-employees to represent TRS on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- d. Except as required by fiduciary duties created by the Texas Constitution or applicable law, each TRS investment portfolio, including separate account investments, will comply with prohibitions and restrictions on investments imposed on TRS by state law. For the avoidance of doubt, the Policy and its implementation are subject to all applicable state, federal and international laws where and to the extent that such laws are in force. The Board authorizes and requires compliance with such laws. No further action by the Board will be required to implement compliance with an applicable law.
- ~~e. TRS will not invest directly in securities of any company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex through explicit depictions of sexual activity. These include sexually explicit films, videos, publications, and software; topless bars and strip clubs; and explicit sexually-oriented telephone and Internet services. The restriction does not apply to pooled investment vehicles, provided that the Investment Division shall engage with the managers of such vehicles and use commercially reasonable efforts during due diligence to determine whether such vehicles invest in any company that would not be eligible for direct investment by TRS.~~
- ~~f.e.~~ The General Authority Resolution adopted by the Board designating those employees authorized to execute documents and attached as Appendix D is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix D as of the effective date of the superseding resolution.

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## ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS

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### 2.1 Public Markets Portfolios Objectives

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The objectives of the Public Markets Portfolios are to invest in publicly traded and Restricted Securities to meet or exceed the performance of the relevant Policy Benchmarks or to manage the asset allocation and risk of the Trust. The Public Markets Portfolios will employ a wide variety of investment and trading strategies with varying levels of liquidity and leverage. It is expected that some strategies will involve more concentrated, shorter term investments as well as those that are longer term in nature and thus will generally have more tracking error, while other investments will have less correlation, beta and volatility and thus will offset the overall volatility of the Public Markets Portfolios and the Total Fund.

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### 2.2 Public Markets Portfolios Authorized Investments

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The Public Markets Portfolios are authorized to invest in the following:

- a. All securities in a Policy Benchmark, all securities that trade publicly (whether on an exchange or over the counter) or pursuant to SEC Rule 144A, and securities issued in underwritten initial public offerings (“IPOs”);
- b. Fixed income securities, whether publicly traded or restricted;
- c. Restricted Securities which are expected to become public or otherwise freely marketable within three years after the initial investment date pursuant to registration or an exemption from registration;
- d. Derivatives in accordance with Article 9;
- e. Private Investment Funds including Hedge Funds; and
- f. Cash and cash equivalents.

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## 2.3 Public Markets Portfolios Restrictions

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- a. Not more than 20% of the outstanding equity securities of a single class of any company may be purchased. Securities which are deemed to be beneficially held by TRS for purposes of Section 13 of the Securities Exchange Act of 1934 (including equity securities held in an IMA or a Private Fund in which TRS is deemed to be the beneficial owner for purposes of Section 13), shall be counted against the 20% limit.
- b. The Public Markets Portfolios shall conform to the tracking error targets prescribed in Appendix A.
- c. The Public Markets Portfolios that are managed directly by the Investment Division may hold short positions in securities listed in Section 2.2. The aggregate short positions exposure excluding derivatives of the portfolios may not exceed 25% of the market value of the internal equity portfolios of the Trust, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable securities are traded or listed.
- d. The market value of Restricted Securities purchased in Public Markets Portfolios pursuant to 2.2c will not exceed 2% of the market value of the Total Fund at time of investment.
- ~~d.e.~~ Not more than 15% of the Total Fund may be invested in Hedge Funds. Compliance with this limit is determined at the time TRS executes the investment documents for each Hedge Fund investment or additional investment.

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## 2.4 External Public Markets Portfolios

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The External Public Markets Portfolios (the “EPM Portfolios”) are:

- a. The External Manager Portfolio, which consists of:
  - i. Private Funds that are determined not to be Hedge Funds as defined by Section 2.5 of this Policy, and
  - ii. Separate accounts managed or advised by External Managers under an IMA with TRS.
- b. The Hedge Fund Portfolio.
- c. The Absolute Return Portfolio including credit sensitive investments.

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## 2.5 Hedge Fund Defined

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In this Policy, “Hedge Fund” means a Private Investment Fund with the following general characteristics, as set forth in Section 825.3012, Texas Government Code:

- a. Is not registered as an investment company;
- b. Issues securities only to accredited investors or qualified purchasers under an exemption from registration; and

c. Engages primarily in strategic trading of securities and other financial instruments.

“Hedge Fund” includes a Private Investment Fund of funds or similar vehicle that itself invests in Hedge Funds. An investment in a Hedge Fund does not involve a delegation of investment discretion to an External Manager for purposes of the statutory limit on delegation to External Managers.

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For the purposes of complying with [Section 825.3012, Texas Government Code Article Section 2.3\(e\)](#), the Investment Division shall use the following criteria to analyze and determine whether a Private Investment Fund is “primarily engaged in strategic trading” and should be classified as a hedge fund:

Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
1. Variability in Asset Class Concentration	Asset allocation typically stays the same throughout a market cycle, as shown by historical practice	Unconstrained; asset class mix can change dynamically in response to market conditions or as opportunities arise
2. Beta to underlying index specified for the particular mandate	Generally higher levels of beta (e.g., 0.75+)	Often less beta (e.g., <0.75)
3. Securities Traded	Primarily publicly-traded securities	Typically public or private instruments, and often with some illiquid (e.g., “side pockets”) investments segregated for accounting and incentive fee purposes
4. Leverage	Gross leverage less than 250% and net leverage 75% to 125%	Unconstrained by policy and practice – managers often unwilling to commit to constraints
5. Short sales of company-specific securities (i.e., non-derivatives)	Typically <50% gross short	Shorting of company-specific securities is integral to investment strategy or process, with gross short positions exceeding 50%
6. Use of Derivatives	Limited use of derivatives (notional value excluding derivatives used to hedge currency risk is less than 100% of net asset value)	Derivatives are integral to strategy or process (notional value excluding derivatives used to hedge currency risk is greater than 100% of net asset value)
7. Transparency	Generally position-level transparency for investor	Risk-level transparency, but little or no position-level transparency
8. Liquidity	Limited use of lock-ups, short or no notice period; frequent (e.g., monthly) or no redemption windows	Often lock-ups, withdrawal fees, notice periods exceeding 30 days and/or less frequent redemption windows than monthly; gates and ability to suspend redemptions can extend redemption for years or frustrate liquidity goals



Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
9. Performance Fees	May charge performance fees, but often over asset class hurdle	Generally, manager charges management and performance or incentive fees, or both, but usually with no asset class hurdle

In this Section 2.5:

**Beta** is a measure of an asset’s volatility in relation to a specific market or risk factor, as observed over a market cycle; the measure of an asset’s risk in relation to the market (for example, the S&P500) or to an alternative benchmark or factors. Generally, the return of a security with a beta of 1.5 will be, on average, 1.5 times the market return.

**Leverage** is a condition in which the net potential monetary exposure of an obligation exceeds the value of the underlying assets supporting the obligation. **Net Leverage** is calculated as the difference between (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, and (B) the sum of (i) the absolute market value of all short cash market positions, and (ii) the absolute notional value of all short derivative positions divided by (C) the net market value of the fund. **Gross Leverage** is the total of (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, (iii) the absolute market value of all short cash market positions, and (iv) the absolute notional value of all short derivative positions divided by (B) the net market value of the fund. For option based instruments, notional value may be calculated using hedge ratios to derive a delta-equivalent exposure.

#1a

Proposed investments in funds classified as Hedge Funds will be reported to the Board (and appropriate Board committee, as applicable) quarterly. If the criteria examined do not clearly indicate, based on at least a preponderance of criteria, how a fund should be classified ~~for statutory purposes~~, the Investment Division may elect to present the pertinent information to the IIC for consideration of classification. Further, if the application of any one or more of the criteria for leverage, short sales, and derivatives, standing alone, would classify the fund as a Hedge Fund, but the preponderance of criteria would classify the fund as a non-Hedge Fund, the Investment Division may either decline to authorize the investment or may elect to present the pertinent information to the IIC for consideration of the classification of the fund and, if applicable, authorization for investment.

At time of consideration, the IIC will approve the allocation of each Hedge Fund to an asset class by reference to factors such as investment strategy, underlying investments, correlation, beta, leverage, expected return and expected risk.

## 2.6 External Public Markets Portfolio Authorization

- a. **Approval Authority – Hedge Fund, External Manager and Absolute Return Portfolios** – The IIC is hereby authorized to approve investments as defined and set forth in Appendix B of this Policy.

The Investment Division may authorize an allocation to an External Manager even if the manager will invest a portion of the assets in a Private Investment Fund or funds or a tax-qualified collective trust managed by an Affiliate of the External Manager, except that the Investment Division shall determine whether any such fund should be classified as a Hedge Fund for purposes of Section 825.3012, Texas Government Code.

- b. **Short positions limit** – The EPM Portfolios may hold short positions in securities authorized under Section 2.2. The aggregate short positions exposure of the External Manager Portfolio may not exceed 25% of the market value of the External Manager Portfolio without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the External Manager Portfolio exceed 50% of the market value of the External Manager Portfolio, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable Securities are traded or listed.

- c. **Allocation Adjustment Authority** – Subject to the limits set forth in this Policy, the CIO, CRO, the heads of Public Markets, ~~or~~ EPM or Special Opportunities may add to previously approved funds or investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not, on a monthly basis, exceed 2% of the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio (as appropriate) per investment.
- d. **Termination and Withdrawal Authority** – The CIO, CRO, or the heads of Public Markets, ~~or~~ EPM or Special Opportunities may transfer, sell, withdraw or terminate interests in the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio, provided that the action does not breach the terms and conditions of the applicable investment agreements.

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## 2.7 External Public Markets Portfolio Restrictions

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- a. IMAs, considered in the aggregate, may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy, including the provisions of Section 2.2.
- b. The EPM Portfolios are subject to the size limitations in Section 1.8b.
- c. Each IMA with an External Manager shall specify the applicable policies, risk controls, portfolio characteristics, reporting requirements, requirements or restrictions, including criteria for determining quality of investments or the use of standard debt-rating services.

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## 2.8 External Public Markets Portfolio Conflicts of Interest

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Conflicts of interest, including the appearance of conflicts, in the selection and engagement of external investment managers will be avoided at all times. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under applicable ethics policies and statutory provisions, including without limitation Section 825.212, Texas Government Code, which does not apply to Hedge Fund managers in that capacity. The Investment Division will develop guidelines and procedures to identify actual or potential conflicts of interest affecting External Managers to be engaged pursuant to IMAs. The Investment Division shall employ reasonable diligence to identify conflicts of interest affecting TRS trustees, employees, Advisors and Consultants with respect to all investments.

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## 2.9 Risk Parity Portfolios

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Risk Parity is an asset allocation strategy that focuses upon equalizing the risk contributions of the asset classes or risk factors comprising the portfolio. Risk Parity then uses leverage to scale the resulting portfolio to target a stated level of portfolio risk or return comparable to typical pension fund unleveraged asset allocation strategies.

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# ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS

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## 3.1 Private Markets Portfolios

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The Private Markets Portfolios are (1) the Private Equity Portfolio (the “PE Portfolio”), (2) the Real Estate Portfolio (the “RE Portfolio”) and (3) the Energy, Natural Resources and Infrastructure Portfolio (the “ENRI Portfolio”).

Private markets opportunities that will be considered for investment include the following: investments in securities of any legally permissible investment vehicle, including title-holding entities that are wholly owned, organized, and controlled by the retirement system, Private Investment Funds, co-investments, secondary investments, externally managed separate accounts investing in securities, hybrid securities with characteristics



of equity or debt, joint ventures, secondary market transactions, entity-level investing or other off-market investments, new and emerging managers, and opportunistic investments (e.g., investments in the management entity of a private investment firm or sponsor, public-to-private transactions, and the acquisition of business development company or investment trust assets).

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### 3.2 Private Markets Portfolios Authorization

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The Private Markets Portfolios are authorized to invest in the asset classes specified in this Policy and may hold and exercise rights, options and warrants attached to securities relating to an investment by the Private Markets Portfolios. In furtherance of the investment activities of TRS, the Private Markets Portfolios are authorized to engage with third parties and provide to them any required investment information for due diligence purposes so long as the recipients have a duty of confidentiality as to the TRS information.

Funding of committed capital in Private Markets Portfolios will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor's commitment, the outstanding invested capital of the investment might at times be substantially less than the total commitment. In recognition of the above characteristics unique to the Private Markets Portfolios, a "committed" allocation to an investment may exceed the respective allocation targets authorized. It will not be a violation of this Policy if changes in the market values of the public assets portfolios or the Private Markets Portfolios cause the market value of the Private Markets Portfolios to exceed the upper limit of the allocation ranges established in this Policy.

**Investment Authority.** The limits defined and set forth in Appendix B apply to allocations and commitments by the Private Markets Portfolios.

**Termination and Withdrawal Authority.** The CIO or, as applicable, the heads of Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure may transfer, sell, withdraw or terminate interests in the Private Markets Portfolios in accordance with the investment documents, provided that the action does not breach any agreement to which TRS is legally bound.

**Commitment Authorization.** Each investment must be authorized as required by the provisions, guidelines, and limitations established in this Policy. Any structure in which TRS invests shall meet established legal requirements.

**Additional Allocation Authority.** Subject to the limits set forth in this Policy, the CIO or, as applicable, the heads of the Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure Portfolios may add funds to previously approved investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not exceed, on a monthly basis, 2% of each of the Private Equity Portfolio, the Real Estate Portfolio or the ENRI Portfolio (respectively, as appropriate) per investment.

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## ARTICLE 4 – PRIVATE EQUITY PORTFOLIO

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### 4.1 Private Equity Portfolio Objectives

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The PE Portfolio will be structured to achieve the following investment objectives:

- a. The primary long-term objective is to develop a prudently diversified portfolio of investments that is expected to enhance the overall risk-return profile of the Total Fund.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified PE Portfolio: strategy, geography, industry sectors, investment size and vintage year.

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## **4.2 Private Equity Portfolio Authorized Investments**

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Private equity funds build portfolios of private investments in the equity or debt of operating companies. Private equity funds may acquire investments in debt obligations, public or private common and preferred stocks, convertible securities, and any warrants, rights, or options attached to any of the foregoing that relate to equity ownership in an issuer. Privately-acquired securities usually have transfer restrictions and are not as liquid as publicly-traded securities. Private equity funds are often classified by strategy, including: buyouts, credit, special situations and venture capital/growth equity.

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## **4.3 Private Equity Portfolio Restrictions**

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The Private Equity Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

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# **ARTICLE 5 – REAL ESTATE PORTFOLIO**

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## **5.1 Real Estate Portfolio Objectives**

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The RE Portfolio will be structured to achieve the following investment objectives:

- a. As the primary focus, contribute favorably to diversification of the Total Fund through exposure to real estate's low or negative correlation to the Public Markets Portfolios.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified RE Portfolio: strategy, geography, property types, size of investment, vintage year, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

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## **5.2 Real Estate Portfolio Authorized Investments**

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The RE Portfolio will focus on private or public real estate equity securities investments, [including title-holding entities that are wholly owned, organized, and controlled by the retirement system](#), private or public real estate debt, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, private or public real estate investment trusts ("REITs"), private or public master limited partnerships ("MLPs"), and other opportunistic investments in real estate.

Real estate investments are often classified by strategy, including: core, core-plus, value-added, opportunistic and special situations.

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## **5.3 Real Estate Portfolio Restrictions**

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The RE Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

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# **ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO**

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## **6.1 Energy, Natural Resources and Infrastructure Portfolio**

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The ENRI Portfolio will be structured to achieve the following investment objectives:

- a. Contribute favorably to diversification of the Total Fund by increasing exposure to assets with a higher degree of inflation sensitivity.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified ENRI Portfolio: general inflation sensitivity, expected return, strategy, geography, resource exposure, size of investment, vintage year, where investment is in the resources value chain (upstream, midstream or downstream) or infrastructure type, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

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## **6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments**

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The ENRI Portfolio may invest in private and public energy or natural resource or infrastructure related securities either directly or through funds which may include investments in public or private equity, equity-linked investments including options, warrants, preferred equity, and structured equity, private or public debt, entity-level investments, master limited partnerships, commodity futures, natural resources interests (mineral, royalty or working interests), timber and agricultural property, water, power generation, renewable energy, and associated infrastructure, services and technology. Energy and natural resource investments are often classified by resource type and where the investment is in the resource value chain (upstream, midstream or downstream). Infrastructure assets are classified as core, value-add and opportunistic. Direct investments in physical commodities are prohibited.

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## **6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions**

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The ENRI Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

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# **ARTICLE 7 – EMERGING MANAGERS PROGRAM**

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TRS shall make a good-faith effort to invest with qualified emerging managers for the External Public Markets Portfolios and the Private Markets Portfolios. For the avoidance of doubt, these portfolios may also include investments in energy, natural resources and infrastructure. The Investment Division is authorized to invest with qualified funds-of-funds managers skilled at identifying small and emerging managers in the private equity, real asset and public equity markets. The Emerging Managers Program will target 1.1% of the market value of the Total Fund.

Emerging managers can include, but are not limited to, minority, women, and disabled veteran-owned or -controlled organizations. Conversely, not all minority, women, and disabled veteran-owned or -controlled organizations are necessarily considered emerging managers for the purposes of this program. Whether a management firm is an “emerging manager” depends on all of the facts and circumstances. In general, emerging managers are defined as newer, independent private investment management firms that manage less than \$3 billion, or have a performance track record as a firm shorter than five years, or both.

The Investment Division may engage Emerging Managers Program Consultants without a requirement for approval from the Board. In general, an emerging manager should be registered as an investment adviser with the appropriate authorities if such registration would be consistent with industry practices or is required by law. Each investment will have a minimum size of \$5 million. With respect to the EPM Portfolio, the total investment by TRS with each emerging manager may not exceed 40% of such emerging manager’s assets under management at the time of IIC approval. With respect to the Private Equity Portfolio and the Real Estate Portfolio, the total investment by TRS into each fund raised by an emerging manager may not exceed 40% of the size of such fund at the time of IIC approval. This paragraph does not apply to investments executed as part of a fund-of-funds mandate.

The Investment Division shall document its efforts to identify and expand its investments with qualified emerging managers for the purpose of board and legislative reporting on the methods and results, including data disaggregated by race, ethnicity, gender, and fund size. All investments under the emerging manager program must be made prudently and in accordance with fiduciary and ethical standards.

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## **ARTICLE 8 – OVERLAY PORTFOLIOS**

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### **8.1 Overlay Portfolios Objectives**

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Overlay Portfolios are designed to manage risk, asset allocation, and market exposures through futures, options, swap contracts, or forward agreements. Overlay Portfolios may be implemented in connection with the Total Fund or with any investment or portfolio within the Total Fund.

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### **8.2 Overlay Portfolios Authorized Investments**

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Overlay Portfolios may contract for, buy, sell, and hold the following contracts and derivative instruments in accordance with this Policy:

- a. Exchange-traded futures contracts;
- b. Options on exchange-traded futures contracts;
- c. Over-the-counter or exchange-traded swap contracts;
- d. Over-the-counter or exchange-traded option contracts; and
- e. Forward contracts.

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### **8.3 Overlay Portfolios Restrictions**

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Overlay Portfolios may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

When engaging in currency overlay strategies, the Overlay Portfolio may not increase or decrease the net notional exposure of the Total Fund:

- a. To all non-dollar currencies in aggregate by more than 5% of the market value of the Total Fund;
- b. To any single developed market currency (except for the U.S. Dollar) by more than 2% of the market value of the Total Fund; and
- c. To any single emerging market currency by more than 1% of the market value of the Total Fund.

The foregoing percentage limit restrictions do not apply to currency derivatives used (i) as part of the non-discretionary foreign exchange risk management policy described in Section 10.2, (ii) to settle security transactions denominated in those foreign currencies and any authorized instrument or contract intended to manage transaction or currency exchange risk in purchasing and selling investments, and (iii) for hedging the characteristics of an individual investment to align it with the characteristics of such investment's benchmark.

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## **ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES**

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This Article enumerates the applications, documentation and limitations for the use of derivatives as permitted under Section 825.301, Texas Government Code.

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## 9.1. Derivatives Policy Scope

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Except where specifically noted, this Policy applies to all derivatives transactions executed by the Investment Division and by External Managers operating under an IMA. This Policy does not apply to registered or Private Investment Funds issuing securities to TRS.

This Policy applies to all exchange-traded derivatives and over the counter (“OTC”) derivative instruments authorized by law. This Policy does not apply to the use of derivatives by Private Investment Funds unless TRS in fact controls and has a legal right to approve the investment policy or guidelines of such funds.

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## 9.2. Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)

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The Total Fund may have external exposure to derivatives in two ways.

- a. First, the Total Fund will invest as a passive investor in Hedge Funds organized as limited-liability entities, which limits potential losses to the capital contributed to the entity. TRS is not a party to the management agreement between the Hedge Fund and its investment manager. Hedge Fund and other fund managers owe the same legal duties to all investors.
  - i. The Investment Division must exercise thorough due diligence in assessing the scope of the Hedge Fund manager’s uses of derivatives, their purpose, experience of the fund manager’s staff in managing these positions, inherent leverage, and the manager’s systems, controls and operations in determining suitability of these entities for TRS investment.
- b. Second, TRS may delegate discretion, through IMAs, to External Managers who act as a TRS agent with respect to Total Fund assets and who are authorized to enter into specified contracts and commitments that will be legally binding on TRS. External Managers are TRS fiduciaries.
  - i. For External Managers engaged pursuant to IMAs, Investment Division must view the External Manager as an extension of the internal Investment Division’s investment management processes and must require External Managers to comply with this Policy and applicable guidelines and law on the use of derivatives to the same extent as the Investment Division. Guidelines for the scope and use of derivatives will be established on a case-by-case basis with each External Manager in the applicable IMA. An External Manager of publicly-traded investments engaged by TRS under an IMA may engage in derivatives transactions only if expressly authorized by, and the transactions are consistent with, the overall investment objectives and restrictions established in the IMA, this Policy, and applicable law. Each IMA must be consistent with applicable law, this Policy, and other TRS policies. An IMA may only authorize such uses of derivative instruments when the Investment Division reasonably concludes after due diligence that the External Manager possesses the experience, expertise, and qualifications to prudently use derivatives, and has appropriate operational, compliance, and risk management personnel, policies, and procedures to effectively monitor and control their use, including the use of leverage.
  - ii. Selection, engagement, and monitoring of External Managers engaged through an IMA requires a clear understanding of the managers’ uses of derivatives, particularly as it relates to various risk controls, compliance functions, and leverage. The Investment Division will monitor risk exposures and leverage on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage by each External Manager must be fully documented in each IMA.

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## 9.3. Derivatives Definition; Authorization

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Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). For the purposes of this Policy, derivatives include, without limitation, futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in

purchasing, selling or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios. Derivatives, for purposes of this policy, do not include currency forwards with a tenor of 30 days or less if such forwards do not require upfront amounts to be paid or received.

Derivatives may be exchange traded or OTC. Exchange traded derivatives are listed and traded on a national exchange. Fulfillment of the contract is generally guaranteed by the exchange on which the instruments are traded. OTC derivatives are negotiated transactions between a buyer and a counterparty, which may result in non-standard terms.

OTC derivatives between internal portfolios are authorized and subject to all procedures, controls and reporting required by this Policy unless denoted otherwise. Internal OTC trades shall be made prudently and in accordance with fiduciary and ethical standards and may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

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#### **9.4. Derivatives Applications Permitted**

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Consistent with the objectives set out in Section 9.1, derivative applications may be used by the Investment Division and External Managers engaged through IMAs to:

- a. Implement investment strategies in a lower cost and efficient manner;
- b. Efficiently manage the Total Fund portfolio by altering the portfolio's market (systematic) exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;
- c. Construct portfolios with risk and return characteristics that could not be efficiently created with cash market securities consistently with the objectives in this Policy and in compliance with applicable law;
- d. Hedge and control risks so that the Total Fund's risk-return profile is more closely aligned with the Total Fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and
- e. Facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or policy changes.
- f. External Managers may not engage in derivative applications that are inconsistent with the applicable IMA, this Policy and applicable law, unless specifically authorized by the TRS Board and the IMA has been amended accordingly.

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#### **9.5. Derivatives Applications Not Permitted**

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- a. Derivatives may not be used for speculation. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified by this Policy or any related policies or resolutions of the Board. Derivatives may not be used for circumventing limitations or restrictions imposed by this Policy or applicable regulatory requirements. Derivative applications may only be used to invest in asset classes that are consistent with TRS's legally permissible policy asset categories (including currencies), implementation strategies, and risk-return characteristics.
- b. Investments in derivatives underlain by physical commodities are prohibited unless such derivatives can be cash-settled whether by contract terms, by rolling the position, or by trading out of the position before a delivery obligation can arise. Standing orders or instructions for rolling or trading out of positions may be used to prevent delivery obligations from arising under commodities derivatives contracts.

~~c. The Policy does not apply to or authorize any use of derivatives underlain by single-asset real estate mortgages or title to real estate or property affixed to real estate.~~

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## 9.6. Derivatives Documentation and Controls

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Prior to the implementation of a new internal derivative instrument type or application, the Investment Division shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including, at a minimum, market, modeling, pricing, liquidity, and legal risks), the expected increase or reduction in systematic and idiosyncratic risk resulting from the application, the amount of leverage employed under the strategy, the prudent reasons for employing leverage, and the procedures in place to monitor and manage the derivative exposure. The documentation will be approved by the CIO and reported to the IIC and the Board (or appropriate Board committee, as applicable) at their next regularly-scheduled quarterly meetings. The Investment Division shall adopt fully documented control procedures to properly account for and value the Total Fund's exposure to each derivatives application, whether internal or external under an IMA. The Investment Division shall establish an appropriate risk management procedure to monitor compliance both internally and by External Managers and will take corrective action if necessary. The Investment Division shall have due regard for operational risks associated with various derivatives strategies, including risk management, accounting systems, liquidity needs, adequate staffing, and staff qualifications.

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## 9.7. Derivatives Limitations

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Counterparty Risks: In order to limit the financial risks associated with derivative applications, guidelines for rigorous counterparty selection criteria and ISDA agreements shall be created by the Investment Division to reduce counterparty risk for OTC derivatives. Any [external](#) counterparty in an OTC derivative transaction with TRS must have a credit rating (which may be a counterparty risk assessment or rating) of at least A- (Standard & Poor's or Fitch) or A3 (Moody's). All [external](#) OTC derivative transactions, including those managed through IMAs, must be subject to established ISDA Master Agreements or, if centrally cleared, clearing agreements and have full documentation of all legal obligations of both parties to each transaction. All ISDA Master Agreements entered into by or on behalf of TRS by the Investment Division or an External Manager engaged pursuant to an IMA (if applicable) shall provide for netting of obligations. The Investment Division and External Managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all OTC derivative positions, including those managed through IMAs, less collateral posted, for any individual counterparty may not exceed \$500 million. The net market value of all OTC derivative positions for any individual counterparty, without consideration of collateral, may not exceed 5% of the total market value of the Fund. If these market-value limits are exceeded, the Investment Division will inform the CIO, Executive Director, and Chairman of the appropriate Board committee as soon as practicable and take appropriate corrective action within a 90-day period or develop a corrective action plan that will be presented to the Board at its next regularly scheduled meeting at which investment matters will be discussed following the initial 90-day corrective action period.

**Global Risk Limitations:** Notwithstanding other limitations in this Policy, transactions that would cause the aggregate risk exposure of the Total Fund, including externally-managed portfolios, to exceed the aggregate risk limits established by the current asset allocation policies of the Board are not permitted. On a Total Fund basis, the combined economic exposure introduced through both cash and derivative market positions is subject to the asset allocation ranges, risk limits, and other portfolio parameters described in this Policy.

**Position Limits:** For futures and options positions TRS will comply with all position and aggregate limits established by the applicable regulatory and legal organizations and authorities within each jurisdiction.

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## 9.8. Derivatives Risk Management and Compliance

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To ensure compliance with this Article 9, all internally and externally managed derivatives (other than derivatives held in Hedge Funds) must be marked to market on a daily basis by the Fund's external custodian(s), and such daily reports will be reviewed for accuracy by the TRS Risk Management staff and Investment [Administration Center Operations](#) personnel.

Compliance with the requirements of this Policy will be monitored by the Chief Compliance Officer using information systems and data from internal and external sources. Any violations of this Article 9 will be reported immediately to the Executive Director and to the

CIO, who will determine, if considered material as determined by Chief Compliance Officer, Chief Investment Officer, and Executive Director, the appropriate remedy and report promptly to the Board (and the appropriate Board committee, as applicable).

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## ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT

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### 10.1. Market Risk Management

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The Investment Division will establish a framework for measuring enterprise-level risk for both the Total Fund Portfolio and the established benchmark, including any transition benchmarks employed during asset allocation shifts. At a minimum, this framework must include a quantified estimate of downside risk (e.g., value-at-risk (“VaR”), estimated shortfall, or various parametric and non-parametric statistics). The Investment Division will monitor the relative positioning of the Total Fund Portfolio vis-à-vis the benchmark no less frequently than monthly.

- a. **Asset allocation limits** – In addition to the Total Fund Portfolio level risk limits, the portfolio will be constrained to the asset allocation percentages and ranges prescribed by this Policy. Accordingly, the total exposure to each asset class must be based on the individual exposures of each cash security and each outstanding derivative contract. The foregoing does not apply to those accounts designated as using strategy leverage to better align the investment with the characteristics of the policy benchmark.
- b. **Risk limit** – The Investment Division will model and monitor the Total Fund Portfolio and benchmark to ensure that the total estimated risk for the Public Markets portion of the Portfolio is within the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- c. **Proxy securities and indices** – If necessary and prudent, the Investment Division will employ proxies to approximate the economic characteristics of actual investments if the terms and conditions of the actual investments or the underlying holdings are not readily available or where the complexity of the underlying investment renders a deterministic model impractical.
- d. **Private market assets holdings** – The Investment Division may include private investments in this analysis either by proxy or by actually modeling the terms and conditions of the underlying exposures; however, if the inclusion of these investments is deemed to distort the true risk characteristics of the portfolio, the Board may approve the use of an alternative methodology for analyzing the risk characteristics of those investments.
- e. **Active risk limits** – In addition to the portfolio-level risk statistics described above, a target tracking error will be imposed on each public asset class mandate. Additionally, a target tracking error will be imposed on the entire public portfolio that takes into account both internally and externally managed portfolios and Private Funds as well as both asset allocation and security selection decisions. These limits are specified in Appendix A.

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### 10.2. Foreign-Exchange Risk Management

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The objective of the Foreign-Exchange (“F/X”) policy is to effectively manage portfolio return volatility associated with foreign currency risk. F/X risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. The F/X policy sets forth a structure and implementation plan to determine the level of strategic currency risk that the Fund is willing to tolerate.



Currency hedge ratios will be separately applied to the Fund’s public-markets and private-markets non-dollar exposures. Each currency hedge ratio is the percentage of aggregate, non-dollar currency exposure to be passively hedged. The hedging horizon is intermediate (one to three years). The results of the currency hedge ratio decisions will be presented to the Board (or the appropriate Board committee, as applicable) for approval by the Board and incorporated into the benchmark as prescribed in Appendix C.

From an implementation perspective, an F/X overlay manager would have responsibility for implementing the currency hedge ratio decisions and would not exercise delegated investment discretion. The F/X overlay may be implemented internally or externally. If external, the non-discretionary F/X overlay manager would not fall under the definition of either an External Manager or a Hedge Fund. A non-discretionary external F/X overlay manager would merely implement the investment decision that has already been made by the IIC.

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### 10.3. Credit Risk Management

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#4

- a. **External counterparty exposures** – The maximum allowable unsecured [external](#) counterparty exposure for OTC derivative transactions is \$500 million, based on the total net market value of all OTC positions held with each [external](#) counterparty. The total [external](#) counterparty exposure for each [external](#) counterparty, including the collateralized portions of these agreements, may not exceed 5% of the market value of the Total Fund. The minimum credit rating [for an external counterparty](#) (which may be a counterparty risk assessment or rating), based on a nationally recognized statistical rating organization (“NRSRO”), must be at least A- or better at the inception of the contract. For any [external](#) counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level, subsequent to the inception of transaction, additional eligible collateral may be posted, or the transaction may be terminated.
- b. All OTC derivatives [with an external counterparty](#) must be governed by an ISDA Master Agreement and Credit Support Annex or, if centrally cleared, by clearing agreements, and must include both close-out netting provisions and collateralization provisions.
- c. Each ISDA Master Agreement must also include a table that delineates the excess purchased securities margin (haircut) required, based on the collateral type, duration, and credit quality.
- d. **Repurchase agreements** – The limit for each counterparty for repurchase transactions and tri-party repurchase transactions may not exceed 5% of the market value of the Total Fund. Each repurchase agreement will be entered into under a widely accepted industry-approved form, such as one approved by SIFMA. A counterparty to a repurchase agreement must be an organization rated A3/A- or better by a NRSRO, unless (i) the counterparty is another entity created by the Texas legislature; (ii) the counterparty is a money-market fund regulated under Rule 2a-7 under the Investment Company Act of 1940 or a fund designed to resemble such a money-market fund regulated under Rule 2a-7 or (iii) the counterparty is a pension fund or retirement system created by a government entity, whether non-U.S. or domestic and approved by the CIO.

#5

- e. **Securities lending** – When securities lending activity is performed by an external third-party lending agent, Investment Division will examine the credit underwriting practices of the lending agent, including enforcement of collateral requirements, counterparty analysis, and surveillance. Additionally, Investment Division will periodically review the securities lending lines by counterparty. A securities lending agent must be [either \(i\) an organization rated A- or better by a NRSRO or \(ii\) insured by an organization rated A- or better by a NRSRO and execute a securities lending agreement as required by applicable law](#). More detailed information about TRS securities lending activities is specified in the separate Securities Lending Policy.

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### 10.4. Liquidity Risk Management

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The objective of Liquidity Risk Management is to ensure that the Fund maintains ample liquidity to meet its funding requirements. The two kinds of requirements which necessitate prudent liquidity are:

- a. Disbursements of benefits and related obligations to plan participants, including retirement, death, health, and disability benefits payments.
- b. TRS investment activities: These are mainly associated with risk management and funding of External Managers and Private Funds. Some examples include:
  - i. Use of derivative instruments requires liquidity for collateral, margin and payment obligations at the time of a reset, call or maturity;
  - ii. TRS funds accounts managed by External Managers; and
  - iii. TRS manages unfunded capital commitments that the Fund is legally obligated to fund when called by general partners.

### **External Funding Authority**

The Investment Division is authorized to establish external funding mechanisms (such as master repurchase agreements with one or more counterparties) and the flexibility to operate in all types of market liquidity environments to allow prudent

management of these funding requirements while achieving a long-term rate of return and adhering to the asset allocation limits outlined in this Policy. In addition to these external funding mechanisms, TRS will maintain adequate funds in its custodial account to cover investment-related obligations. Finally, the Board authorizes the Investment Division to access the cash holdings backing OTC swaps to manage its commitments.

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## **10.5. Operations Risk Management**

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- a. **Overdrafts** – The Investment Division will monitor the frequency and costs associated with all overdraft activity.
- b. **Custodial Bank(s)** – The Investment Division will conduct on-site due diligence to review the operational controls set in place by all custodial banks. The Investment Division will also consider the extent of remedies provided by the custodian and its overall ability to fulfill its commitments should operational failures occur.

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## **10.6. Settlement Risk Management**

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The Investment Division will monitor unsettled trade activity by counterparty and instrument type.

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## **10.7. Legal Risk Management**

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Legal documentation for all accounts, investment subscriptions, External Managers, investments in Private Investment Funds, and derivatives will be reviewed, negotiated and approved for TRS execution by internal or external legal counsel, or both. The Investment Division, in consultation with Legal and Compliance, will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. The Investment Division will seek the assistance, review, and advice of legal counsel whenever it is prudent to do so. Legal and Compliance has primary responsibility for the engagement of outside legal counsel for investment matters, subject to applicable statutes and rules adopted by the Office of the Attorney General.

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## **10.8. Risk Management Compliance Cure Periods and Remedies**

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**Passive violations** – A passive violation occurs when the portfolio breaches a prescribed policy limit as the result of changing market or credit conditions. The Investment Division will report the violation to the Board and will remedy the violation within 90 days of the violation or prepare a written action plan that must be approved by Board resolution to extend the cure period beyond 90 days.

**Active violations** – An active violation is caused by entering into an agreement or investment that breaches a policy limit at inception or thereafter through failure to monitor. In this case, a thorough analysis of controls will ensue and be reported to the CIO, the Executive Director and the Chairman of the appropriate Board committee, as soon as practical, and to the full Board at its next regularly scheduled meeting at which investment matters will be discussed. The Investment Division will seek to remedy the violation when possible. In instances where the costs of immediate remedies are prohibitive, the Investment Division will develop a corrective action plan that will be submitted to the CIO within a reasonable time after the violation occurs, not to exceed 15 days, depending on the nature and complexity of the investment holding and transactions needed to remedy the violation. The Board will be apprised of the violation at its next regularly scheduled meeting along with the corrective action plan.

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## **10.9. Permitted Sources of Leverage Financing**

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The Investment Division is authorized to use the following in order to create Strategy or Asset Allocation Leverage:

- a. Derivative strategies in accordance with the risk parameters established by the asset allocation ranges of this Policy and applicable legal restrictions;
- b. Short sales in accordance with this Policy;
- c. F/X hedging in accordance with this Policy;
- d. Risk Parity investments in accordance with this Policy;
- e. Embedded leverage within the Total Fund's Private Fund investments; and
- f. Collateralized fundings including securities lending activities, pledges, repurchase and reverse repurchase agreements and other external funding mechanisms.

Leverage will not be used to exceed the risk parameters established by the asset allocation ranges of this Policy.

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## **ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO**

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### **11.1. Health Insurance Program Portfolio Objective**

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The primary objective of the Health Insurance Program Portfolio is to preserve capital through investment in conservative, short-term securities.

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### **11.2. Authorized Investments for the Health Insurance Program Portfolio**

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Section 404.024, Texas Government Code describes the Authorized Investments employed by the comptroller when he or she invests state funds. The Investment Division shall employ this list of Authorized Investments when the Investment Division invests the Health Insurance Program Portfolio.

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## **ARTICLE 12 – INVESTMENT INTEGRITY POLICY**

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### **12.1. Scope**

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The Investment Integrity Policy (the "IIP") applies to all TRS investment transactions, including without limitation new agreements (including SPACs, follow-on funding and co-investments), sales or transfers of investment interests, increases in funding or capital commitment to an existing relationship or fund, or an

amendment that increases management fees or compensation under an agreement. This IIP does not apply to Direct Investments or transactions in publicly traded securities.

The IIP also applies to attempts to influence TRS investment decisions through contacts with TRS trustees, or contacts with, or political contributions made for the benefit of, one or more Texas Candidates or Elected Officials, and also applies to contacts with persons employed by any such candidate or official.

If any provision of the IIP conflicts with a provision of another policy adopted by the Board, the stricter provision shall apply.

This Article 12 does not apply to direct TRS engagements of Consultants and agents in connection with buying or selling privately issued investment interests in the secondary market. A seller in a secondary market transaction is not required to complete an Investment Integrity Questionnaire if the transaction's closing documents include appropriate representations, warranties and covenants as to the matters addressed in this Article 12 and the Investment Integrity Questionnaire.

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## **12.2. Purpose**

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The purpose of the IIP is to ensure the integrity of all TRS investment transactions and decisions and conformity with the highest fiduciary, ethical, and legal standards by all parties involved. All investment decisions made by the Board and the Investment Division must be based solely on the merits in conformity with fiduciary standards and applicable law. All advice and investment recommendations made by Consultants must be based solely on the merits after the necessary due diligence. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

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## **12.3. Philosophy**

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The Board desires that the Investment Division obtain full disclosure of all matters having the potential to harm TRS's reputation or the integrity of TRS's investment processes, or that could constitute unethical or unlawful conduct during the investment due diligence process.

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## **12.4. Required Disclosures and Questionnaire**

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All external Fund or Manager Parties and if applicable, all Placement Agents that will receive a Placement Fee in connection with an investment or commitment by TRS, shall provide true and complete written responses to the questionnaire attached hereto as Appendix E prior to IIC consideration or other investment authorization. The Executive Director is authorized to approve such revisions to Appendix E from time to time as he or she deems to be in the best interest of TRS and consistent with the IIP.

In addition, all Fund or Manager Parties who disclose the involvement of a Placement Agent shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The Investment Division shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The Investment Division shall provide all prospective Fund or Manager Parties with a copy of the IIP and the Appendix E questionnaire upon commencement of due diligence.

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## **12.5. Contractual Representations, Warranties, and Covenants**

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Each Fund or Manager Party shall represent and warrant to TRS in the executed closing documents for the transaction that its responses to Appendix E to this Policy and any supplemental inquiries are true, correct, and complete in all material respects as of the closing date, and shall also covenant to update or correct any such responses within 10 business days of becoming aware of any change in the responses. The obligation to update responses survives the closing of the relevant investment transaction.

In addition, each Placement Agent shall fully disclose the terms of its arrangements with a Fund or Manager Party for payment of a Placement Fee and any political contributions by the Placement Agent to any Texas Candidates or Elected Officials, and shall certify as to the matters addressed in Appendix E, as applicable, to TRS in a writing executed by an authorized officer that the disclosures required by the IIP are true and complete in all material respects.

A Placement Agent must agree in writing to pay to TRS a sum equal to its Placement Fees relating to TRS's investment if the Placement Agent's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

A Fund or Manager Party using a Placement Agent must agree in writing to pay to, credit to TRS's capital account, or offset TRS's management fees or outstanding funding commitment with, a sum equal to the Placement Fees due to the Placement Agent with respect to TRS's investment agreement or commitment if the Fund or Manager Party's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

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## 12.6. Prohibitions

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Neither TRS nor any TRS investment shall be burdened with or liable for any Placement Fee. No TRS investment may be made if the transaction involves either (a) a Placement Agent who is not registered with either of the Securities and Exchange Commission or the Financial Industry Regulatory Authority ("FINRA"), or (b) the sharing of a Placement Fee with a non-registered person or entity. No TRS investment may be made if an authorized officer or the board, in consultation with legal counsel, determines that a disclosed contact with a Board member or Texas Candidate or Elected Official, or a

contribution to a Texas Candidate or Elected Official, has created an unacceptable risk to the integrity and reputation of the TRS investment program or has been made in violation of a TRS policy or applicable law. A contact-based referral, without more, by a TRS trustee of either an investment opportunity or a Manager or Fund Party contact to the Executive Director, or Chief Investment Officer does not constitute such a risk or a violation of the IIP.

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## 12.7. Reporting

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The investment staff shall compile all responses to the questionnaire and report the results to the Board at least semi-annually. Reports shall include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Candidate or Elected Official, as applicable.

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## 12.8. Definitions

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**Affiliate** – means a person or entity controlled by or under common control with another person or entity.

**Direct Investment** – means any private placement investment where TRS is a purchasing signatory to a binding securities purchase agreement or any similar acquisition agreement (including an option or rights agreement to acquire such securities in the future), and when delivered, intends to hold the restricted securities directly in the TRS custodian bank.

**Fund or Manager Party** – means any person or entity offering, sponsoring, proposing, or soliciting a TRS investment transaction or opportunity, purchase or sale of securities, investment contract, investment management agreement, or commitment, and includes:

- a. As to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm;

- b. As to an external investment manager to be engaged to invest TRS assets pursuant to an investment management agreement, the investment management entity and the parent of such asset management entity; and
- c. As to a private company or similar issuer in a direct or principal investment in securities of the issuer, the entity and an agent, representative, broker or investment bank, officer, director, trustee, manager, or employee of the company or issuer involved.

Without limiting the foregoing, Fund or Manager Party includes any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection with a prospective TRS investment. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under the IIP.

**Placement Agent** – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee in connection with a TRS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent’s Placement Fee is also deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, agent, owner, officer, shareholder, director, managing member, or employee of the first Placement Agent. For the avoidance of doubt, a finder, broker-dealer, originator, fundraiser, financing arranger, or investment bank receiving a Placement Fee is a Placement Agent. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under this policy.

**Placement Fee** – includes any compensation or payment, directly or indirectly, of a commission, finder’s fee, or any other consideration or benefit to be paid to a party other than the relevant Fund or Manager Party in connection with a TRS investment, agreement or commitment. An underwriting fee or discount charged in a 144A or registered public offering of securities is not a Placement Fee.

**Relative** – means a spouse (including an ex-spouse), parent, child (including adopted), sibling, niece, nephew, aunt, or uncle.

**SPAC** – means a “special purpose acquisition company” with no commercial operations that is formed to raise capital through an initial public offering for the purpose of acquiring an existing company, whether or not pre-identified.

**Texas Candidate or Elected Official** – includes any candidate for a statewide office or an elected official of the State of Texas, including the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, and also includes a campaign fund or political action committee, or PAC organized for or on behalf of a Texas statewide candidate or elected official, and any Relative of a Texas statewide candidate or elected official. This definition does not apply to candidates for, or elected officials holding, offices in counties, municipalities, or other local subdivisions of the State of Texas, to state or local judicial candidates or offices of the State of Texas, or to any federal office or judicial position. A candidate for an elective federal office who holds a statewide office is deemed to be a Texas Candidate or Elected Official for purposes of this policy.

**TRS Person** – means any person listed on Exhibit A attached to Appendix E to this Policy or to any other due diligence document, and includes without limitation any current or former TRS board member, Executive Director, Deputy Director, Chief Financial Officer, Investment Division or Legal and Compliance employee, any investment consultant or actuary, any outside counsel engaged by TRS, and any Relative of a TRS Person, whether or not listed on an Exhibit A, TRS Persons.

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**APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)<sup>1</sup>**

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	<b>Neutral</b>
Equity (USA)	300
Equity (International; Non-US Developed, EAFE)	300
Equity (International; Emerging Markets)	300
Equity (World Equity)	300
Stable Value Hedge Funds	400
Risk Parity	400

	<b>Neutral</b>	<b>Maximum</b>
Government Bonds		300
Total Public Fund Tracking Error	100	300

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<sup>1</sup> Tracking error will be measured on a realized basis over a three year period.



## APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS

Allocations to a single manager organization may only exceed the limits specified in this Appendix B with the prior authorization of the Board.

Article Affected	Portfolio	Initial Allocation or Commitment with Manager, by Portfolio	Additional or Follow-On Allocation or Commitment with the same Manager, by Portfolio	Total Manager Organization Market Value Limits, by Portfolio	Total Manager Organization Exposure Limits, by Portfolio
2	Public Markets Portfolios	0.5%	1%	3%	5%
4.2	Private Equity Portfolio	0.5%	1%	3%	5%
5.2	Real Estate Portfolio	0.5%	1%	3%	5%
6.2	Energy, Natural Resources and Infrastructure Portfolio	0.5%	1%	3%	5%
Total IIC Approval Authority, each Manager Organization				6%	10%

All allocation or commitment limits are expressed as a percentage of the Total Fund value and are to be calculated as of the date the applicable investment is approved by the IIC or other investment authorization. Exposure is defined as the sum of the market value and unfunded commitments for the purposes of Appendix B. All external investments must be assigned to one of the four portfolios at the time of approval. For the purposes of the Manager Organization Market Value Limit, market value is based on the most recent month-end values provided by the custodian and does not include the proposed investment under consideration.

“Affiliate” means any person directly or indirectly controlling, controlled by, or under common control with, another person. A “manager organization” includes its Affiliates without regard to the names of the entities. The Chief Compliance Officer will be responsible for determining the manager organization’s Affiliates that are applicable for the above limits.

The percentage limit for additional or follow-on allocations or commitments applies to each additional or follow-on allocation or commitment by a listed portfolio to a manager and is in addition to, and not cumulative of, the limit specified for initial allocations or commitments. By way of example, if a portfolio initially allocates 0.2% of the Total Fund to a manager, the portfolio may thereafter allocate or commit up to 1.0% in a single additional or follow-on allocation or commitment to the same manager for a total of 1.2% allocated or committed to the same manager (0.2%+1.0%). If a portfolio initially allocates 0.2%, then makes an additional allocation or commitment of 0.8%, and desires to make a further additional or follow-on allocation to the same manager, the applicable limit for the further additional or follow-on allocation is 1.0% of the Total Fund, for a total of 2.0% allocated or committed to the manager (0.2%+0.8%+1.0%). All investments occurring in the six months prior to the follow-on investment, co-investment or additional investment shall be included in the calculation of the percentage limits. If the initial investment occurred less than six months prior to the current investment, the initial allocation limit of 0.5% rather than the follow-on allocation limit of 1.0% will apply.

In calculating the available limits, returned capital is excluded from the sum of existing total allocations or commitments. Committed capital is included during the applicable investment period of a fund without regard to whether the commitment amount is funded or unfunded or the fund is open-ended. Capital that has been returned but that is subject to recall by a Private Investment Fund is considered to be committed or allocated for the purposes of the limits in this Appendix B.



Authority for Special Investment Opportunities. Notwithstanding the limits set forth in this Appendix B, the CIO may designate an investment opportunity as a “Special Investment Opportunity” if the circumstances indicate a reasonable probability that a rapid investment response will be required in order for TRS to acquire the investment in excess of the limits on Investment Division authority set forth in this Appendix B. Circumstances requiring a rapid response may include, but are not limited to, distressed situations or market dislocations creating opportunities to acquire interests or assets at pricing that

indicates a reasonable probability that the interests or assets are undervalued or will increase in value. The CIO shall notify the Executive Director as promptly as possible of the Special Investment Opportunity. The CIO and the Executive Director shall consult with the Chair~~man~~ of the Board and the Chair~~man~~ of the Investment Management Committee and determine if it is not practicable to present the opportunity for consideration by the Board. If the opportunity will not be added to an agenda, and the CIO and the Executive Director conclude that the investment would be in the best interests of TRS, the CIO and the Executive Director may authorize and conclude an investment up to \$1 billion in that Special Investment Opportunity.

After one investment in a Special Investment Opportunity has been made, no further investment in a Special Investment Opportunity may be made until the Board has reauthorized the CIO’s authority to designate a Special Investment Opportunity. Such reauthorization shall renew the CIO’s and the Executive Director’s authority to invest up to \$1 billion in a Special Investment Opportunity under this provision.

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**APPENDIX C – CURRENCY HEDGE RATIOS**

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<b>Portfolio</b>	<b>Currency Hedge Ratio</b>
Public Markets Portfolios	0%
Private Markets Portfolios	0%

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## APPENDIX D – GENERAL AUTHORITY RESOLUTION

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Board of Trustees

General Authority Resolutions Adopted July 14, 2022

### Investment Group

**Resolved**, That Investment Division employees holding the following TRS working titles are members of the “Investment Group”:

Chief Investment Officer	Managing Director
Senior Managing Director	Director
Senior Director	

**Resolved further**, That the Executive Director is authorized and directed to designate in writing those individual members of the **Investment Group** who are authorized within the investment areas designated by the Executive Director, in addition to the Chief Investment Officer, to take any one or more of the following actions authorized below in accordance with these resolutions until the authority is revoked.

**Resolved further**, That the Executive Director is authorized and directed to designate in writing, by investment area and category or item designation, the specific authorities granted to each authorized member of the **Investment Group**, until the authority is revoked.

#### A. General Authority for Investment Matters other than Derivatives

**Resolved further**, That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- A.1. Buy, sell, or give orders or instructions for transactions in currencies and securities, and any amendments or modifications of such orders or instructions.
- A.2. Direct Investment Operations personnel to deliver, pay, expend, or receive cash, currencies, monies, securities (including restricted or Rule 144A securities) in connection with a contract to buy or sell securities.
- A.3. Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of securities transactions.
- A.4. Direct Investment Operations personnel to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; and to instruct other cash movements, including movements of cash to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

Notwithstanding any provision of this Section A, authority granted under this Section A does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

#### B. Investment Contracting Authority other than Derivatives

**Resolved further**, That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- B.1. Make, execute, deliver, waive, modify, amend, renew, extend, assign, terminate, or transfer, in each case in writing, investment- related documents, including without limitation, written contracts, investment management agreements, subscription agreements, capital commitments, account

agreements, consents, certificates, powers of attorney, notes, deeds, security agreements, pledges, mortgages, endorsements, directions and instructions to amend, modify, fix, and execute written investment guidelines in investment management agreements with External Managers and fund managers, and any and all documents necessary or proper to effectuate the authority granted in this Section B.1.

- B.2.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute investment fund redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash or securities to a TRS account by a third-party fund, External Manager, account, debtor, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements, side letter agreements, or other investment-related documents executed by TRS in connection with a new investment, and any amendments or modifications to such documents and agreements other than redemption and withdrawal notices and corresponding instructions for the transfer or delivery by wire or physical transfer of cash or securities.

Notwithstanding any provision of this Section B, the authority granted under this Section B does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

### **C. Derivatives Authority**

**Resolved further**, That the Chief Investment Officer and any member of the **Investment Group** who is designated by the Executive Director as a member of the derivatives team, in addition to any authority expressly designated by the Executive Director under these resolutions is authorized may act on behalf of TRS to:

- C.1.** Negotiate, make, fix, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, documents related to derivatives transactions, including without limitation, master agreements, schedules, credit support annexes, collateral-management agreements, transaction confirmations, account agreements, and clearing agreements, and deliverables relating to such documents and agreements.
- C.2.** Make, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, disclosures, questionnaires, elections, certifications, or other administrative documents and deliverables related to derivatives accounts or transactions.
- C.3.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute, amend, modify, or terminate documents, directions, and instructions to deliver and pay cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.4.** Direct Investment Operations personnel to receive cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.5.** Buy, sell, or give orders or instructions for transactions in derivatives, and any amendments or modifications of such orders or instructions.
- C.6.** Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of derivatives transactions.

### **Financial Group**

**Resolved further**, That the “**Financial Group**” comprises employees holding the following TRS working titles:

<b>Chief Financial Officer</b>	<b>Senior Director of Investment Accounting</b>
<b>Deputy Chief Financial Officer</b>	<b>Manager of Investment Accounting</b>
<b>Director of Accounting Operations</b>	<b>Director of Budget and Financial Analysis</b>

**Resolved further**, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Investment Group** or the **Executive Group**, to execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, margin, or securities to a TRS account by a third-party fund, account, debtor, or derivatives counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements and any amendments to subscription agreements or side letter agreements.

**Resolved further,** That each member of the **Financial Group** is authorized and empowered on behalf of TRS, to execute authorizations to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; instruct other cash movements, including movements of assets to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

**Resolved further,** That each member of the **Financial Group** is authorized and empowered on behalf of TRS to authorize and direct members of the Investment Accounting team to verify or confirm to a custodian or prime broker any order for the transfer or delivery of currencies, monies, securities, or contracts to any other person.

### **Executive Group**

**Resolved further,** That the “**Executive Group**” comprises employees holding the TRS working titles of Executive Director and Deputy Director, and each member of the **Executive Group** is authorized and empowered to perform, with respect to a particular matter or transaction, any and all of the acts that any and all employees in the **Investment Group** or the **Financial Group** are authorized to perform, except that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

### **Trading Group**

**Resolved further,** That the “**Trading Group**” comprises the employees holding the following TRS working titles: Managing Director, Director, and Trader. Each member of the **Trading Group** is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix, and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell securities, derivatives, forward contracts, or currency.

### **Fixed Income, Currency, and Commodities Trading Group**

**Resolved further,** That the “**Fixed Income, Currency, and Commodities (“FICC”) Trading Group**” comprises the employees holding the following TRS working titles: FICC Trader. Each member of the FICC Trading Group is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell fixed income securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell fixed income securities, derivatives, forward contracts, or currency.

### **Chief Compliance Officer**

**Resolved further,** That the “**Chief Compliance Officer**” is authorized and empowered on behalf of TRS to take the following actions: to execute and deliver compliance-related disclosures, reports, filings, and certifications and, with the Chief Investment Officer and Executive Director’s approval, to develop, disseminate and collect disclosure forms to monitor the requirements of the Investment Policy Statement.

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## APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

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~~Date:~~

~~Investment Name:~~ ~~Fund, Manager Party or  
Placement Agent:~~\*

~~Investment Name:~~ Name of Responding Entity:

~~Completed by:~~ Responding Entity Type:

- ☐ Fund or Manager Party  
☐ Placement Agent

~~Completed by:~~ ~~Date submitted:~~

*Note: TRS may require completion of a new questionnaire or updating of responses at any time, including as of the closing date for any transaction investment or additional funding. All questions must be answered.*

*\*—All capitalized terms have the meaning set forth in Article 12 of the Investment Policy Statement, which is available at:*

[https://www.trs.texas.gov/TRS Documents/investment\\_policy\\_statement.pdf](https://www.trs.texas.gov/TRS Documents/investment_policy_statement.pdf)

### 1. **Contacts with Texas Candidates and Elected Officials; Political Contributions.**

1.A. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Candidate or Elected Official in connection with a prospective investment transaction with a Texas state investment entity, including TRS? If the answer is “yes,” please attach a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including TRS. For purposes of this question, “person” includes (i) any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection with a prospective TRS investment, and (ii) any “covered associate” as defined under Rule 206(4)-5 of the Investment Advisers Act of 1940.

**YES, see attachment**

**-NO**

B. Has any person (as defined above) made political contributions during the past three years to any candidate for, and/or incumbent holding, any of the following elective offices in Texas: governor, lieutenant governor, attorney general or comptroller of public accounts?

**YES, please describe**

**NO**

C. Is any person (as defined above) a registered lobbyist in the State of Texas?

**YES, please describe**

**NO**

**2. Contacts with TRS Board Members.** Has any person lobbied or otherwise communicated on behalf of one or more of the Fund, ~~or the~~ Manager Party, or, if applicable, the Placement Agent with a current or former member of the TRS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the TRS investment staff or a TRS advisor or consultant to recommend that TRS invest? If the answer is “yes,” please attach a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

**YES, see attachment**

**NO**

**3. Placement Agents and Placement Fees.** Is or was the Fund or Manager Party, or if applicable, the Placement Agent, a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent (or any other Placement Agent) with respect to the investment named at the top of this questionnaire? For the avoidance of doubt, a broker-dealer (among other entities) affiliated with a Fund or Manager Party is a Placement Agent as defined by Article 12 of the Investment Policy Statement. If any questions remain, reach out to your contact at TRS.

**YES**

**NO**

**If the answer to 3 is “NO,” skip to the certification and signature block.**

**4. If the answer to 3 is “YES,”** will a Placement Fee be paid in connection with TRS’s investment in the named investment?

**YES, please describe**

**NO**

**If the answer to 4 is “NO,” skip to the certification and signature block.**

**5. If the answer to 4 is “YES”:**

- A. Please attach list of the name(s) of the person or entity acting as a Placement Agent with a copy of the written agreement or a summary of the agreement creating the obligation to pay a Placement Fee in connection with TRS’s investment. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.
- B. Will or did any TRS Person or any Relative of a TRS Person receive, has any such person received, or might any such person receive a “Placement Fee” in connection with TRS’s investment? If the answer is “yes,” please list the name or names of the TRS Person or Relative of a TRS Person and provide details about the terms of the Placement Fee.

**YES, see attachment**

**NO**

- C. Will or did any Texas Candidate or Elected Official or a Relative of a Texas Candidate or Elected Official receive a Placement Fee in connection with TRS’s investment? If the answer is “yes,” please state in an attachment the name or names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

**YES, see attachment**

**NO**

- D. Is the Placement Agent, or any of its Affiliates, registered as a lobbyist in the State of Texas? If so, attach a list of the legal names of the entity and the individual registrants.

**YES, see attachment**

**NO**

- E. Is the Placement Agent or any of its Affiliates registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States? Provide an attachment stating the details about each such registration or explaining why registration is not required.

**YES, see attachment**

**NO**

- F. Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former TRS Person, either (1) recommend the Placement Agent or (2) receive a share of a Placement fee or any other economic benefit in connection with TRS's investment, whether directly or indirectly through a Placement Agent engaged by you? If the answer to this question 5.F is "yes," please attach the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment, stating whether the person or entity is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association (or a similar agency outside the United States).

**YES, see attachment**

**NO**

- G. Will TRS be burdened with or liable for any Placement Fee in connection with TRS's investment in the named investment?

**YES**

**NO**

The undersigned certifies, represents and warrants on behalf of the Fund, or Manager Party, or Placement Agent(s), as applicable, that (a) it has reviewed and understands Article 12 of the TRS Investment Policy Statement ("Article 12") received with this Questionnaire, and agrees to abide by Article 12's requirements, including the payment obligations in Section 12.5, (b) to the best of its knowledge after due inquiry, its responses to this Questionnaire are true and complete and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (c) no other statements or representations, if any, whether oral or written, made by or on behalf of the Fund, or the Manager Party, or Placement Agent(s), as applicable, relating to Article 12 and this Questionnaire in connection with TRS's due diligence inquiries or the subject investment transaction were untrue or misleading in any material respect when they were made. The undersigned acknowledges and agrees that in addition to the express remedies required in Article 12 and the transaction documents, which are not intended to be exclusive, TRS reserves all other remedies available to it in law and equity with respect to any untrue or misleading statement. The undersigned agrees to update any such information within 10 business days of becoming aware of any changes or corrections to the responses. The update obligation survives the closing of the investment.

Name of Fund or Manager Party or Placement Agent:



By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Attachment: Exhibit A, TRS Persons

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## APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION

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**A. External Advisory Committees or Boards and Board Observers.** A TRS investment-related agreement may provide that an Investment Division employee may represent TRS by serving:

1. On an advisory committee, advisory board, or similar advisory body to a TRS investment vehicle, whether the position is voting or non-voting; or
2. As a non-voting TRS observer at meetings of the governing body of an investment vehicle, including a business entity, in which TRS has an interest.

**B. Board Representation by a TRS Employee.** A TRS investment-related agreement may provide for TRS representation on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.

**1. Requirements:**

- a. The TRS employee representative may not serve in a position that under applicable law has general liability to third parties, such as a general partnership position.
- b. The TRS employee representative must comply with internal policies and procedures relating to board representation, including recusal, notice and training requirements.
- c. An agreement for TRS representation on an external governing body must be in writing and, to the extent possible, address limitations on capacity and fiduciary duties, liability insurance, indemnification, recusal requirements, travel payments or reimbursements, and perquisites provided to persons on the governing body in the entity's ordinary course of business.
- d. Duties that an employee owes to TRS must be primary. TRS employees representing TRS must comply with recusal determinations made by the Executive Director in consultation with the Chief Compliance Officer and the General Counsel.
- e. The external entity's insurance and indemnification will be primary relative to any available TRS liability and indemnification coverage.
- f. If compensation or reimbursement of expenses will be paid, the agreement must require payment of any compensation or reimbursement directly to TRS.

**2. Qualification:** A TRS employee representative must hold one of the following TRS titles to be eligible to serve: Senior Investment Manager, Director, Senior Director, Managing Director, Senior Managing Director, or CIO.

**3. Authorization:**

- a. For a non-public (private) entity the CIO in consultation with Legal and Compliance, must authorize an employee to serve.
- b. For an entity that has issued publicly-traded securities, the CIO and the Executive Director, in consultation with Legal and Compliance, must authorize an employee to serve.
- c. The CIO may not serve on an external governing body without prior authorization from the Executive Director.

**C. Board Representation by a Non-Employee Independent Third Party.** A TRS investment-related agreement may grant TRS a contractual right or option to appoint, nominate, remove, or replace a non-employee independent third party to serve on the governing body of a business entity in which TRS has or will have an investment interest.

**1. Requirements:**

- a. A third-party may not be TRS's agent and shall have full discretion when voting as a member of the governing body.

- b. TRS will not insure or indemnify any third party representative.
- 2. **Qualification:** The third party must be free of conflicts of interest. TRS will require delivery of a background check from a reputable investigatory firm.
- 3. **Authorization:** The third party must be approved by the head of the applicable investment area or the CIO, in consultation with the Executive Director.

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## DEFINITIONS

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In this Policy,

**Consultant** means a person or entity engaged by the Investment Division pursuant to a defined scope of work to provide studies, assistance, investment management services, due diligence services, and advice relating directly to investment transactions, activities and processes. This definition does not affect any definitions in the Code of Ethics for Contractors.

**Custom benchmark** means a benchmark created for or specified in an investment vehicle or IMA that is not a Policy Benchmark. Investment guidelines for a vehicle or IMA may include one or more custom benchmarks. Inclusion of a custom benchmark in an IMA does not modify the investments authorized in this Policy.

**External Manager** means an investment adviser engaged pursuant to an investment agreement to invest TRS assets on a discretionary basis pursuant to contractual guidelines negotiated, prescribed or controlled by TRS. A manager or general partner of a Private Fund is not an External Manager.

**Trust or Fund** means the overall investment portfolio, including cash and cash equivalents.

**Fund Policy Benchmark** is a target allocation-weighted aggregation of the individual Policy Benchmarks according to Section 1.6.

**Investment Management Agreement or IMA** means a contract between TRS and an External Manager for the discretionary investment of TRS assets in securities according to specified guidelines. The account managed by an External Manager is sometimes referred to as a separate account.

**Policy Benchmark** means the relevant benchmark for an asset class listed in the allocation table in Section 1.6.

**Private Investment Fund or Private Fund** means any non-publicly traded limited liability investment vehicle aggregating investment capital for reinvestment, including without limitation reinvestment of capital in private companies, other investment funds, real estate, debt instruments, derivatives, commodities, or publicly traded securities. Private Funds generally issue Restricted Securities to investors through private placements.

**Publicly traded securities** means securities that trade on a national securities exchange or in an over-the-counter market through broker-dealers who make a market in securities.

**Restricted Securities** means securities acquired under an exemption from registration under the securities laws, such as through private placements, 144A offerings, or Regulation D offerings. Restricted Securities may not be transferred unless they are registered or are exempt from the registration requirements. SEC Rule 144(a)(3) lists types of transactions in which Restricted Securities occur. Privately offered limited partnership and limited liability company interests are usually Restricted Securities.

**Securities** has the meaning assigned in Section 825.301(a). Whether notes, local access products, warrants or other financial instruments or contracts are securities requires legal analysis.



# INVESTMENT POLICY STATEMENT

(Adopted September 15, 2023, to be effective October 1, 2023)

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## EXECUTIVE SUMMARY

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This Executive Summary is not intended to replace, and must be read in conjunction with, the Investment Policy Statement (the “Policy”). In the event of a conflict between the Executive Summary and the Policy, the Policy shall govern. Capitalized terms have the meanings assigned to them in the Policy.

### **Introduction / Background**

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy. The Board also monitors the actions of the Investment Division to ensure compliance with its policies. The Board and Investment Division are assisted by outside Advisors, Consultants and internal and external legal counsel.

See “Section 1.3 – Roles of Board, Staff, Advisors, and Consultants.”

The Investment Policy Statement provides a formal plan for investing pension trust fund (the “Trust”) and health insurance program assets. The Policy defines the roles and responsibilities of the Investment Division and other parties granted and approved by the Board.

### **Objectives**

The Trust’s objectives are to (a) control risk and (b) achieve a long-term rate of return that exceeds (i) the assumed actuarial rate of return adopted by the Board, (ii) inflation plus 5% and (ii) the Trust’s Policy Benchmark. The Trust is subject to a “prudent person” standard of care under the Texas Constitution.

### **Authority and Key Restrictions**

The Board assigns implementation authority to the Investment Division and as such the Investment Division has created a committee to oversee and implement Board-approved investment policy. The Internal Investment Committee’s (IIC) authority is limited by the size of the investments it can approve without also obtaining approval from the Board. The Chief Investment Officer (CIO) has Special Investment Opportunity authority of up to \$1 billion.

See “Appendix B – IIC Approval Authority and Manager Organization Allocation Limits.”

### **Asset Allocation**

Each broad asset class category outlined below provides a distinct and purposeful role within the Total Fund. The Board sets these asset class targets based on periodic asset allocation and asset/liability studies while seeking to achieve the Trust’s stated

Broad Asset Class Category	Target	Min	Max
Global Equity	54%	47%	61%
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	8%	0%	13%
Net Asset Allocation Leverage	-4%		
Total	100%		

objectives.

In addition to the target for each broad asset class category target, there are specific targets for subcategories with minimum and maximum ranges that are +/-5% around the target allocation, with certain exceptions.

See “Section 1.6 – Total Fund Asset Mix and Benchmarks.”



**Measurement and Reporting**

Investment performance, peer performance, policy compliance, asset allocation, external investments activities, derivatives usage, risk limits, liquidity, leverage, private markets strategy, staffing, board and board observer seats, use of placement agents and other information will be monitored and reported to the Board.

See “Section 1.7 – Total Fund Measurement and Reporting Criteria.”

**Risk Management**

The Investment Division will monitor and manage risk of the Total Fund Portfolio and report to the Board on a periodic basis. Key risks include, but are not limited to: Market Risk, Foreign Exchange Risk, Credit and Counterparty Risk, Leverage, Liquidity, and Tracking Error.

See “Article 10 – Risk Management and Oversight.”

**Tracking Error**

Neutral tracking error targets are established for certain portfolios of the Trust:

	Neutral	Max
Equity (US)	300 bps	
Equity (International; Non-US, EAFE)	300 bps	
Equity (International; Emerging Markets)	300 bps	
Equity (World Equity)	300 bps	
Stable Value Hedge Funds	400 bps	
Risk Parity	400 bps	
Government Bonds		300 bps
Total Public Fund	100 bps	300 bps

See “Appendix A – Tracking Error Neutral (in annualized basis points).”

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## ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN

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### 1.1. Introduction

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The Teacher Retirement System of Texas (“TRS”) administers a pension trust fund and other health insurance programs for retirees and certain active public education employees under State of Texas constitutional and statutory provisions. TRS is governed by a Board of Trustees (the “Board”). TRS provides service and disability retirement benefits and death and survivor benefits for Texas public education employees and their beneficiaries. Benefits are funded by state and member contributions and investment returns.

---

### 1.2. Purpose and Design

---

The purpose of this Investment Policy Statement (this “Policy”) is to provide a formal plan for investing pension trust fund and health insurance program assets to achieve defined investment objectives consistent with the TRS mission statement adopted by the Board and with applicable law.

This Policy also defines the roles and responsibilities of the various entities involved in the investment process and facilitates internal and external communication of investment policy.

The appendices to this Policy are incorporated into and form part of this Policy for all purposes.

Terms that are not defined within the body of this Policy have the meanings assigned to them in the “Definitions” at the end of this Policy.

Other policies relevant to this Policy and its subject matter include the Code of Ethics for Contractors, Employee Ethics Policy, Trustee Ethics Policy, Personal Trading Policy, Commission Credits Policy, Confidentiality Policy, Information Security Policy, Proxy Voting Policy, and Securities Lending Policy.

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### 1.3. Roles of Board, Staff, Advisors, and Consultants

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The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff (the “Investment Division”) and Legal and Compliance. The Board also monitors the actions of staff to ensure compliance with its policies. The Board’s standing committees are charged with those responsibilities set forth in the bylaws of the Board. The Board and the Investment Division are assisted by outside investment Advisors, Consultants and internal and external legal counsel.

- a. The Board Investment Advisors (“Advisors”) are selected by the Board to provide education, advice, commentary, and discussion as requested at Board meetings, assist with development and review of investment policies and procedures, assist with the development of the strategic asset allocation, report on the progress of the Fund in meeting its investment objectives, compare the performance of the portfolio to established benchmarks, and perform additional duties as directed by the Board, such as due diligence or analysis of a manager or investment. The Investment Division and Advisors provide information as needed to assist the consulting actuary in performance of actuarial services.
- b. The Investment Division has fiduciary responsibilities delegated by the Board under applicable law. The Investment Division manages the Fund according to the Board's policies, advises and informs the Executive Director and the Board about investments, and recommends modifications to this Policy. The Investment Division executes all transactions, performs risk-management functions, and prepares investment reports.

- c. The Internal Investment Committee (the “IIC”) reviews, considers, and authorizes proposed investments and external manager engagements as required by this Policy. Additionally, the IIC will manage the currency hedge ratios (set forth in Appendix C) and review as needed.

A prudence or recommendation letter will be required in the following circumstances:

1. When the Board considers authorizing an external investment opportunity because the allocation or commitment exceeds the limits in Appendix B;
2. When the CIO, Executive Director or a Board member requests a letter for any external investment opportunity presented to the IIC; or
3. When an external investment opportunity presented to the IIC meets all three of the following criteria:
  - i. The investment will reside in the principal investment Private Markets Portfolio;
  - ii. The initial allocation or commitment exceeds 0.25% of the Total Fund value; and
  - iii. The investment is the first by TRS with a manager organization.

If a Board member desires that any investment opportunity scheduled for consideration by the IIC be submitted for Board consideration, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board and the appropriate Board committee, as applicable, before the anticipated closing date.

The permanent IIC membership consists of the CIO and the Chief Risk Officer (the “CRO”). There must be a minimum of five members on the IIC and, in addition to the CIO, at least two members must be Investment Division Senior Managing Directors (“SMDs”). The CIO will notify the Chair of the Investment Management Committee in advance of any designation or removal of a SMD from the IIC. Termination of a member's TRS employment terminates IIC membership as of the date the employee or TRS gives notice of termination, as the case may be. The Investment Division shall notify the Board and the Executive Director if there is any change to the membership of the IIC. The IIC may delegate investment discretion to asset class investment committees as established in IIC procedures and guidelines.

The CIO will establish procedures and guidelines for the operations of the IIC. The IIC procedures and guidelines may provide that the CIO may designate and remove select Directors as non-permanent voting members to the IIC. The IIC procedures and guidelines will define a quorum and establish the vote required to authorize an investment or external manager engagement or, if required by this Policy, recommend an investment or external manager engagement to the Board, which vote may not be less than a majority of the then-incumbent IIC members present and voting at a meeting at which a quorum is present. The CIO shall have the power to veto any investment or delegation of investment discretion authorized or recommended by the IIC pursuant to a vote of its members.

The Executive Director or a designee may attend any meeting of the IIC, and the Investment Division shall deliver to the Executive Director copies of all IIC materials, analyses, correspondence, and agendas as and when delivered to the IIC members or other TRS employees. The Executive Director is not a member of the IIC, however, acting in his or her capacity as the chief executive officer and chief administrative employee of TRS as set forth in the Board’s bylaws, the Executive Director shall, after consultation with the CIO, have the power to veto any investment or delegation of investment discretion proposed for IIC consideration or authorized or recommended by the IIC pursuant to a vote of its members whenever he or she deems such veto to be in TRS’ best interest.

When this Policy requires that the Board authorize an investment or an engagement of an external manager, the IIC shall vote on whether to recommend such investment or engagement to the Board. The results of the vote shall be reported to the Board in the materials provided to the Board for consideration.

- d. All proposed changes to this Policy will be reviewed by Legal and Compliance for compliance with state and federal laws regarding fiduciary responsibility, investment prudence, regulatory compliance, ethics compliance, and other applicable standards or requirements before submission to the Policy

Committee. Except as authorized by the Executive Director, proposed changes to this Policy will first be presented to the Policy Committee, which will consider recommending the proposed changes to the Board. The Board may consider and adopt proposed changes that have not been considered by the Policy Committee. This Policy shall be reviewed at least once every three years.

- e. The Investment Division is authorized to engage qualified Consultants on an as-needed basis to assist the Investment Division with respect to investment opportunities and to provide other investment due diligence, analysis and advice.

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#### **1.4. Total Fund Objectives**

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In this Policy, the total investment portfolio includes all assets invested by TRS to provide retirement, death, health, and disability benefits administered by the system, including cash and cash equivalents (the “Total Fund” or the “Fund”) and will be structured and managed to achieve the following objectives:

- a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and
- b. As applicable to the pension plan, achieve a long-term rate of return that:
  - i. Exceeds the assumed actuarial rate of return adopted by the Board;
  - ii. Exceeds the long-term rate of inflation by an annualized 5%; and
  - iii. Exceeds the return of the Fund Policy Benchmark.

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#### **1.5. Total Fund Investment Standard**

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Article XVI, Section 67(a)(3) of the Texas Constitution and Section 825.301, Texas Government Code, states that the standard of care for TRS investments is a “prudent person” standard. Section 825.301, Texas Government Code, provides that Section 117.004(b), Property Code, applies to TRS investment decisions. Section 117.004(b) generally states that the determination of the prudence of a single investment decision will be made taking into consideration the investment of all of the assets of the trust, or the assets of the collective investment vehicle, as the case may be, rather than a consideration as to the prudence of the single investment of the trust, or the single investment of the collective investment vehicle, as the case may be.

Environmental, social, and governance (ESG) factors influence the performance of TRS’s investments. In making investment decisions, the Investment Division will consider ESG factors that are material to long-term returns and levels of risk. Materiality of specific ESG factors vary across strategies, companies, sectors, geographies and asset classes.

All investments must be made prudently and in accordance with fiduciary and ethical standards, without promoting interests unrelated to the portfolio’s stated objectives of controlling risk and achieving a long-term rate of return.

All investments made by the Total Fund must be in “securities” as provided by Article XVI, Section 67 (a)(3) of the Texas Constitution and defined in Texas Government Code Section 825.301.

The Investment Division may engage External Managers to provide discretionary investment management services under Investment Management Agreements (“IMAs”) as needed.

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#### **1.6. Total Fund Asset Mix and Benchmarks**

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The Investment Division will assist the Board in engaging in an asset-liability study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent

portfolio exposures and a “long-term target” position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within the risk tolerances specified herein.

Each asset class allocation percentage has a “long-term target” position within the overall portfolio and a maximum and minimum range around that target allocation. All percentages refer to market value.

Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the table on the following page, and are referred to as the Policy Benchmarks.

The ultimate expression of risk tolerance by the Board to the Investment Division is the selection of the strategic asset allocation targets, permissible allocation ranges around those targets, and tracking error limits.

[Table appears on following page]

<b>Asset Class</b>	<b>Benchmark</b>	<b>Reference Bloomberg Ticker</b>	<b>Minimum Range<sup>1,2</sup></b>	<b>Maximum Range<sup>1,2</sup></b>	<b>Target<sup>2</sup></b>
<b>Global Equity:</b>					
USA	MSCI USA Investible Market <sup>3</sup>	MIMUUSAG	13%	23%	18%
Non-US Developed	MSCI EAFE and Canada <sup>3</sup>	NDDUEC	8%	18%	13%
Emerging Markets	50% MSCI EM/50% MSCI EM ex China <sup>3</sup>	NDUEEGF	4%	14%	9%
Private Equity	Customized State Street Private Equity Index – lagged one quarter <sup>4</sup>	M1CXBRV	9%	19%	14%
<b>Total Global Equity</b>	<b>Target-weighted Blend</b>		<b>47%</b>	<b>61%</b>	<b>54%</b>
<b>Stable Value:</b>					
Government Bonds <sup>5</sup>	Bloomberg Barclays Long Treasury Index	LUTLTRUU	0%	21%	16%
Absolute Return (Including Credit Sensitive Investments) <sup>6, 8</sup>	SOFR + 4%	SOFRRATE (Plus 4%)	0%	20%	0%
Stable Value Hedge Funds	HFRI Fund of Funds Conservative	HFRIFOFC	0%	10%	5%
<b>Total Stable Value</b>	<b>Target-weighted Blend</b>		<b>14%</b>	<b>28%</b>	<b>21%</b>
<b>Real Return:</b>					
Real Estate	NCREIF ODCE – lagged one quarter		10%	20%	15%
Energy, Natural Resources and Infrastructure	40% Cambridge Associates Natural Resources/40% Cambridge Associates Infrastructure/20% quarterly Consumer Price Index– lagged one quarter	CPI (for CPI)	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
<b>Total Real Return</b>	<b>Target-weighted Blend</b>		<b>14%</b>	<b>28%</b>	<b>21%</b>
<b>Risk Parity:</b>					
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	13%	8%
<b>INVESTMENT EXPOSURE</b>				<b>115%</b>	<b>104%</b>
<b>Asset Allocation Leverage:</b>					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage <sup>7, 8</sup>	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
<b>Net Asset Allocation Leverage</b>					<b>-4%</b>
<b>TOTAL FUND</b>	<b>Target-weighted Blend</b>				<b>100%</b>

<sup>1</sup> With respect to the maximum range and minimum range, the CIO may increase any maximum range by 5% or decrease any minimum range by 5% (but may not decrease a minimum range below zero) if the CIO concludes in a writing delivered to the Executive Director and to the Board of Trustees stating the action taken and the reasons why the CIO believes that such increase or decrease would be in the best interests of TRS; provided, the maximum range for Total Global Equity may not be increased above 68%. Before taking action, the CIO must request comments from the Chair of the appropriate Board Committee and TRS Advisors. The Board, at the next succeeding Board meeting, must authorize the increase or decrease if the CIO proposes that the changes continue in effect after such Board meeting. The CIO will notify the Chief Compliance Officer of any such change to a maximum or minimum range. If the Board does not authorize the continuation of the change to a maximum or minimum range after the next succeeding Board meeting, the Investment Division shall use best efforts to rebalance the portfolio to bring the asset classes within the ranges in the table above within 90 days.

<sup>2</sup> To calculate the Total Fund benchmark, the benchmark weight of each of Private Equity, Real Estate, and Energy, Natural Resources and Infrastructure, will be set each quarter as the ending actual weight from the prior quarter. Any difference in the calculated Private Equity, Real Estate and Energy, Natural Resources, and Infrastructure benchmark weights from the target benchmark weights will be offset using other asset classes with 25% of such difference applied to USA, 18% to Non- US Developed, 14% to Emerging Markets, 8% Stable Value Hedge Funds, 12% Risk Parity and 23% to Government Bonds.

The Investment Division does not normally manage the allocations to Private Equity, Real Estate and Energy, Natural Resources and Infrastructure on a tactical basis and will use its best efforts to achieve the Target allocation for these assets classes; provided, with notification to and comment sought from the Chair of the appropriate Board Committee, the Investment Division may seek to achieve a higher or lower Target so long as such Target is within the Minimum Range and the Maximum Range.

<sup>3</sup> Benchmarks will be adjusted for securities TRS is not authorized to own or buy because of this Policy or statutory provisions for which no fiduciary exemption has been exercised and have the Bloomberg Tickers of GU722807, NU722808 and NU752166.

<sup>4</sup> The Customized State Street Private Equity Index is composed of the quarterly reported SSPEI, one quarter lagged and adjusted for the most recent quarter-end currency spot prices. Quarterly returns are geometrically linked for longer return horizons. The benchmark is adjusted in each quarter to remove any index constituents which did not provide a valuation statement as of the time of publication.

<sup>5</sup> Global sovereign nominal and inflation-linked bonds may be held in the Government Bond portfolio.

<sup>6</sup> Absolute Return is a broad category that includes all assets that have a high probability of generating a positive absolute return regardless of market conditions over a one- to three-year period.

<sup>7</sup> “Asset Allocation Leverage” reflects any excess allocation to the combined cash and investment exposures that is greater than 100%. Asset Allocation Leverage does not include Strategy Leverage. “Strategy Leverage” is leverage used within an asset class to achieve similar return-risk characteristics as the benchmark.

<sup>8</sup> The benchmark will be compounded daily using SOFRRATE index with a one-day lag, Actual/360, and Modified Following day count conventions.

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## **1.7. Total Fund Measurement and Reporting Criteria**

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The Investment Division will deliver reports to the Board (and the appropriate Board committee, as applicable) adequate to indicate whether the Total Fund is meeting its objectives and that will permit the Board to monitor each portfolio for compliance with this Policy. The Board will establish performance and risk measurement and attribution standards for the Total Fund, each asset class, and component portfolios.

The following comparisons and reviews will be performed quarterly (unless otherwise noted) and presented to the Board:

- a. **Investment Performance** – Investment performance for the Total Fund and each component portfolio, net of external management fees (if applicable), will be compared with their respective benchmark indices. Fund performance will be judged primarily by comparisons to long-term (3, 5 and 10 year) Policy Benchmark returns.
- b. **Monitoring of compliance with Policy** – Portfolios will be reviewed for compliance with the requirements set forth in this Policy. The Chief Compliance Officer will have overall responsibility for compliance monitoring. However, if considered necessary, TRS will hire external parties to obtain assistance regarding compliance monitoring. To ensure independence in compliance monitoring, the Chief Compliance Officer or external parties hired will not be given the authority to trade securities. To ensure ongoing compliance with this Policy and completeness of disclosures to the Board regarding compliance, the Chief Compliance Officer has authority to require certifications from applicable IIC members or Managing Directors disclosing known compliance violations. The Chief Compliance Officer reports all known compliance exceptions to the Board at the next meeting of the Board. The Chief Compliance Officer is authorized to execute and deliver compliance-related disclosures, reports, filings and certifications on behalf of TRS. The Chief Compliance Officer, with the CIO and Executive Director's approval, is also authorized to develop, disseminate and collect disclosure forms to monitor the requirements of this Policy.
- c. **Asset class exposures and weight** – The exposure of cash and derivative instruments to each asset class will be aggregated and compared with their respective benchmarks and with the authorized ranges around those benchmarks. The foregoing does not apply to those accounts designated as using Strategy Leverage to better align the investment with the characteristics of the policy benchmark. Hedge Fund exposure will be reported relative to the limit set by the Board, if applicable.
- d. **Investments under consideration** – For any external investment under consideration by the Investment Division (including Hedge Funds, External Managers, and private markets investments), the Investment Division will provide the Board the following information prior to the date of the applicable IIC meeting:
  - i. Anticipated name of the investment vehicle and name of investment manager;
  - ii. Total fund or strategy size;
  - iii. TRS investment amount under consideration;
  - iv. Investment strategy;
  - v. Names of the External Manager or fund principals;
  - vi. Placement agent or firm sponsoring the offering or engagement, if any;
  - vii. Prospective fees;
  - viii. Other TRS investments with the firm;
  - ix. Historical fund or manager performance; and

For any internal investment under consideration, the Investment Division will provide the Board similar information prior to the date of the applicable IIC meeting.
- e. **External investments activities**– The Investment Division will provide the Board with a list of all external investments, including any additions, withdrawals, transfers or terminations, on at least a semi-annual basis.
- f. **Derivatives** – The Investment Division will provide a comprehensive report of all outstanding derivative applications (including derivative types, counterparties, notional amounts, and fair values) used by internal managers and External Managers under IMAs on at least a semi-annual basis.
- g. **Risk limits** – The Investment Division will report at least semi-annually the Total Fund and benchmark total estimated risk relative to the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.
- h. **Liquidity** – The Investment Division will report at least semi-annually to the Board the use of external liquidity funding mechanisms.
- i. **Leverage** – The Investment Division will report Gross Leverage, Net Asset Allocation Leverage, and Strategy Leverage for portfolios including, but not limited to, Risk Parity and Hedge Funds and leverage resulting from use of external liquidity funding mechanisms as outlined in Section 10.4 Liquidity Risk Management on at least a semi-annual basis.



- j. **Transparency report** – The Investment Division will provide a transparency report to the Board that may be used to disclose any of the required information described herein. This report may be delivered in electronic or physical formats.
- k. **Private Markets Long-Term Strategy** – The Investment Division will review with the Board its long-term strategy for each Private Markets Portfolio at least every three years. This review will include information on target sub- strategy allocation, return, risk and liquidity expectations. Tactical deviations from this long-term strategy will be reviewed with the Board on an annual basis.
- l. **Staffing** – The Investment Division will provide an update no less than annually reporting on key positions in the division, including turnover, transfers and the creation or elimination of key positions.
- m. **Investment Integrity Disclosures** – The Investment Division shall compile all responses to the Investment Integrity Questionnaire (Appendix E) for the purposes of Article 12 and report the results to the Board at least semi-annually. Each report shall include the questionnaire responses completed prior to IIC consideration or other investment authorization under this Policy, and which shall be affirmed as of the applicable closing date. Reports shall disclose whether a Placement Agent has been involved (even if TRS is not burdened by a Placement Fee) and include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Elected Official or Candidate, as applicable.
- n. **Board representation** – The Investment Division shall provide the Board with an annual report on all (i) private investment fund advisory committee positions and (ii) all seats and observer positions on company boards or other governing bodies held by employees or, if applicable, third-party representatives.
- o. **ESG** – The Investment Division will report at least annually to the Board on the Trust’s ESG efforts, methods and results.
- p. **Other information** – Any other information or reports as the Board may request or require from time to time.

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## 1.8. Total Fund Portfolio Implementation and Design; Restrictions

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- a. The Total Fund investment portfolio is characterized by the following functional portfolios that are charged with the implementation of day-to-day portfolio investment and management activity:
  - i. Public Markets Portfolios;
  - ii. Private Markets Portfolios; and
  - iii. Overlay Portfolios;

The objectives, authority and limitations of each of these portfolios, and the authorized uses of derivatives, are described throughout the remainder of this Policy.

- b. In no event shall the aggregate allocation to External Managers pursuant to IMAs exceed 30 percent (or a different percentage of not more than 50 percent, if a greater percentage is specified in the Texas Government Code) of the Total Fund at the time of investment. For avoidance of doubt, this restriction does not apply to assets held by funds (including Hedge Funds) which limit the liability of TRS to the capital contributed and any distributions that TRS might be legally obligated to contribute or repay to the fund.
- c. Subject to Appendix F, the Investment Division is authorized to represent TRS on:
  - i. Advisory committees or boards and as board observers in investments in which TRS has an investment interest.
  - ii. After evaluation of the net benefit to TRS, employees in the Investment Division are authorized to represent TRS or to nominate or appoint third-party independent non-employees to represent TRS on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.

- d. Except as required by fiduciary duties created by the Texas Constitution or applicable law, each TRS investment portfolio, including separate account investments, will comply with prohibitions and restrictions on investments imposed on TRS by state law. For the avoidance of doubt, the Policy and its implementation are subject to all applicable state, federal and international laws where and to the extent that such laws are in force. The Board authorizes and requires compliance with such laws. No further action by the Board will be required to implement compliance with an applicable law.
- e. The General Authority Resolution adopted by the Board designating those employees authorized to execute documents and attached as Appendix D is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix D as of the effective date of the superseding resolution.

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## **ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS**

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### **2.1 Public Markets Portfolios Objectives**

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The objectives of the Public Markets Portfolios are to invest in publicly traded and Restricted Securities to meet or exceed the performance of the relevant Policy Benchmarks or to manage the asset allocation and risk of the Trust. The Public Markets Portfolios will employ a wide variety of investment and trading strategies with varying levels of liquidity and leverage. It is expected that some strategies will involve more concentrated, shorter term investments as well as those that are longer term in nature and thus will generally have more tracking error, while other investments will have less correlation, beta and volatility and thus will offset the overall volatility of the Public Markets Portfolios and the Total Fund.

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### **2.2 Public Markets Portfolios Authorized Investments**

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The Public Markets Portfolios are authorized to invest in the following:

- a. All securities in a Policy Benchmark, all securities that trade publicly (whether on an exchange or over the counter) or pursuant to SEC Rule 144A, and securities issued in underwritten initial public offerings (“IPOs”);
- b. Fixed income securities, whether publicly traded or restricted;
- c. Restricted Securities which are expected to become public or otherwise freely marketable within three years after the initial investment date pursuant to registration or an exemption from registration;
- d. Derivatives in accordance with Article 9;
- e. Private Investment Funds including Hedge Funds; and
- f. Cash and cash equivalents.

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### **2.3 Public Markets Portfolios Restrictions**

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- a. Not more than 20% of the outstanding equity securities of a single class of any company may be purchased. Securities which are deemed to be beneficially held by TRS for purposes of Section 13 of the Securities Exchange Act of 1934 (including equity securities held in an IMA or a Private Fund in which TRS is deemed to be the beneficial owner for purposes of Section 13), shall be counted against the 20% limit.
- b. The Public Markets Portfolios shall conform to the tracking error targets prescribed in Appendix A.
- c. The Public Markets Portfolios that are managed directly by the Investment Division may hold short positions in securities listed in Section 2.2. The aggregate short positions exposure excluding derivatives of the portfolios may not exceed 25% of the market value of the internal equity portfolios of the Trust, nor may

any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable securities are traded or listed.

- d. The market value of Restricted Securities purchased in Public Markets Portfolios pursuant to 2.2c will not exceed 2% of the market value of the Total Fund at time of investment.
- e. Not more than 15% of the Total Fund may be invested in Hedge Funds. Compliance with this limit is determined at the time TRS executes the investment documents for each Hedge Fund investment or additional investment.

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## **2.4 External Public Markets Portfolios**

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The External Public Markets Portfolios (the “EPM Portfolios”) are:

- a. The External Manager Portfolio, which consists of:
  - i. Private Funds that are determined not to be Hedge Funds as defined by Section 2.5 of this Policy, and
  - ii. Separate accounts managed or advised by External Managers under an IMA with TRS.
- b. The Hedge Fund Portfolio.
- c. The Absolute Return Portfolio including credit sensitive investments.

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## **2.5 Hedge Fund Defined**

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In this Policy, “Hedge Fund” means a Private Investment Fund with the following general characteristics, as set forth in Section 825.3012, Texas Government Code:

- a. Is not registered as an investment company;
- b. Issues securities only to accredited investors or qualified purchasers under an exemption from registration; and
- c. Engages primarily in strategic trading of securities and other financial instruments.

“Hedge Fund” includes a Private Investment Fund of funds or similar vehicle that itself invests in Hedge Funds. An investment in a Hedge Fund does not involve a delegation of investment discretion to an External Manager for purposes of the statutory limit on delegation to External Managers.

For the purposes of complying with Section 2.3(e), the Investment Division shall use the following criteria to analyze and determine whether a Private Investment Fund is “primarily engaged in strategic trading” and should be classified as a hedge fund:

<b>Criteria “Strategic Trading of Securities”</b>	<b>Characteristics Non-Hedge Fund</b>	<b>Characteristics Potential Hedge Fund</b>
1. Variability in Asset Class Concentration	Asset allocation typically stays the same throughout a market cycle, as shown by historical practice	Unconstrained; asset class mix can change dynamically in response to market conditions or as opportunities arise
2. Beta to underlying index specified for the particular mandate	Generally higher levels of beta (e.g., 0.75+)	Often less beta (e.g., <0.75)

Criteria “Strategic Trading of Securities”	Characteristics Non-Hedge Fund	Characteristics Potential Hedge Fund
3. Securities Traded	Primarily publicly-traded securities	Typically public or private instruments, and often with some illiquid (e.g., “side pockets”) investments segregated for accounting and incentive fee purposes
4. Leverage	Gross leverage less than 250% and net leverage 75% to 125%	Unconstrained by policy and practice – managers often unwilling to commit to constraints
5. Short sales of company-specific securities (i.e., non-derivatives)	Typically <50% gross short	Shorting of company-specific securities is integral to investment strategy or process, with gross short positions exceeding 50%
6. Use of Derivatives	Limited use of derivatives (notional value excluding derivatives used to hedge currency risk is less than 100% of net asset value)	Derivatives are integral to strategy or process (notional value excluding derivatives used to hedge currency risk is greater than 100% of net asset value)
7. Transparency	Generally position-level transparency for investor	Risk-level transparency, but little or no position-level transparency
8. Liquidity	Limited use of lock-ups, short or no notice period; frequent (e.g., monthly) or no redemption windows	Often lock-ups, withdrawal fees, notice periods exceeding 30 days and/or less frequent redemption windows than monthly; gates and ability to suspend redemptions can extend redemption for years or frustrate liquidity goals
9. Performance Fees	May charge performance fees, but often over asset class hurdle	Generally, manager charges management and performance or incentive fees, or both, but usually with no asset class hurdle

In this Section 2.5:

**Beta** is a measure of an asset’s volatility in relation to a specific market or risk factor, as observed over a market cycle; the measure of an asset's risk in relation to the market (for example, the S&P500) or to an alternative benchmark or factors. Generally, the return of a security with a beta of 1.5 will be, on average, 1.5 times the market return.

**Leverage** is a condition in which the net potential monetary exposure of an obligation exceeds the value of the underlying assets supporting the obligation. **Net Leverage** is calculated as the difference between (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, and (B) the sum of (i) the absolute market value of all short cash market positions, and (ii) the absolute notional value of all short derivative positions divided by (C) the net market value of the fund. **Gross Leverage** is the total of (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, (iii) the absolute market value of all short cash market positions, and (iv) the absolute

notional value of all short derivative positions divided by (B) the net market value of the fund. For option based instruments, notional value may be calculated using hedge ratios to derive a delta-equivalent exposure.

Proposed investments in funds classified as Hedge Funds will be reported to the Board (and appropriate Board committee, as applicable) quarterly. If the criteria examined do not clearly indicate, based on at least a preponderance of criteria, how a fund should be classified, the Investment Division may elect to present the pertinent information to the IIC for consideration of classification. Further, if the application of any one or more of the criteria for leverage, short sales, and derivatives, standing alone, would classify the fund as a Hedge Fund, but the preponderance of criteria would classify the fund as a non-Hedge Fund, the Investment Division may either decline to authorize the investment or may elect to present the pertinent information to the IIC for consideration of the classification of the fund and, if applicable, authorization for investment.

At time of consideration, the IIC will approve the allocation of each Hedge Fund to an asset class by reference to factors such as investment strategy, underlying investments, correlation, beta, leverage, expected return and expected risk.

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## **2.6 External Public Markets Portfolio Authorization**

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- a. **Approval Authority – Hedge Fund, External Manager and Absolute Return Portfolios** – The IIC is hereby authorized to approve investments as defined and set forth in Appendix B of this Policy.

The Investment Division may authorize an allocation to an External Manager even if the manager will invest a portion of the assets in a Private Investment Fund or funds or a tax-qualified collective trust managed by an Affiliate of the External Manager, except that the Investment Division shall determine whether any such fund should be classified as a Hedge Fund for purposes of Section 825.3012, Texas Government Code.

- b. **Short positions limit** – The EPM Portfolios may hold short positions in securities authorized under Section 2.2. The aggregate short positions exposure of the External Manager Portfolio may not exceed 25% of the market value of the External Manager Portfolio without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the External Manager Portfolio exceed 50% of the market value of the External Manager Portfolio, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable Securities are traded or listed.
- c. **Allocation Adjustment Authority** – Subject to the limits set forth in this Policy, the CIO, CRO, the heads of Public Markets, EPM or Special Opportunities may add to previously approved funds or investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not, on a monthly basis, exceed 2% of the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio (as appropriate) per investment.
- d. **Termination and Withdrawal Authority** – The CIO, CRO, or the heads of Public Markets, EPM or Special Opportunities may transfer, sell, withdraw or terminate interests in the Hedge Fund Portfolio, External Manager Portfolio, or Absolute Return Portfolio, provided that the action does not breach the terms and conditions of the applicable investment agreements.

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## **2.7 External Public Markets Portfolio Restrictions**

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- a. IMAs, considered in the aggregate, may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy, including the provisions of Section 2.2.
- b. The EPM Portfolios are subject to the size limitations in Section 1.8b.
- c. Each IMA with an External Manager shall specify the applicable policies, risk controls, portfolio characteristics, reporting requirements, requirements or restrictions, including criteria for determining quality of investments or the use of standard debt-rating services.

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## **2.8 External Public Markets Portfolio Conflicts of Interest**

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Conflicts of interest, including the appearance of conflicts, in the selection and engagement of external investment managers will be avoided at all times. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under applicable ethics policies and statutory provisions, including without limitation Section 825.212, Texas Government Code, which does not apply to Hedge Fund managers in that capacity. The Investment Division will develop guidelines and procedures to identify actual or potential conflicts of interest affecting External Managers to be engaged pursuant to IMAs. The Investment Division shall employ reasonable diligence to identify conflicts of interest affecting TRS trustees, employees, Advisors and Consultants with respect to all investments.

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## **2.9 Risk Parity Portfolios**

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Risk Parity is an asset allocation strategy that focuses upon equalizing the risk contributions of the asset classes or risk factors comprising the portfolio. Risk Parity then uses leverage to scale the resulting portfolio to target a stated level of portfolio risk or return comparable to typical pension fund unleveraged asset allocation strategies.

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# **ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS**

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## **3.1 Private Markets Portfolios**

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The Private Markets Portfolios are (1) the Private Equity Portfolio (the “PE Portfolio”), (2) the Real Estate Portfolio (the “RE Portfolio”) and (3) the Energy, Natural Resources and Infrastructure Portfolio (the “ENRI Portfolio”).

Private markets opportunities that will be considered for investment include the following: investments in securities of any legally permissible investment vehicle, including title-holding entities that are wholly owned, organized, and controlled by the retirement system, Private Investment Funds, co-investments, secondary investments, externally managed separate accounts investing in securities, hybrid securities with characteristics of equity or debt, joint ventures, secondary market transactions, entity-level investing or other off-market investments, new and emerging managers, and opportunistic investments (e.g., investments in the management entity of a private investment firm or sponsor, public-to-private transactions, and the acquisition of business development company or investment trust assets).

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## **3.2 Private Markets Portfolios Authorization**

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The Private Markets Portfolios are authorized to invest in the asset classes specified in this Policy and may hold and exercise rights, options and warrants attached to securities relating to an investment by the Private Markets Portfolios. In furtherance of the investment activities of TRS, the Private Markets Portfolios are authorized to engage with third parties and provide to them any required investment information for due diligence purposes so long as the recipients have a duty of confidentiality as to the TRS information.

Funding of committed capital in Private Markets Portfolios will occur over an extended time period and may take several years before the total allocation to each asset class is fully invested. Because an individual investment may begin to return capital to the investor prior to the full funding of the investor’s commitment, the outstanding invested capital of the investment might at times be substantially less than the total commitment. In recognition of the above characteristics unique to the Private Markets Portfolios, a “committed” allocation to an investment may exceed the respective allocation targets authorized. It will not be a violation of this Policy if changes in the market values of the public assets portfolios or the Private Markets Portfolios cause the market value of the Private Markets Portfolios to exceed the upper limit of the allocation ranges established in this Policy.

**Investment Authority.** The limits defined and set forth in Appendix B apply to allocations and commitments by the Private Markets Portfolios.

**Termination and Withdrawal Authority.** The CIO or, as applicable, the heads of Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure may transfer, sell, withdraw or terminate interests in the Private Markets Portfolios in accordance with the investment documents, provided that the action does not breach any agreement to which TRS is legally bound.

**Commitment Authorization.** Each investment must be authorized as required by the provisions, guidelines, and limitations established in this Policy. Any structure in which TRS invests shall meet established legal requirements.

**Additional Allocation Authority.** Subject to the limits set forth in this Policy, the CIO or, as applicable, the heads of the Private Markets, Private Equity, Real Estate, or Energy, Natural Resources and Infrastructure Portfolios may add funds to previously approved investments for the purposes of rebalancing, increasing allocations or adjusting risks. Such additional investments or allocations shall not exceed, on a monthly basis, 2% of each of the Private Equity Portfolio, the Real Estate Portfolio or the ENRI Portfolio (respectively, as appropriate) per investment.

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## ARTICLE 4 – PRIVATE EQUITY PORTFOLIO

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### 4.1 Private Equity Portfolio Objectives

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The PE Portfolio will be structured to achieve the following investment objectives:

- a. The primary long-term objective is to develop a prudently diversified portfolio of investments that is expected to enhance the overall risk-return profile of the Total Fund.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified PE Portfolio: strategy, geography, industry sectors, investment size and vintage year.

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### 4.2 Private Equity Portfolio Authorized Investments

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Private equity funds build portfolios of private investments in the equity or debt of operating companies. Private equity funds may acquire investments in debt obligations, public or private common and preferred stocks, convertible securities, and any warrants, rights, or options attached to any of the foregoing that relate to equity ownership in an issuer. Privately-acquired securities usually have transfer restrictions and are not as liquid as publicly-traded securities. Private equity funds are often classified by strategy, including: buyouts, credit, special situations and venture capital/growth equity.

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### 4.3 Private Equity Portfolio Restrictions

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The Private Equity Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

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## ARTICLE 5 – REAL ESTATE PORTFOLIO

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### 5.1 Real Estate Portfolio Objectives

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The RE Portfolio will be structured to achieve the following investment objectives:

- a. As the primary focus, contribute favorably to diversification of the Total Fund through exposure to real estate's low or negative correlation to the Public Markets Portfolios.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified RE Portfolio: strategy, geography, property types, size of investment, vintage year, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

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## **5.2 Real Estate Portfolio Authorized Investments**

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The RE Portfolio will focus on private or public real estate equity securities investments, including title-holding entities that are wholly owned, organized, and controlled by the retirement system, private or public real estate debt, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, private or public real estate investment trusts ("REITs"), private or public master limited partnerships ("MLPs"), and other opportunistic investments in real estate.

Real estate investments are often classified by strategy, including: core, core-plus, value-added, opportunistic and special situations.

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## **5.3 Real Estate Portfolio Restrictions**

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The RE Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

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# **ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO**

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## **6.1 Energy, Natural Resources and Infrastructure Portfolio**

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The ENRI Portfolio will be structured to achieve the following investment objectives:

- a. Contribute favorably to diversification of the Total Fund by increasing exposure to assets with a higher degree of inflation sensitivity.
- b. Provide competitive returns through capital appreciation.
- c. The following attributes will be considered in constructing a diversified ENRI Portfolio: general inflation sensitivity, expected return, strategy, geography, resource exposure, size of investment, vintage year, where investment is in the resources value chain (upstream, midstream or downstream) or infrastructure type, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

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## **6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments**

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The ENRI Portfolio may invest in private and public energy or natural resource or infrastructure related securities either directly or through funds which may include investments in public or private equity, equity-linked investments including options, warrants, preferred equity, and structured equity, private or public debt, entity-level investments, master limited partnerships, commodity futures, natural resources interests (mineral, royalty or working interests), timber and agricultural property, water, power generation, renewable energy, and associated infrastructure, services and technology. Energy and natural resource investments are often classified by resource type and where the investment is in the resource value chain (upstream, midstream or downstream). Infrastructure assets are classified as core, value-add and opportunistic. Direct investments in physical commodities are prohibited.



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## **6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions**

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The ENRI Portfolio is authorized by and is subject to the terms and conditions described in Article 3.

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### **ARTICLE 7 – EMERGING MANAGERS PROGRAM**

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TRS shall make a good-faith effort to invest with qualified emerging managers for the External Public Markets Portfolios and the Private Markets Portfolios. For the avoidance of doubt, these portfolios may also include investments in energy, natural resources and infrastructure. The Investment Division is authorized to invest with qualified funds-of-funds managers skilled at identifying small and emerging managers in the private equity, real asset and public equity markets. The Emerging Managers Program will target 1.1% of the market value of the Total Fund.

Emerging managers can include, but are not limited to, minority, women, and disabled veteran-owned or -controlled organizations. Conversely, not all minority, women, and disabled veteran-owned or -controlled organizations are necessarily considered emerging managers for the purposes of this program. Whether a management firm is an “emerging manager” depends on all of the facts and circumstances. In general, emerging managers are defined as newer, independent private investment management firms that manage less than \$3 billion, or have a performance track record as a firm shorter than five years, or both.

The Investment Division may engage Emerging Managers Program Consultants without a requirement for approval from the Board. In general, an emerging manager should be registered as an investment adviser with the appropriate authorities if such registration would be consistent with industry practices or is required by law. Each investment will have a minimum size of \$5 million. With respect to the EPM Portfolio, the total investment by TRS with each emerging manager may not exceed 40% of such emerging manager’s assets under management at the time of IIC approval. With respect to the Private Equity Portfolio and the Real Estate Portfolio, the total investment by TRS into each fund raised by an emerging manager may not exceed 40% of the size of such fund at the time of IIC approval. This paragraph does not apply to investments executed as part of a fund-of-funds mandate.

The Investment Division shall document its efforts to identify and expand its investments with qualified emerging managers for the purpose of board and legislative reporting on the methods and results, including data disaggregated by race, ethnicity, gender, and fund size. All investments under the emerging manager program must be made prudently and in accordance with fiduciary and ethical standards.

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### **ARTICLE 8 – OVERLAY PORTFOLIOS**

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#### **8.1 Overlay Portfolios Objectives**

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Overlay Portfolios are designed to manage risk, asset allocation, and market exposures through futures, options, swap contracts, or forward agreements. Overlay Portfolios may be implemented in connection with the Total Fund or with any investment or portfolio within the Total Fund.

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#### **8.2 Overlay Portfolios Authorized Investments**

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Overlay Portfolios may contract for, buy, sell, and hold the following contracts and derivative instruments in accordance with this Policy:

- a. Exchange-traded futures contracts;
- b. Options on exchange-traded futures contracts;

- c. Over-the-counter or exchange-traded swap contracts;
- d. Over-the-counter or exchange-traded option contracts; and
- e. Forward contracts.

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### **8.3 Overlay Portfolios Restrictions**

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Overlay Portfolios may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

When engaging in currency overlay strategies, the Overlay Portfolio may not increase or decrease the net notional exposure of the Total Fund:

- a. To all non-dollar currencies in aggregate by more than 5% of the market value of the Total Fund;
- b. To any single developed market currency (except for the U.S. Dollar) by more than 2% of the market value of the Total Fund; and
- c. To any single emerging market currency by more than 1% of the market value of the Total Fund.

The foregoing percentage limit restrictions do not apply to currency derivatives used (i) as part of the non-discretionary foreign exchange risk management policy described in Section 10.2, (ii) to settle security transactions denominated in those foreign currencies and any authorized instrument or contract intended to manage transaction or currency exchange risk in purchasing and selling investments, and (iii) for hedging the characteristics of an individual investment to align it with the characteristics of such investment's benchmark.

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## **ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES**

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This Article enumerates the applications, documentation and limitations for the use of derivatives as permitted under Section 825.301, Texas Government Code.

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### **9.1. Derivatives Policy Scope**

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Except where specifically noted, this Policy applies to all derivatives transactions executed by the Investment Division and by External Managers operating under an IMA. This Policy does not apply to registered or Private Investment Funds issuing securities to TRS.

This Policy applies to all exchange-traded derivatives and over the counter ("OTC") derivative instruments authorized by law. This Policy does not apply to the use of derivatives by Private Investment Funds unless TRS in fact controls and has a legal right to approve the investment policy or guidelines of such funds.

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### **9.2. Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)**

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The Total Fund may have external exposure to derivatives in two ways.

- a. First, the Total Fund will invest as a passive investor in Hedge Funds organized as limited-liability entities, which limits potential losses to the capital contributed to the entity. TRS is not a party to the management agreement between the Hedge Fund and its investment manager. Hedge Fund and other fund managers owe the same legal duties to all investors.
  - i. The Investment Division must exercise thorough due diligence in assessing the scope of the Hedge Fund manager's uses of derivatives, their purpose, experience of the fund manager's staff in managing these positions, inherent leverage, and the manager's systems, controls and operations in determining suitability of these entities for TRS investment.

- b. Second, TRS may delegate discretion, through IMAs, to External Managers who act as a TRS agent with respect to Total Fund assets and who are authorized to enter into specified contracts and commitments that will be legally binding on TRS. External Managers are TRS fiduciaries.
  - i. For External Managers engaged pursuant to IMAs, Investment Division must view the External Manager as an extension of the internal Investment Division's investment management processes and must require External Managers to comply with this Policy and applicable guidelines and law on the use of derivatives to the same extent as the Investment Division. Guidelines for the scope and use of derivatives will be established on a case-by-case basis with each External Manager in the applicable IMA. An External Manager of publicly-traded investments engaged by TRS under an IMA may engage in derivatives transactions only if expressly authorized by, and the transactions are consistent with, the overall investment objectives and restrictions established in the IMA, this Policy, and applicable law. Each IMA must be consistent with applicable law, this Policy, and other TRS policies. An IMA may only authorize such uses of derivative instruments when the Investment Division reasonably concludes after due diligence that the External Manager possesses the experience, expertise, and qualifications to prudently use derivatives, and has appropriate operational, compliance, and risk management personnel, policies, and procedures to effectively monitor and control their use, including the use of leverage.
  - ii. Selection, engagement, and monitoring of External Managers engaged through an IMA requires a clear understanding of the managers' uses of derivatives, particularly as it relates to various risk controls, compliance functions, and leverage. The Investment Division will monitor risk exposures and leverage on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage by each External Manager must be fully documented in each IMA.

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### **9.3. Derivatives Definition; Authorization**

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Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, financial commodities, and currencies). For the purposes of this Policy, derivatives include, without limitation, futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios. Derivatives, for purposes of this policy, do not include currency forwards with a tenor of 30 days or less if such forwards do not require upfront amounts to be paid or received.

Derivatives may be exchange traded or OTC. Exchange traded derivatives are listed and traded on a national exchange. Fulfillment of the contract is generally guaranteed by the exchange on which the instruments are traded. OTC derivatives are negotiated transactions between a buyer and a counterparty, which may result in non-standard terms.

OTC derivatives between internal portfolios are authorized and subject to all procedures, controls and reporting required by this Policy unless denoted otherwise. Internal OTC trades shall be made prudently and in accordance with fiduciary and ethical standards and may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls or restrictions otherwise established by this Policy or applicable law.

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### **9.4. Derivatives Applications Permitted**

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Consistent with the objectives set out in Section 9.1, derivative applications may be used by the Investment Division and External Managers engaged through IMAs to:

- a. Implement investment strategies in a lower cost and efficient manner;
- b. Efficiently manage the Total Fund portfolio by altering the portfolio's market (systematic) exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;

- c. Construct portfolios with risk and return characteristics that could not be efficiently created with cash market securities consistently with the objectives in this Policy and in compliance with applicable law;
- d. Hedge and control risks so that the Total Fund's risk-return profile is more closely aligned with the Total Fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and
- e. Facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or policy changes.
- f. External Managers may not engage in derivative applications that are inconsistent with the applicable IMA, this Policy and applicable law, unless specifically authorized by the TRS Board and the IMA has been amended accordingly.

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## **9.5. Derivatives Applications Not Permitted**

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- a. Derivatives may not be used for speculation. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified by this Policy or any related policies or resolutions of the Board. Derivatives may not be used for circumventing limitations or restrictions imposed by this Policy or applicable regulatory requirements. Derivative applications may only be used to invest in asset classes that are consistent with TRS's legally permissible policy asset categories (including currencies), implementation strategies, and risk-return characteristics.
- b. Investments in derivatives underlain by physical commodities are prohibited unless such derivatives can be cash-settled whether by contract terms, by rolling the position, or by trading out of the position before a delivery obligation can arise. Standing orders or instructions for rolling or trading out of positions may be used to prevent delivery obligations from arising under commodities derivatives contracts.

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## **9.6. Derivatives Documentation and Controls**

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Prior to the implementation of a new internal derivative instrument type or application, the Investment Division shall document the purpose, justification, baseline portfolio, derivative application portfolio, risks (including, at a minimum, market, modeling, pricing, liquidity, and legal risks), the expected increase or reduction in systematic and idiosyncratic risk resulting from the application, the amount of leverage employed under the strategy, the prudent reasons for employing leverage, and the procedures in place to monitor and manage the derivative exposure. The documentation will be approved by the CIO and reported to the IIC and the Board (or appropriate Board committee, as applicable) at their next regularly-scheduled quarterly meetings. The Investment Division shall adopt fully documented control procedures to properly account for and value the Total Fund's exposure to each derivatives application, whether internal or external under an IMA. The Investment Division shall establish an appropriate risk management procedure to monitor compliance both internally and by External Managers and will take corrective action if necessary. The Investment Division shall have due regard for operational risks associated with various derivatives strategies, including risk management, accounting systems, liquidity needs, adequate staffing, and staff qualifications.

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## **9.7. Derivatives Limitations**

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**Counterparty Risks:** In order to limit the financial risks associated with derivative applications, guidelines for rigorous counterparty selection criteria and ISDA agreements shall be created by the Investment Division to reduce counterparty risk for OTC derivatives. Any external counterparty in an OTC derivative transaction with TRS must have a credit rating (which may be a counterparty risk assessment or rating) of at least A- (Standard & Poor's or Fitch) or A3 (Moody's). All external OTC derivative transactions, including those managed through IMAs, must be subject to established ISDA Master Agreements or, if centrally cleared, clearing agreements and have full documentation of all legal obligations of both parties to each transaction. All ISDA Master Agreements entered into by or on behalf of TRS by the Investment Division or an External Manager engaged pursuant to an IMA (if applicable) shall provide for netting of obligations. The Investment Division and

External Managers may also use collateral arrangements to mitigate counterparty credit or performance risk. The net market value of all OTC derivative positions, including those managed through IMAs, less collateral posted, for any individual counterparty may not exceed \$500 million. The net market value of all OTC derivative positions for any individual counterparty, without consideration of collateral, may not exceed 5% of the total market value of the Fund. If these market-value limits are exceeded, the Investment Division will inform the CIO, Executive Director, and Chair of the appropriate Board committee as soon as practicable and take appropriate corrective action within a 90-day period or develop a corrective action plan that will be presented to the Board at its next regularly scheduled meeting at which investment matters will be discussed following the initial 90-day corrective action period.

**Global Risk Limitations:** Notwithstanding other limitations in this Policy, transactions that would cause the aggregate risk exposure of the Total Fund, including externally-managed portfolios, to exceed the aggregate risk limits established by the current asset allocation policies of the Board are not permitted. On a Total Fund basis, the combined economic exposure introduced through both cash and derivative market positions is subject to the asset allocation ranges, risk limits, and other portfolio parameters described in this Policy.

**Position Limits:** For futures and options positions TRS will comply with all position and aggregate limits established by the applicable regulatory and legal organizations and authorities within each jurisdiction.

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## 9.8. Derivatives Risk Management and Compliance

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To ensure compliance with this Article 9, all internally and externally managed derivatives (other than derivatives held in Hedge Funds) must be marked to market on a daily basis by the Fund's external custodian(s), and such daily reports will be reviewed for accuracy by the TRS Risk Management staff and Investment Operations personnel.

Compliance with the requirements of this Policy will be monitored by the Chief Compliance Officer using information systems and data from internal and external sources. Any violations of this Article 9 will be reported immediately to the Executive Director and to the CIO, who will determine, if considered material as determined by Chief Compliance Officer, Chief Investment Officer, and Executive Director, the appropriate remedy and report promptly to the Board (and the appropriate Board committee, as applicable).

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# ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT

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## 10.1. Market Risk Management

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The Investment Division will establish a framework for measuring enterprise-level risk for both the Total Fund Portfolio and the established benchmark, including any transition benchmarks employed during asset allocation shifts. At a minimum, this framework must include a quantified estimate of downside risk (e.g., value-at-risk ("VaR"), estimated shortfall, or various parametric and non-parametric statistics). The Investment Division will monitor the relative positioning of the Total Fund Portfolio vis-à-vis the benchmark no less frequently than monthly.

- a. **Asset allocation limits** – In addition to the Total Fund Portfolio level risk limits, the portfolio will be constrained to the asset allocation percentages and ranges prescribed by this Policy. Accordingly, the total exposure to each asset class must be based on the individual exposures of each cash security and each outstanding derivative contract. The foregoing does not apply to those accounts designated as using strategy leverage to better align the investment with the characteristics of the policy benchmark.
- b. **Risk limit** – The Investment Division will model and monitor the Total Fund Portfolio and benchmark to ensure that the total estimated risk for the Public Markets portion of the Portfolio is within the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.

- c. **Proxy securities and indices** – If necessary and prudent, the Investment Division will employ proxies to approximate the economic characteristics of actual investments if the terms and conditions of the actual investments or the underlying holdings are not readily available or where the complexity of the underlying investment renders a deterministic model impractical.
- d. **Private market assets holdings** – The Investment Division may include private investments in this analysis either by proxy or by actually modeling the terms and conditions of the underlying exposures; however, if the inclusion of these investments is deemed to distort the true risk characteristics of the portfolio, the Board may approve the use of an alternative methodology for analyzing the risk characteristics of those investments.
- e. **Active risk limits** – In addition to the portfolio-level risk statistics described above, a target tracking error will be imposed on each public asset class mandate. Additionally, a target tracking error will be imposed on the entire public portfolio that takes into account both internally and externally managed portfolios and Private Funds as well as both asset allocation and security selection decisions. These limits are specified in Appendix A.

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## 10.2. Foreign-Exchange Risk Management

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The objective of the Foreign-Exchange (“F/X”) policy is to effectively manage portfolio return volatility associated with foreign currency risk. F/X risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. The F/X policy sets forth a structure and implementation plan to determine the level of strategic currency risk that the Fund is willing to tolerate.

Currency hedge ratios will be separately applied to the Fund’s public-markets and private-markets non-dollar exposures. Each currency hedge ratio is the percentage of aggregate, non-dollar currency exposure to be passively hedged. The hedging horizon is intermediate (one to three years). The results of the currency hedge ratio decisions will be presented to the Board (or the appropriate Board committee, as applicable) for approval by the Board and incorporated into the benchmark as prescribed in Appendix C.

From an implementation perspective, an F/X overlay manager would have responsibility for implementing the currency hedge ratio decisions and would not exercise delegated investment discretion. The F/X overlay may be implemented internally or externally. If external, the non-discretionary F/X overlay manager would not fall under the definition of either an External Manager or a Hedge Fund. A non-discretionary external F/X overlay manager would merely implement the investment decision that has already been made by the IIC.

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## 10.3. Credit Risk Management

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- a. **External counterparty exposures** – The maximum allowable unsecured external counterparty exposure for OTC derivative transactions is \$500 million, based on the total net market value of all OTC positions held with each external counterparty. The total external counterparty exposure for each external counterparty, including the collateralized portions of these agreements, may not exceed 5% of the market value of the Total Fund. The minimum credit rating for an external counterparty (which may be a counterparty risk assessment or rating), based on a nationally recognized statistical rating organization (“NRSRO”), must be at least A- or better at the inception of the contract. For any external counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level, subsequent to the inception of transaction, additional eligible collateral may be posted, or the transaction may be terminated.
- b. All OTC derivatives with an external counterparty must be governed by an ISDA Master Agreement and Credit Support Annex or, if centrally cleared, by clearing agreements, and must include both close-out netting provisions and collateralization provisions.
- c. Each ISDA Master Agreement must also include a table that delineates the excess purchased securities margin (haircut) required, based on the collateral type, duration, and credit quality.

- d. **Repurchase agreements** – The limit for each counterparty for repurchase transactions and tri-party repurchase transactions may not exceed 5% of the market value of the Total Fund. Each repurchase agreement will be entered into under a widely accepted industry-approved form, such as one approved by SIFMA. A counterparty to a repurchase agreement must be an organization rated A3/A- or better by a NRSRO, unless (i) the counterparty is another entity created by the Texas legislature; (ii) the counterparty is a money-market fund regulated under Rule 2a-7 under the Investment Company Act of 1940 or a fund designed to resemble such a money-market fund regulated under Rule 2a-7 or (iii) the counterparty is a pension fund or retirement system created by a government entity, whether non-U.S. or domestic and approved by the CIO.
- e. **Securities lending** – When securities lending activity is performed by an external third-party lending agent, Investment Division will examine the credit underwriting practices of the lending agent, including enforcement of collateral requirements, counterparty analysis, and surveillance. Additionally, Investment Division will periodically review the securities lending lines by counterparty. A securities lending agent must be either (i) an organization rated A- or better by a NRSRO or (ii) insured by an organization rated A- or better by an NRSRO and execute a securities lending agreement as required by applicable law. More detailed information about TRS securities lending activities is specified in the separate Securities Lending Policy.

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## 10.4. Liquidity Risk Management

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The objective of Liquidity Risk Management is to ensure that the Fund maintains ample liquidity to meet its funding requirements. The two kinds of requirements which necessitate prudent liquidity are:

- a. Disbursements of benefits and related obligations to plan participants, including retirement, death, health, and disability benefits payments.
- b. TRS investment activities: These are mainly associated with risk management and funding of External Managers and Private Funds. Some examples include:
  - i. Use of derivative instruments requires liquidity for collateral, margin and payment obligations at the time of a reset, call or maturity;
  - ii. TRS funds accounts managed by External Managers; and
  - iii. TRS manages unfunded capital commitments that the Fund is legally obligated to fund when called by general partners.

### External Funding Authority

The Investment Division is authorized to establish external funding mechanisms (such as master repurchase agreements with one or more counterparties) and the flexibility to operate in all types of market liquidity environments to allow prudent

management of these funding requirements while achieving a long-term rate of return and adhering to the asset allocation limits outlined in this Policy. In addition to these external funding mechanisms, TRS will maintain adequate funds in its custodial account to cover investment-related obligations. Finally, the Board authorizes the Investment Division to access the cash holdings backing OTC swaps to manage its commitments.

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## 10.5. Operations Risk Management

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- a. **Overdrafts** – The Investment Division will monitor the frequency and costs associated with all overdraft activity.
- b. **Custodial Bank(s)** – The Investment Division will conduct on-site due diligence to review the operational controls set in place by all custodial banks. The Investment Division will also consider the extent of remedies provided by the custodian and its overall ability to fulfill its commitments should operational failures occur.

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## 10.6. Settlement Risk Management

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The Investment Division will monitor unsettled trade activity by counterparty and instrument type.

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## 10.7. Legal Risk Management

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Legal documentation for all accounts, investment subscriptions, External Managers, investments in Private Investment Funds, and derivatives will be reviewed, negotiated and approved for TRS execution by internal or external legal counsel, or both. The Investment Division, in consultation with Legal and Compliance, will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. The Investment Division will seek the assistance, review, and advice of legal counsel whenever it is prudent to do so. Legal and Compliance has primary responsibility for the engagement of outside legal counsel for investment matters, subject to applicable statutes and rules adopted by the Office of the Attorney General.

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## 10.8. Risk Management Compliance Cure Periods and Remedies

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**Passive violations** – A passive violation occurs when the portfolio breaches a prescribed policy limit as the result of changing market or credit conditions. The Investment Division will report the violation to the Board and will remedy the violation within 90 days of the violation or prepare a written action plan that must be approved by Board resolution to extend the cure period beyond 90 days.

**Active violations** – An active violation is caused by entering into an agreement or investment that breaches a policy limit at inception or thereafter through failure to monitor. In this case, a thorough analysis of controls will ensue and be reported to the CIO, the Executive Director and the Chair of the appropriate Board committee, as soon as practical, and to the full Board at its next regularly scheduled meeting at which investment matters will be discussed. The Investment Division will seek to remedy the violation when possible. In instances where the costs of immediate remedies are prohibitive, the Investment Division will develop a corrective action plan that will be submitted to the CIO within a reasonable time after the violation occurs, not to exceed 15 days, depending on the nature and complexity of the investment holding and transactions needed to remedy the violation. The Board will be apprised of the violation at its next regularly scheduled meeting along with the corrective action plan.

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## 10.9. Permitted Sources of Leverage Financing

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The Investment Division is authorized to use the following in order to create Strategy or Asset Allocation Leverage:

- a. Derivative strategies in accordance with the risk parameters established by the asset allocation ranges of this Policy and applicable legal restrictions;
- b. Short sales in accordance with this Policy;
- c. F/X hedging in accordance with this Policy;
- d. Risk Parity investments in accordance with this Policy;
- e. Embedded leverage within the Total Fund's Private Fund investments; and
- f. Collateralized fundings including securities lending activities, pledges, repurchase and reverse repurchase agreements and other external funding mechanisms.

Leverage will not be used to exceed the risk parameters established by the asset allocation ranges of this Policy.



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## ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO

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### 11.1. Health Insurance Program Portfolio Objective

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The primary objective of the Health Insurance Program Portfolio is to preserve capital through investment in conservative, short-term securities.

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### 11.2. Authorized Investments for the Health Insurance Program Portfolio

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Section 404.024, Texas Government Code describes the Authorized Investments employed by the comptroller when he or she invests state funds. The Investment Division shall employ this list of Authorized Investments when the Investment Division invests the Health Insurance Program Portfolio.

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## ARTICLE 12 – INVESTMENT INTEGRITY POLICY

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### 12.1. Scope

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The Investment Integrity Policy (the “IIP”) applies to all TRS investment transactions, including without limitation new agreements (including SPACs, follow-on funding and co-investments), sales or transfers of investment interests, increases in funding or capital commitment to an existing relationship or fund, or an amendment that increases management fees or compensation under an agreement. This IIP does not apply to Direct Investments or transactions in publicly traded securities.

The IIP also applies to attempts to influence TRS investment decisions through contacts with TRS trustees, or contacts with, or political contributions made for the benefit of, one or more Texas Candidates or Elected Officials, and also applies to contacts with persons employed by any such candidate or official.

If any provision of the IIP conflicts with a provision of another policy adopted by the Board, the stricter provision shall apply.

This Article 12 does not apply to direct TRS engagements of Consultants and agents in connection with buying or selling privately issued investment interests in the secondary market. A seller in a secondary market transaction is not required to complete an Investment Integrity Questionnaire if the transaction’s closing documents include appropriate representations, warranties and covenants as to the matters addressed in this Article 12 and the Investment Integrity Questionnaire.

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### 12.2. Purpose

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The purpose of the IIP is to ensure the integrity of all TRS investment transactions and decisions and conformity with the highest fiduciary, ethical, and legal standards by all parties involved. All investment decisions made by the Board and the Investment Division must be based solely on the merits in conformity with fiduciary standards and applicable law. All advice and investment recommendations made by Consultants must be based solely on the merits after the necessary due diligence. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

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### 12.3. Philosophy

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The Board desires that the Investment Division obtain full disclosure of all matters having the potential to harm TRS’s reputation or the integrity of TRS’s investment processes, or that could constitute unethical or unlawful conduct during the investment due diligence process.

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## **12.4. Required Disclosures and Questionnaire**

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All external Fund or Manager Parties and if applicable, all Placement Agents that will receive a Placement Fee in connection with an investment or commitment by TRS, shall provide true and complete written responses to the questionnaire attached hereto as Appendix E prior to IIC consideration or other investment authorization. The Executive Director is authorized to approve such revisions to Appendix E from time to time as he or she deems to be in the best interest of TRS and consistent with the IIP.

In addition, all Fund or Manager Parties who disclose the involvement of a Placement Agent shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The Investment Division shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The Investment Division shall provide all prospective Fund or Manager Parties with a copy of the IIP and the Appendix E questionnaire upon commencement of due diligence.

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## **12.5. Contractual Representations, Warranties, and Covenants**

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Each Fund or Manager Party shall represent and warrant to TRS in the executed closing documents for the transaction that its responses to Appendix E to this Policy and any supplemental inquiries are true, correct, and complete in all material respects as of the closing date, and shall also covenant to update or correct any such responses within 10 business days of becoming aware of any change in the responses. The obligation to update responses survives the closing of the relevant investment transaction.

In addition, each Placement Agent shall fully disclose the terms of its arrangements with a Fund or Manager Party for payment of a Placement Fee and any political contributions by the Placement Agent to any Texas Candidates or Elected Officials, and shall certify as to the matters addressed in Appendix E, as applicable, to TRS in a writing executed by an authorized officer that the disclosures required by the IIP are true and complete in all material respects.

A Placement Agent must agree in writing to pay to TRS a sum equal to its Placement Fees relating to TRS's investment if the Placement Agent's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

A Fund or Manager Party using a Placement Agent must agree in writing to pay to, credit to TRS's capital account, or offset TRS's management fees or outstanding funding commitment with, a sum equal to the Placement Fees due to the Placement Agent with respect to TRS's investment agreement or commitment if the Fund or Manager Party's certifications, representations, warranties, or questionnaire responses are untrue or misleading.

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## **12.6. Prohibitions**

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Neither TRS nor any TRS investment shall be burdened with or liable for any Placement Fee. No TRS investment may be made if the transaction involves either (a) a Placement Agent who is not registered with either of the Securities and Exchange Commission or the Financial Industry Regulatory Authority ("FINRA"), or (b) the sharing of a Placement Fee with a non-registered person or entity. No TRS investment may be made if an authorized officer or the board, in consultation with legal counsel, determines that a disclosed contact with a Board member or Texas Candidate or Elected Official, or a

contribution to a Texas Candidate or Elected Official, has created an unacceptable risk to the integrity and reputation of the TRS investment program or has been made in violation of a TRS policy or applicable law. A contact-based referral, without more, by a TRS trustee of either an investment opportunity or a Manager or Fund Party contact to the Executive Director, or Chief Investment Officer does not constitute such a risk or a violation of the IIP.

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## 12.7. Reporting

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The investment staff shall compile all responses to the questionnaire and report the results to the Board at least semi-annually. Reports shall include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Candidate or Elected Official, as applicable.

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## 12.8. Definitions

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**Affiliate** – means a person or entity controlled by or under common control with another person or entity.

**Direct Investment** – means any private placement investment where TRS is a purchasing signatory to a binding securities purchase agreement or any similar acquisition agreement (including an option or rights agreement to acquire such securities in the future), and when delivered, intends to hold the restricted securities directly in the TRS custodian bank.

**Fund or Manager Party** – means any person or entity offering, sponsoring, proposing, or soliciting a TRS investment transaction or opportunity, purchase or sale of securities, investment contract, investment management agreement, or commitment, and includes:

- a. As to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm;
- b. As to an external investment manager to be engaged to invest TRS assets pursuant to an investment management agreement, the investment management entity and the parent of such asset management entity; and
- c. As to a private company or similar issuer in a direct or principal investment in securities of the issuer, the entity and an agent, representative, broker or investment bank, officer, director, trustee, manager, or employee of the company or issuer involved.

Without limiting the foregoing, Fund or Manager Party includes any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection with a prospective TRS investment. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under the IIP.

**Placement Agent** – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee in connection with a TRS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent's Placement Fee is also deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, agent, owner, officer, shareholder, director, managing member, or employee of the first Placement Agent. For the avoidance of doubt, a finder, broker-dealer, originator, fundraiser, financing arranger, or investment bank receiving a Placement Fee is a Placement Agent. An underwriter in a registered offering is not a Fund or Manager Party or Placement Agent under this policy.

**Placement Fee** – includes any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a party other than the relevant Fund or Manager Party in connection with a TRS investment, agreement or commitment. An underwriting fee or discount charged in a 144A or registered public offering of securities is not a Placement Fee.

**Relative** – means a spouse (including an ex-spouse), parent, child (including adopted), sibling, niece, nephew, aunt, or uncle.

**SPAC** – means a "special purpose acquisition company" with no commercial operations that is formed to raise capital through an initial public offering for the purpose of acquiring an existing company, whether or not pre-identified.

**Texas Candidate or Elected Official** – includes any candidate for a statewide office or an elected official of the State of Texas, including the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, and also includes a campaign fund or political action committee, or PAC organized for or on behalf of a Texas statewide candidate or elected official, and any Relative of a Texas statewide candidate or elected official. This definition does not apply to candidates for, or elected officials holding, offices in counties, municipalities, or other local subdivisions of the State of Texas, to state or local judicial candidates or offices of the State of Texas, or to any federal office or judicial position. A candidate for an elective federal office who holds a statewide office is deemed to be a Texas Candidate or Elected Official for purposes of this policy.

**TRS Person** – means any person listed on Exhibit A attached to Appendix E to this Policy or to any other due diligence document, and includes without limitation any current or former TRS board member, Executive Director, Deputy Director, Chief Financial Officer, Investment Division or Legal and Compliance employee, any investment consultant or actuary, any outside counsel engaged by TRS, and any Relative of a TRS Person, whether or not listed on an Exhibit A, TRS Persons.

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**APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)<sup>1</sup>**

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	<b>Neutral</b>
Equity (USA)	300
Equity (International; Non-US Developed, EAFE)	300
Equity (International; Emerging Markets)	300
Equity (World Equity)	300
Stable Value Hedge Funds	400
Risk Parity	400

	<b>Neutral</b>	<b>Maximum</b>
Government Bonds		300
Total Public Fund Tracking Error	100	300

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<sup>1</sup> Tracking error will be measured on a realized basis over a three year period.

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## APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS

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Allocations to a single manager organization may only exceed the limits specified in this Appendix B with the prior authorization of the Board.

Article Affected	Portfolio	Initial Allocation or Commitment with Manager, by Portfolio	Additional or Follow-On Allocation or Commitment with the same Manager, by Portfolio	Total Manager Organization Market Value Limits, by Portfolio	Total Manager Organization Exposure Limits, by Portfolio
2	Public Markets Portfolios	0.5%	1%	3%	5%
4.2	Private Equity Portfolio	0.5%	1%	3%	5%
5.2	Real Estate Portfolio	0.5%	1%	3%	5%
6.2	Energy, Natural Resources and Infrastructure Portfolio	0.5%	1%	3%	5%
Total IIC Approval Authority, each Manager Organization				6%	10%

All allocation or commitment limits are expressed as a percentage of the Total Fund value and are to be calculated as of the date the applicable investment is approved by the IIC or other investment authorization. Exposure is defined as the sum of the market value and unfunded commitments for the purposes of Appendix B. All external investments must be assigned to one of the four portfolios at the time of approval. For the purposes of the Manager Organization Market Value Limit, market value is based on the most recent month-end values provided by the custodian and does not include the proposed investment under consideration.

“Affiliate” means any person directly or indirectly controlling, controlled by, or under common control with, another person. A “manager organization” includes its Affiliates without regard to the names of the entities. The Chief Compliance Officer will be responsible for determining the manager organization’s Affiliates that are applicable for the above limits.

The percentage limit for additional or follow-on allocations or commitments applies to each additional or follow-on allocation or commitment by a listed portfolio to a manager and is in addition to, and not cumulative of, the limit specified for initial allocations or commitments. By way of example, if a portfolio initially allocates 0.2% of the Total Fund to a manager, the portfolio may thereafter allocate or commit up to 1.0% in a single additional or follow-on allocation or commitment to the same manager for a total of 1.2% allocated or committed to the same manager (0.2%+1.0%). If a portfolio initially allocates 0.2%, then makes an additional allocation or commitment of 0.8%, and desires to make a further additional or follow-on allocation to the same manager, the applicable limit for the further additional or follow-on allocation is 1.0% of the Total Fund, for a total of 2.0% allocated or committed to the manager (0.2%+0.8%+1.0%). All investments occurring in the six months prior to the follow-on investment, co-investment or additional investment shall be included in the calculation of the percentage limits. If the initial investment occurred less than six months prior to the current investment, the initial allocation limit of 0.5% rather than the follow-on allocation limit of 1.0% will apply.

In calculating the available limits, returned capital is excluded from the sum of existing total allocations or commitments. Committed capital is included during the applicable investment period of a fund without regard to whether the commitment amount is funded or unfunded or the fund is open-ended. Capital that has been returned but that is subject to recall by a Private Investment Fund is considered to be committed or allocated for the purposes of the limits in this Appendix B.

Authority for Special Investment Opportunities. Notwithstanding the limits set forth in this Appendix B, the CIO may designate an investment opportunity as a “Special Investment Opportunity” if the circumstances indicate a reasonable probability that a rapid investment response will be required in order for TRS to acquire the investment in excess of the limits on Investment Division authority set forth in this Appendix B. Circumstances requiring a rapid response may include, but are not limited to, distressed situations or market dislocations creating opportunities to acquire interests or assets at pricing that

indicates a reasonable probability that the interests or assets are undervalued or will increase in value. The CIO shall notify the Executive Director as promptly as possible of the Special Investment Opportunity. The CIO and the Executive Director shall consult with the Chair of the Board and the Chair of the Investment Management Committee and determine if it is not practicable to present the opportunity for consideration by the Board. If the opportunity will not be added to an agenda, and the CIO and the Executive Director conclude that the investment would be in the best interests of TRS, the CIO and the Executive Director may authorize and conclude an investment up to \$1 billion in that Special Investment Opportunity.

After one investment in a Special Investment Opportunity has been made, no further investment in a Special Investment Opportunity may be made until the Board has reauthorized the CIO’s authority to designate a Special Investment Opportunity. Such reauthorization shall renew the CIO’s and the Executive Director’s authority to invest up to \$1 billion in a Special Investment Opportunity under this provision.

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**APPENDIX C – CURRENCY HEDGE RATIOS**

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<b>Portfolio</b>	<b>Currency Hedge Ratio</b>
Public Markets Portfolios	0%
Private Markets Portfolios	0%



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## APPENDIX D – GENERAL AUTHORITY RESOLUTION

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Board of Trustees

General Authority Resolutions Adopted July 14, 2022

### Investment Group

**Resolved,** That Investment Division employees holding the following TRS working titles are members of the “Investment Group”:

<b>Chief Investment Officer</b>	<b>Managing Director</b>
<b>Senior Managing Director</b>	<b>Director</b>
<b>Senior Director</b>	

**Resolved further,** That the Executive Director is authorized and directed to designate in writing those individual members of the **Investment Group** who are authorized within the investment areas designated by the Executive Director, in addition to the Chief Investment Officer, to take any one or more of the following actions authorized below in accordance with these resolutions until the authority is revoked.

**Resolved further,** That the Executive Director is authorized and directed to designate in writing, by investment area and category or item designation, the specific authorities granted to each authorized member of the **Investment Group**, until the authority is revoked.

#### A. General Authority for Investment Matters other than Derivatives

**Resolved further,** That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- A.1. Buy, sell, or give orders or instructions for transactions in currencies and securities, and any amendments or modifications of such orders or instructions.
- A.2. Direct Investment Operations personnel to deliver, pay, expend, or receive cash, currencies, monies, securities (including restricted or Rule 144A securities) in connection with a contract to buy or sell securities.
- A.3. Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of securities transactions.
- A.4. Direct Investment Operations personnel to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; and to instruct other cash movements, including movements of cash to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

Notwithstanding any provision of this Section A, authority granted under this Section A does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

#### B. Investment Contracting Authority other than Derivatives

**Resolved further,** That the Chief Investment Officer and any other member of the **Investment Group** designated by the Executive Director as having such authority, in addition to any other authority expressly designated by the Executive Director under these resolutions, may act on behalf of TRS to:

- B.1. Make, execute, deliver, waive, modify, amend, renew, extend, assign, terminate, or transfer, in each case in writing, investment- related documents, including without limitation, written contracts, investment management agreements, subscription agreements, capital commitments, account

agreements, consents, certificates, powers of attorney, notes, deeds, security agreements, pledges, mortgages, endorsements, directions and instructions to amend, modify, fix, and execute written investment guidelines in investment management agreements with External Managers and fund managers, and any and all documents necessary or proper to effectuate the authority granted in this Section B.1.

- B.2.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute investment fund redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash or securities to a TRS account by a third-party fund, External Manager, account, debtor, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements, side letter agreements, or other investment-related documents executed by TRS in connection with a new investment, and any amendments or modifications to such documents and agreements other than redemption and withdrawal notices and corresponding instructions for the transfer or delivery by wire or physical transfer of cash or securities.

Notwithstanding any provision of this Section B, the authority granted under this Section B does not extend to transactions in derivatives, which are governed exclusively by Section C of these resolutions.

### **C. Derivatives Authority**

**Resolved further**, That the Chief Investment Officer and any member of the **Investment Group** who is designated by the Executive Director as a member of the derivatives team, in addition to any authority expressly designated by the Executive Director under these resolutions is authorized may act on behalf of TRS to:

- C.1.** Negotiate, make, fix, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, documents related to derivatives transactions, including without limitation, master agreements, schedules, credit support annexes, collateral-management agreements, transaction confirmations, account agreements, and clearing agreements, and deliverables relating to such documents and agreements.
- C.2.** Make, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, disclosures, questionnaires, elections, certifications, or other administrative documents and deliverables related to derivatives accounts or transactions.
- C.3.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute, amend, modify, or terminate documents, directions, and instructions to deliver and pay cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.4.** Direct Investment Operations personnel to receive cash, currencies, monies, or securities, to margin, collateralize, or settle derivatives transactions.
- C.5.** Buy, sell, or give orders or instructions for transactions in derivatives, and any amendments or modifications of such orders or instructions.
- C.6.** Give directions and instructions to members of the **Trading Group** or External Managers relating to execution, brokerage, clearing or settlement of derivatives transactions.

### **Financial Group**

**Resolved further**, That the “**Financial Group**” comprises employees holding the following TRS working titles:

<b>Chief Financial Officer</b>	<b>Senior Director of Investment Accounting</b>
<b>Deputy Chief Financial Officer</b>	<b>Manager of Investment Accounting</b>
<b>Director of Accounting Operations</b>	<b>Director of Budget and Financial Analysis</b>

**Resolved further**, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Investment Group** or the **Executive Group**, to execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, margin, or securities to a TRS account by a third-party fund, account, debtor, or derivatives counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements and any amendments to subscription agreements or side letter agreements.

**Resolved further,** That each member of the **Financial Group** is authorized and empowered on behalf of TRS, to execute authorizations to fund subscribed investment funds or capital called by investment funds; transfer funds or assets between custodial accounts, including External Manager separate accounts; transfer funds to pay fees under an investment contract; instruct other cash movements, including movements of assets to and from custodial accounts held by the Comptroller of Public Accounts and transfers of assets in kind for investment under an investment contract.

**Resolved further,** That each member of the **Financial Group** is authorized and empowered on behalf of TRS to authorize and direct members of the Investment Accounting team to verify or confirm to a custodian or prime broker any order for the transfer or delivery of currencies, monies, securities, or contracts to any other person.

### **Executive Group**

**Resolved further,** That the “**Executive Group**” comprises employees holding the TRS working titles of Executive Director and Deputy Director, and each member of the **Executive Group** is authorized and empowered to perform, with respect to a particular matter or transaction, any and all of the acts that any and all employees in the **Investment Group** or the **Financial Group** are authorized to perform, except that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

### **Trading Group**

**Resolved further,** That the “**Trading Group**” comprises the employees holding the following TRS working titles: Managing Director, Director, and Trader. Each member of the **Trading Group** is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix, and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell securities, derivatives, forward contracts, or currency.

### **Fixed Income, Currency, and Commodities Trading Group**

**Resolved further,** That the “**Fixed Income, Currency, and Commodities (“FICC”) Trading Group**” comprises the employees holding the following TRS working titles: FICC Trader. Each member of the FICC Trading Group is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell fixed income securities, derivatives, forward contracts, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell fixed income securities, derivatives, forward contracts, or currency.

### **Chief Compliance Officer**

**Resolved further,** That the “**Chief Compliance Officer**” is authorized and empowered on behalf of TRS to take the following actions: to execute and deliver compliance-related disclosures, reports, filings, and certifications and, with the Chief Investment Officer and Executive Director’s approval, to develop, disseminate and collect disclosure forms to monitor the requirements of the Investment Policy Statement.

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## APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

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Investment Name:

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Name of Responding Entity:

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Responding Entity Type:

- ☐ Fund or Manager Party  
☐ Placement Agent

Completed by:

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*Note: TRS may require completion of a new questionnaire or updating of responses at any time, including as of the closing date for any transaction investment or additional funding. All questions must be answered.*

*All capitalized terms have the meaning set forth in Article 12 of the Investment Policy Statement, which is available at:*

[https://www.trs.texas.gov/TRS Documents/investment\\_policy\\_statement.pdf](https://www.trs.texas.gov/TRS Documents/investment_policy_statement.pdf)

**1. Contacts with Texas Candidates and Elected Officials; Political Contributions.**

- A. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Candidate or Elected Official in connection with a prospective investment transaction with a Texas state investment entity, including TRS? If the answer is “yes,” please attach a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including TRS. For purposes of this question, “person” includes (i) any Affiliate, principal, owner, agent, manager, officer, majority or controlling shareholder, director, managing member, or employee having authority to legally bind or otherwise act under actual or apparent authority on behalf of a Fund or Manager Party in connection with a prospective TRS investment, and (ii) any “covered associate” as defined under Rule 206(4)-5 of the Investment Advisers Act of 1940.

**YES, see attachment**

**NO**

- B. Has any person (as defined above) made political contributions during the past three years to any candidate for, or incumbent holding, any of the following elective offices in Texas: governor, lieutenant governor, attorney general or comptroller of public accounts?

**YES, please describe**

**NO**

- C. Is any person (as defined above) a registered lobbyist in the State of Texas?

**YES, please describe**

**NO**

- 2. Contacts with TRS Board Members.** Has any person lobbied or otherwise communicated on behalf of one or more of the Fund or Manager Party, or, if applicable, the Placement Agent with a current or former member of the TRS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the TRS investment staff or a TRS advisor or consultant to

recommend that TRS invest? If the answer is “yes,” please attach a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

**YES, see attachment**

**NO**

**3. Placement Agents and Placement Fees.** Is or was the Fund or Manager Party, or if applicable, the Placement Agent, a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent (or any other Placement Agent) with respect to the investment named at the top of this questionnaire? For the avoidance of doubt, a broker-dealer (among other entities) affiliated with a Fund or Manager Party is a Placement Agent as defined by Article 12 of the Investment Policy Statement. If any questions remain, reach out to your contact at TRS.

**YES**

**NO**

**If the answer to 3 is “NO,” skip to the certification and signature block.**

**4. If the answer to 3 is “YES,”** will a Placement Fee be paid in connection with TRS’s investment in the named investment?

**YES, please describe**

**NO**

**If the answer to 4 is “NO,” skip to the certification and signature block.**

**5. If the answer to 4 is “YES”:**

- A. Please attach list of the name(s) of the person or entity acting as a Placement Agent with a copy of the written agreement or a summary of the agreement creating the obligation to pay a Placement Fee in connection with TRS’s investment. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.
- B. Will or did any TRS Person or any Relative of a TRS Person receive, has any such person received, or might any such person receive a “Placement Fee” in connection with TRS’s investment? If the answer is “yes,” please list the name or names of the TRS Person or Relative of a TRS Person and provide details about the terms of the Placement Fee.

**YES, see attachment**

**NO**

- C. Will or did any Texas Candidate or Elected Official or a Relative of a Texas Candidate or Elected Official receive a Placement Fee in connection with TRS’s investment? If the answer is “yes,” please state in an attachment the name or names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

**YES, see attachment**

**NO**

- D. Is the Placement Agent, or any of its Affiliates, registered as a lobbyist in the State of Texas? If so, attach a list of the legal names of the entity and the individual registrants.

**YES, see attachment**

**NO**

- E. Is the Placement Agent or any of its Affiliates registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States? Provide an attachment stating the details about each such registration or explaining why registration is not required.

**YES, see attachment**

**NO**

- F. Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former TRS Person, either (1) recommend the Placement Agent or (2) receive a share of a Placement fee or any other economic benefit in connection with TRS's investment, whether directly or indirectly through a Placement Agent engaged by you? If the answer to this question 5.F is "yes," please attach the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment, stating whether the person or entity is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association (or a similar agency outside the United States).

**YES, see attachment**

**NO**

- G. **Will TRS be burdened with or liable for any Placement Fee in connection with TRS's investment in the named investment?**

**YES**

**NO**

**The undersigned certifies, represents and warrants on behalf of the Fund or Manager Party or Placement Agent(s), as applicable, that (a) it has reviewed and understands Article 12 of the TRS Investment Policy Statement ("Article 12") received with this Questionnaire, and agrees to abide by Article 12's requirements, including the payment obligations in Section 12.5, (b) to the best of its knowledge after due inquiry, its responses to this Questionnaire are true and complete and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (c) no other statements or representations, if any, whether oral or written, made by or on behalf of the Fund or Manager Party, or Placement Agent(s), as applicable, relating to Article 12 and this Questionnaire in connection with TRS's due diligence inquiries or the subject investment transaction were untrue or misleading in any material respect when they were made. The undersigned acknowledges and agrees that in addition to the express remedies required in Article 12 and the transaction documents, which are not intended to be exclusive, TRS reserves all other remedies available to it in law and equity with respect to any untrue or misleading statement. The undersigned agrees to update any such information within 10 business days of becoming aware of any changes or corrections to the responses. The update obligation survives the closing of the investment.**

Name of Fund or Manager Party or Placement Agent:

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By:

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Name:

Title:

Date:

Attachment: Exhibit A, TRS Persons

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## APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION

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- A. External Advisory Committees or Boards and Board Observers.** A TRS investment-related agreement may provide that an Investment Division employee may represent TRS by serving:
1. On an advisory committee, advisory board, or similar advisory body to a TRS investment vehicle, whether the position is voting or non-voting; or
  2. As a non-voting TRS observer at meetings of the governing body of an investment vehicle, including a business entity, in which TRS has an interest.
- B. Board Representation by a TRS Employee.** A TRS investment-related agreement may provide for TRS representation on the governing body of a non-public (private) or a publicly-traded business entity in which TRS holds a direct or indirect investment interest.
- 1. Requirements:**
    - a. The TRS employee representative may not serve in a position that under applicable law has general liability to third parties, such as a general partnership position.
    - b. The TRS employee representative must comply with internal policies and procedures relating to board representation, including recusal, notice and training requirements.
    - c. An agreement for TRS representation on an external governing body must be in writing and, to the extent possible, address limitations on capacity and fiduciary duties, liability insurance, indemnification, recusal requirements, travel payments or reimbursements, and perquisites provided to persons on the governing body in the entity's ordinary course of business.
    - d. Duties that an employee owes to TRS must be primary. TRS employees representing TRS must comply with recusal determinations made by the Executive Director in consultation with the Chief Compliance Officer and the General Counsel.
    - e. The external entity's insurance and indemnification will be primary relative to any available TRS liability and indemnification coverage.
    - f. If compensation or reimbursement of expenses will be paid, the agreement must require payment of any compensation or reimbursement directly to TRS.
  - 2. Qualification:** A TRS employee representative must hold one of the following TRS titles to be eligible to serve: Senior Investment Manager, Director, Senior Director, Managing Director, Senior Managing Director, or CIO.
  - 3. Authorization:**
    - a. For a non-public (private) entity the CIO in consultation with Legal and Compliance, must authorize an employee to serve.
    - b. For an entity that has issued publicly-traded securities, the CIO and the Executive Director, in consultation with Legal and Compliance, must authorize an employee to serve.
    - c. The CIO may not serve on an external governing body without prior authorization from the Executive Director.
- C. Board Representation by a Non-Employee Independent Third Party.** A TRS investment-related agreement may grant TRS a contractual right or option to appoint, nominate, remove, or replace a non-employee independent third party to serve on the governing body of a business entity in which TRS has or will have an investment interest.
- 1. Requirements:**
    - a. A third-party may not be TRS's agent and shall have full discretion when voting as a member of the governing body.



- b. TRS will not insure or indemnify any third party representative.
- 2. **Qualification:** The third party must be free of conflicts of interest. TRS will require delivery of a background check from a reputable investigatory firm.
- 3. **Authorization:** The third party must be approved by the head of the applicable investment area or the CIO, in consultation with the Executive Director.

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## DEFINITIONS

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In this Policy,

**Consultant** means a person or entity engaged by the Investment Division pursuant to a defined scope of work to provide studies, assistance, investment management services, due diligence services, and advice relating directly to investment transactions, activities and processes. This definition does not affect any definitions in the Code of Ethics for Contractors.

**Custom benchmark** means a benchmark created for or specified in an investment vehicle or IMA that is not a Policy Benchmark. Investment guidelines for a vehicle or IMA may include one or more custom benchmarks. Inclusion of a custom benchmark in an IMA does not modify the investments authorized in this Policy.

**External Manager** means an investment adviser engaged pursuant to an investment agreement to invest TRS assets on a discretionary basis pursuant to contractual guidelines negotiated, prescribed or controlled by TRS. A manager or general partner of a Private Fund is not an External Manager.

**Trust or Fund** means the overall investment portfolio, including cash and cash equivalents.

**Fund Policy Benchmark** is a target allocation-weighted aggregation of the individual Policy Benchmarks according to Section 1.6.

**Investment Management Agreement or IMA** means a contract between TRS and an External Manager for the discretionary investment of TRS assets in securities according to specified guidelines. The account managed by an External Manager is sometimes referred to as a separate account.

**Policy Benchmark** means the relevant benchmark for an asset class listed in the allocation table in Section 1.6.

**Private Investment Fund or Private Fund** means any non-publicly traded limited liability investment vehicle aggregating investment capital for reinvestment, including without limitation reinvestment of capital in private companies, other investment funds, real estate, debt instruments, derivatives, commodities, or publicly traded securities. Private Funds generally issue Restricted Securities to investors through private placements.

**Publicly traded securities** means securities that trade on a national securities exchange or in an over-the-counter market through broker-dealers who make a market in securities.

**Restricted Securities** means securities acquired under an exemption from registration under the securities laws, such as through private placements, 144A offerings, or Regulation D offerings. Restricted Securities may not be transferred unless they are registered or are exempt from the registration requirements. SEC Rule 144(a)(3) lists types of transactions in which Restricted Securities occur. Privately offered limited partnership and limited liability company interests are usually Restricted Securities.

**Securities** has the meaning assigned in Section 825.301(a). Whether notes, local access products, warrants or other financial instruments or contracts are securities requires legal analysis.

**TAB 4**



# Legal & Compliance: Proposed GAR Modifications



**TRS Compliance**  
September 2023

# Proposed GAR Modifications

- Addition of Investment Operations Group

## **Investment Operations Group**

**Resolved further**, That the “**Investment Operations Group**” comprises the employees holding the following TRS working titles: Managing Director, Senior Director, and Director.

**Resolved further**, That each member of the **Investment Operations Group** is authorized and empowered on behalf of TRS, jointly with an authorized member of the **Financial Group**, to authorize transfer of funds to pay fees under an investment contract for (i) research, data, and software for all investment areas, (ii) cloud computing services for all investment areas, (iii) investment consulting, tax, advisory, valuation, and benchmark services, and (iv) investment custodian services (e.g., custody fees, uncleared margin rule (UMR) fees, and securities lending fees).

**Resolved further**, That each member of the **Investment Operations Group** is authorized and empowered on behalf of TRS to make, execute, waive, amend, modify, renew, extend, transfer, assign, endorse, or terminate, in each case in writing, disclosures, questionnaires, elections, certifications, or other administrative documents and deliverables related to transactions in currencies, securities and derivatives.

**Resolved further**, That each member of the **Investment Operations Group** is authorized and empowered on behalf of TRS to approve operational instructions for the settlement of offsetting positions in repurchase agreements (i.e., repo “pair-offs”), provided that such operational instructions are limited to the movement of cash or collateral to settle the portfolio manager instruction to purchase or sell.



# Proposed GAR Modifications (continued)

- Update to Executive Group

## **Executive Group**

*Resolved further,* That the “**Executive Group**” comprises employees holding the TRS working titles ~~of: Executive Director and, Deputy Director, and Assistant Deputy Director, and e~~ Each member of the **Executive Group** is authorized and empowered to perform, with respect to a particular matter or transaction, any and all of the acts that any and all employees in the **Investment Group** or the **Financial Group** are authorized to perform, except that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

- Update to Compliance Group

## **~~Chief Compliance Officer~~Group**

*Resolved further,* That the “**Compliance Group**” comprises the employees holding the following TRS working titles: “Chief Compliance Officer”, Senior Compliance Counsel, and Senior Compliance Officer. The **Compliance Group** is authorized and empowered on behalf of TRS to take the following actions: to execute and deliver compliance-related disclosures, reports, filings, and certifications and, with the Chief Investment Officer and Executive Director’s approval, to develop, disseminate and collect disclosure forms to monitor the requirements of the Investment Policy Statement.

**TAB 5**



## Memorandum

DATE: September 14, 2023

TO: Policy Committee of the TRS Board of Trustees ("Policy Committee")

FROM: Shunne Powell, Chief Organizational Excellence Officer

Through: Brian Guthrie, Executive Director  
Andrew Roth Deputy Director

RE: Employment at Will Policy

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### Introduction

At the September 2023 meeting of the Policy Committee ("Committee") of the Board of Trustees ("Board") the Committee will review the Policy on Employment at Will (the "Policy"). The Policy was adopted by the Board in 2010 and was last reviewed in September of 2013. The Policy Review Schedule requires the Policy to be reviewed every ten years.

### Background

Under TRS Board Bylaws Subsection 3.1.5(c) and (d), the Committee must adopt and follow a plan of review to ensure that all written Board policies are reviewed periodically and that the proposed policy changes have been appropriately reviewed. Pursuant to the Policy Review Schedule, the comprehensive review of the Policy is due. The next review of this Policy is scheduled to occur September 2033.

### Considerations for the Committee

TRS Staff has reviewed the Policy and recommends minor revisions related to policy references and conforming to the new TRS policy format. TRS Staff recommends no substantive changes to the Policy. A copy of the proposed Policy is attached as Attachment 1, and a copy of the redlined Policy with changes is attached as Attachment 2.





## Attachment 1

### **TRS Policy Purpose**

### **Employment At Will**

To inform employees of the at-will nature of their employment at TRS.

### **Core Values**

This policy ties to TRS' commitment to its core values, including collaboration and excellence.

### **Applies To**

All TRS employees

### **Definitions**

**At-will employment:** In an at-will employment relationship:

- An employee does not have a contract guaranteeing employment for any period of time.
- An employer can terminate an employee at any time for any reason or no reason at all so long as that reason is not unlawful.
- An employee can resign at any time for any reason or no reason at all.

### **General Statement**

Employees of TRS are employed at-will. This at-will employment relationship can only be modified by a written contract signed by the Chair of the TRS Board of Trustees or his or her designee.

### **Cross Reference/Related Documents**

- Corrective Actions Policy
- Dispute Resolution Policy

Policy Type: Board-Level	First Issued: September 20, 2010
Contact: Michelle Gray	Last Review: September 12, 2013
Department Sponsor(s): Chief Organizational Excellence Officer Shunne Powell	Next Review Due Date: September 12, 2033
Reviewing Department(s): OE, L&C	Version Number: V. 3 (September 2023)
Review Cycle: Every 10 years	Version Approved Date: September , 2023
Intranet Location: Policies and Procedures folder on the TRS Home SharePoint site	



*This policy does not constitute a contract nor a guarantee of employment and may be modified, superseded, or eliminated by TRS without notice to the employee. This policy statement supersedes all previous policy statements on this subject.*



## Attachment 2

### **TRS Policy Purpose**

### **Employment At Will**

To inform employees of the at-will nature of their employment at TRS.

### **Core Values**

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### **General Statement**

Employees of TRS are employed at-will. This at-will employment relationship can only be modified by a written contract signed by the Chair of the TRS Board of Trustees or his or her designee.

### **Cross Reference/Related Documents**

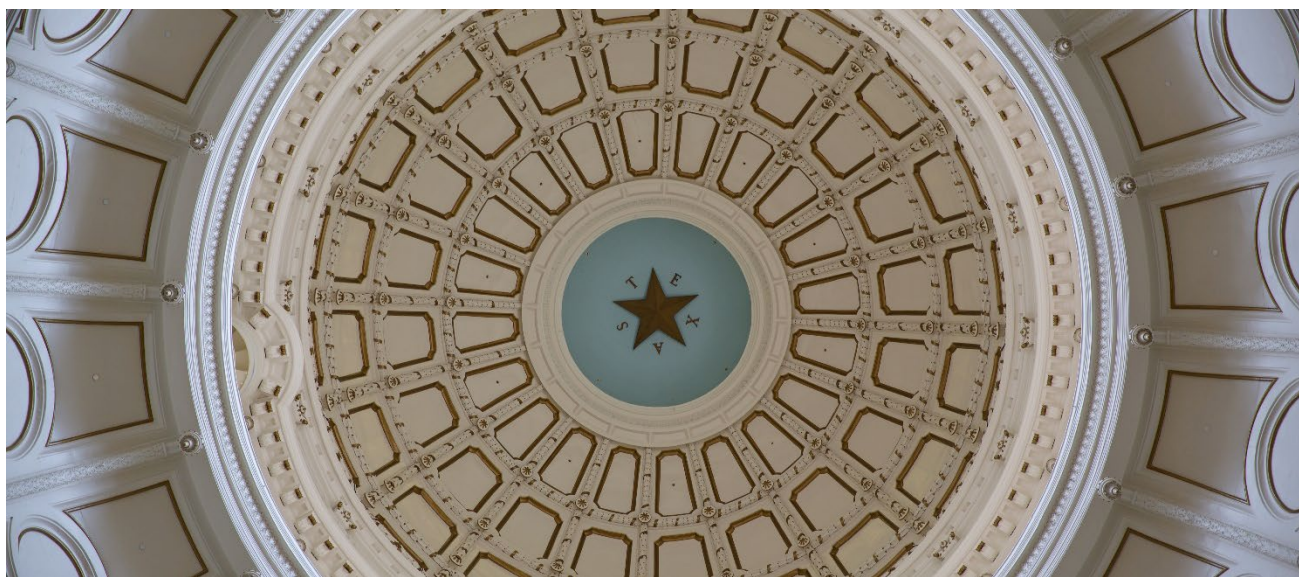
- Corrective Actions Policy
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**TAB 6**



# Legal and Compliance Presentation

Adoption of New Rule:  
TRS Rule 41.53

Heather Traeger, General Counsel & CCO  
Roberto Cortes-Moreno, Director  
Sandy Mitchell, Healthcare Counsel

Sept. 14, 2023



A faint, light blue magnifying glass icon is positioned on the left side of the slide, with its handle extending towards the bottom left and its lens pointing towards the top left. A vertical dotted white line runs along the left edge of the slide, passing through the handle of the magnifying glass.

# Chapter 41 – Proposed New Rule 41.53



# Why does TRS need to propose new rule 41.53?

## The Issue

- TRS-ActiveCare's traditional health plan operates on a plan year that begins on Sept. 1 and ends on the following August 31
- A participating entity must provide notice to participate in the plan by Dec. 31 of the year immediately preceding the next September 1 as of which it intends to enter the plan.
- This creates difficulties for eligible participating entities to transition into TRS-ActiveCare when those entities currently offer a health plan that operates on a plan year that is different.
- Such entities may find it difficult or too costly to terminate their own plans in the middle of their plan year to transition into TRS-ActiveCare.

## The Proposed Solution

- Proposed new §41.53, relating to Special Transitional Plan, exercises the board's authority to create new plans under TRS-ActiveCare by creating a "Special Transitional Plan" ("STP").
- STP will provide an option to facilitate these entities' transition into TRS-ActiveCare by providing a temporary plan to these entities until they can cycle onto traditional TRS-ActiveCare's Sept. 1 plan year.



## Proposed Procedure for a Special Transitional Plan

- Entity must have a health plan year that ends on a date other than Aug. 31
- Entity must file preliminary information 180 days before effective date of its STP
- Entity must formally elect STP no later than 90 days before STP effective date and no later than the Dec. 31 prior to entry into traditional TRS-ActiveCare plan the following September 1
- **Example:** An entity that wants to begin an STP on Jan. 1, 2024, and to enter traditional TRS-ActiveCare on Sept. 1, 2024, must provide election notice by Oct. 1, 2023

## Proposed Procedure for a Special Transitional Plan *(cont.)*

- STP will have same benefits, eligibility, appeal, and expulsion procedures as one or more traditional TRS-ActiveCare options (other than fully insured HMO plans).
- Entity will have two enrollment periods – one for the STP and one for traditional TRS-ActiveCare.
- STP rates charged to an electing entity may be different than traditional TRS-ActiveCare rates.

### New 34 T.A.C. §41.53 – Special Transitional Plan

Will provide an option for certain eligible participating entities that have a plan year that does not align with the TRS-ActiveCare's plan year with the option to join TRS-ActiveCare during its regular plan year through a STP

Such participating entities will also be permitted to provide notice by Dec. 31 to join TRS-ActiveCare's traditional plan as of the following Sept. 1

To provide affordable health insurance options to eligible participating entities that would otherwise find it difficult to enroll in TRS-ActiveCare under the Program's existing rules for electing the Program

**More than 200,000 active employees meet the eligibility criteria**

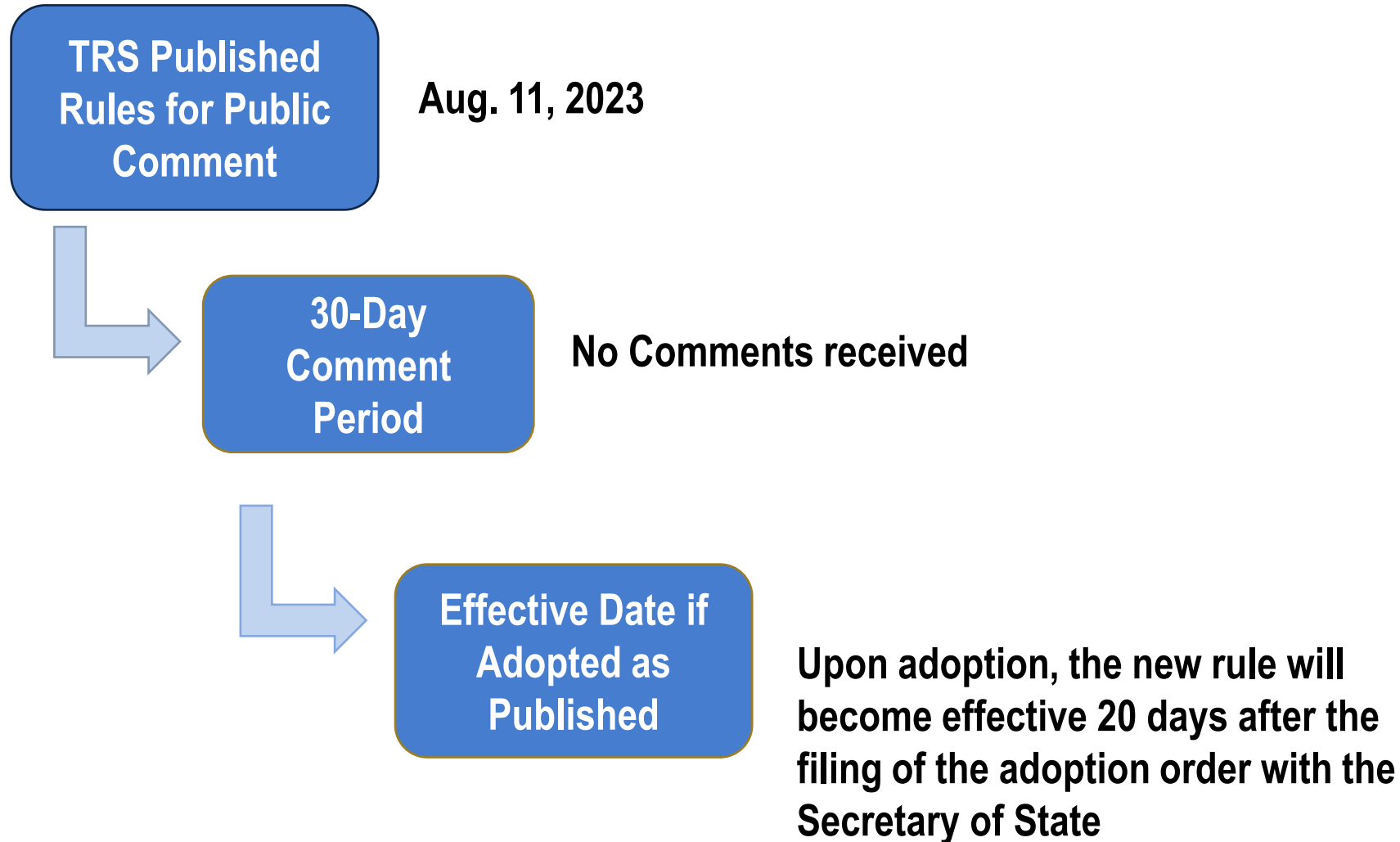
**Targeted Campaigns:**

- Letter to TRS-ActiveCare eligible employers
- Email blast to benefit administrators of eligible employers
- Inform health plan vendors district ambassadors

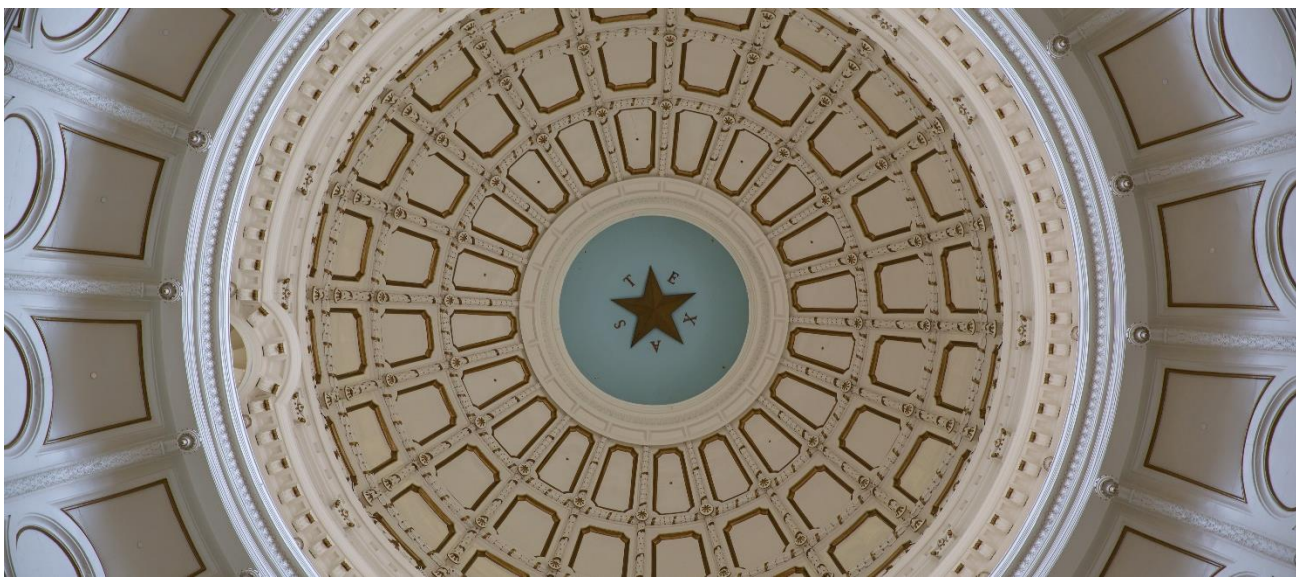
**General outreach with employers, participating members and other stakeholders includes:**

- Announcement in the *TRS News (Retiree and Member Editions)*
- Updates on the TRS website and TRS-ActiveCare
- Updates in TRS-ActiveCare events for members (virtual & in-person events)

## Recommend That the Board of Trustees Adopt the Rule



**TAB 7**



# Legal & Compliance

## Health Rules Repeal

**Heather Traeger, General Counsel**  
**Roberto Cortes-Moreno, Director of**  
**Healthcare Legal & Compliance,**  
**Sandy Mitchell, Healthcare Counsel**

September 14 , 2023





# Health Rule Agenda

## Summary of Changes

- Repealing Subchapter B: rules §41.15, §41.16, §41.17, §41.18, §41.19, and §41.20 all of which relate to Long-Term Care, Disability, and Life Insurance.
- Repealing these rules would have no effect on any TRS health plans or TRS members, because Subchapter B is no longer in use.
- Repealing these rules will streamline and clarify Chapter 41 of the T.A.C. by eliminating stale rules.
- In addition, repealing these rules would create additional space for rules to be added to Subchapter A, relating to TRS-Care, without renumbering Subchapter C.



## Summary of Subchapter B

Rule	Subject Matter
34 T.A.C. §41.15	Requirements to Bid on Group Long-Term Care Insurance Under Chapter 1576 of the Insurance Code
34 T.A.C. §41.16	Coverage Offered Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
34 T.A.C. §41.17	Definitions
34 T.A.C. §41.18	Eligibility for the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
34 T.A.C. §41.19	Initial Enrollment Periods for Texas Public School Employees and Retirees Group Long-Term Care Insurance Program
34 T.A.C. §41.20	Effective Date of Coverage Under the Texas Public School Employees and Retirees Group Long-Term Care Insurance Program

# Recommend That the Board of Trustees Adopt the Rule Repeal

## ➤ Published Rules for Public Comment

- The proposed repeal was published in the Texas Register on **July 14<sup>th</sup>, 2023**.

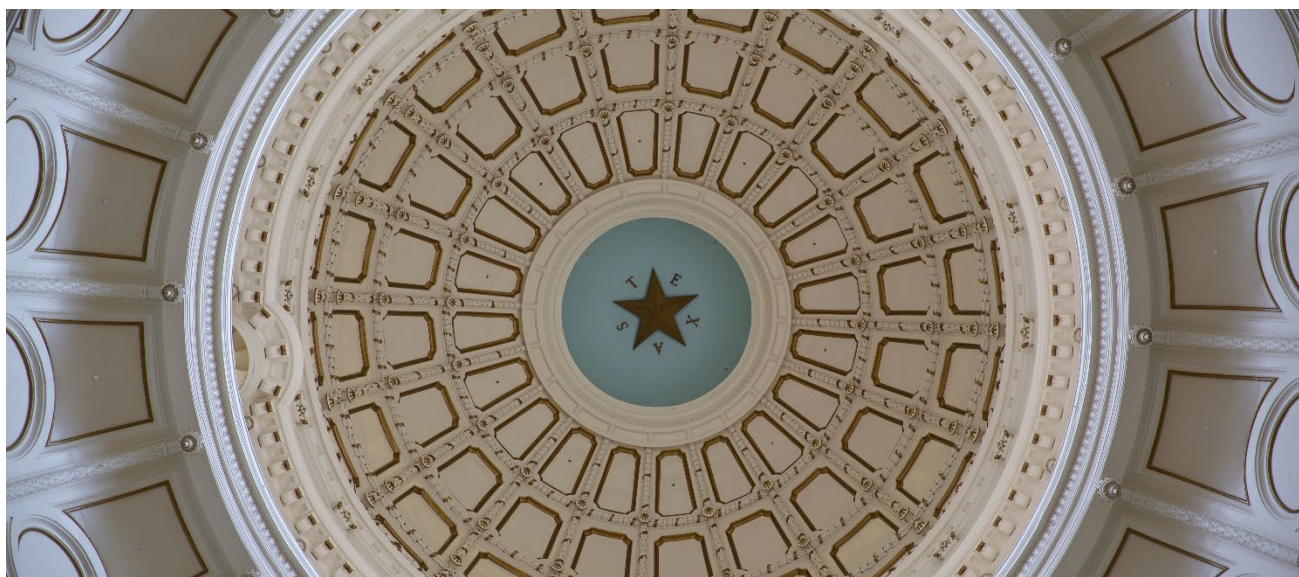
## ➤ Comments

- TRS did not receive any public comments.

## ➤ Effective Date

- Upon adoption, the amended rule will become effective **20 days after the filing of the adoption order with the Secretary of State**.

**TAB 8**



# Legal & Compliance

Employment after Retirement  
Updates: TRS Rules 31.5 and 31.6

**Heather Traeger, General Counsel**  
**Nicholas Gonzalez, Assistant  
General Counsel**

Sept. 14, 2023



In 2021, the 87<sup>th</sup> Texas Legislature substantially changed TRS EAR laws. TRS overhauled its EAR rules in response:

## LEGISLATIVE CHANGES

- Jan. 1, 2021
- “Three Strikes”
- New EAR and Surcharge Exceptions
- New EAR exception combinations

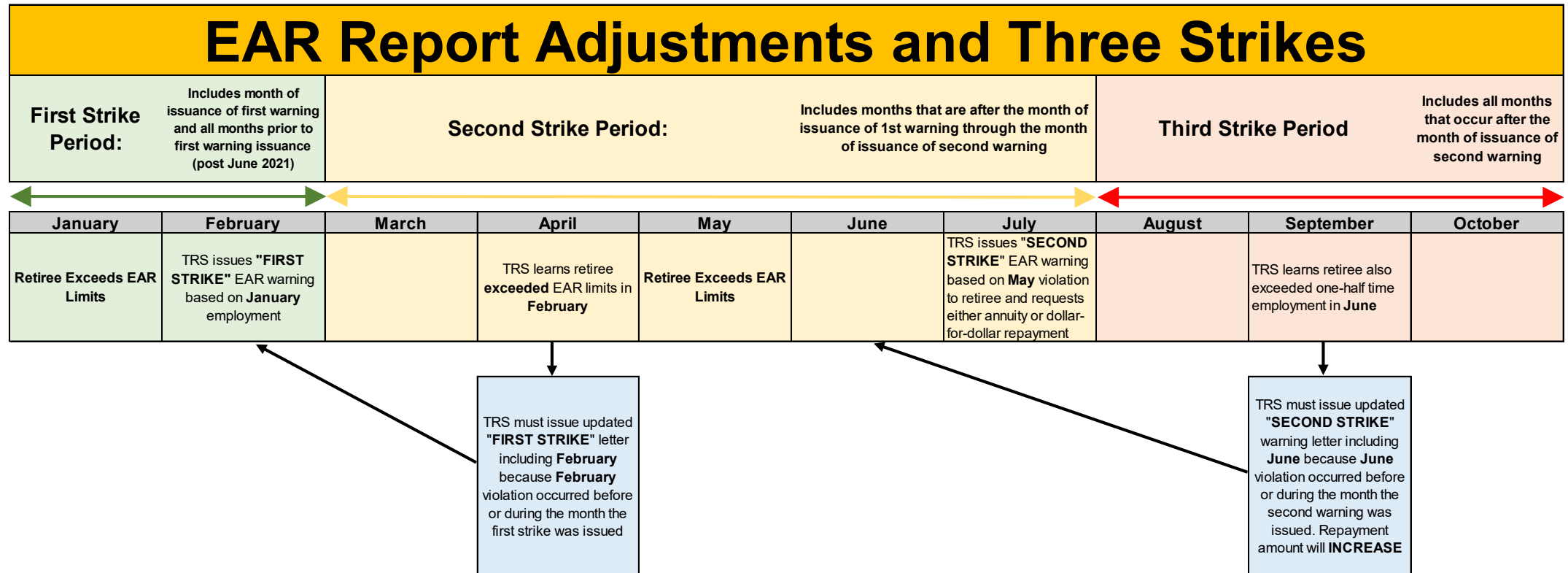
## EAR RULES RESTRUCTURING

- Repealed all existing EAR rules
- Adopted 18 new EAR rules and 1 amended rule

## IMPLEMENTATION

- New rules came into effect Nov. 1, 2021
- One issue has been discovered in two EAR rules regarding the “three strikes” process

# EAR Notice Procedure: “Three Strikes”



**Strike One** – Retiree receives first EAR warning for all applicable months prior to and including the month of first warning;

**Strike Two** – Retiree receives second EAR warning; retiree must repay lesser of dollar-for-dollar amount or full annuity amount for each applicable month after and including the month of second warning;

**Strike Three** – Retiree subject to full annuity forfeiture during each applicable month after second strike is issued.



# Current TRS Rules 31.5 and 31.6 and Government Code 824.601

## TRS Rule 31.5 & 31.6

**TRS Rule 31.5(a):** “A service retiree with an effective date of retirement after January 1, 2021, shall only forfeit the service retiree's monthly annuity payment based on the service retiree's employment by a Texas public educational institution during a calendar month **if the retiree has previously received** the warnings required by subsections (b) and (c) of this section.”

**TRS Rule 31.6(a):** “(a) A service retiree **who receives a second EAR warning** as provided in §31.5 of this title (relating to Notice and Repayment Requirements for Certain Service Retirees) shall pay to TRS...”

## Government Code 824.601

**Section 824.601(b-3):** “A retiree under Section 824.202 is subject to [forfeiture of the retiree's annuity] only if the retirement system **first issues** the following notices to the retiree:

(1) with respect to the first occurrence of the retiree's employment that does not qualify for an exception under Section 824.602, the system **issued a written warning** notifying the retiree of that fact; and

(2) in a month following the month in which the system issued the warning described by Subdivision (1) and with respect to a subsequent occurrence of the retiree's continued employment that does not qualify for an exception under Section 824.602, **the system issued a written notice...**”

# Proposed TRS Rules 31.5 and 31.6 and Government Code 824.601(b-3)

## TRS Rule 31.5 & 31.6

**TRS Rule 31.5(a):** “A service retiree with an effective date of retirement after January 1, 2021, shall only forfeit the service retiree's monthly annuity payment based on the service retiree's employment by a Texas public educational institution during a calendar month **if TRS has previously issued** the warnings required by subsections (b) and (c) of this section **to the retiree.**”

**TRS Rule 31.6(a):** “(a) **If TRS issues a second EAR warning** as provided in §31.5 of this title (relating to Notice and Repayment Requirements for Certain Service Retirees) **to a service retiree, the service retiree** shall pay to TRS...”

## Government Code 824.601

**Section 824.601(b-3):** “A retiree under Section 824.202 is subject to [forfeiture of the retiree's annuity] only if the retirement system **first issues** the following notices to the retiree:

(1) with respect to the first occurrence of the retiree's employment that does not qualify for an exception under Section 824.602, the system **issued a written warning** notifying the retiree of that fact; and

(2) in a month following the month in which the system issued the warning described by Subdivision (1) and with respect to a subsequent occurrence of the retiree's continued employment that does not qualify for an exception under Section 824.602, **the system issued a written notice...**”



### Next steps

- Submit rule proposals to *Texas Register*
- Rules shall remain posted for public comment for 30 days
- Present to the TRS Board in December for adoption
- If adopted, rules intended to be effective as of Feb. 1, 2024

**TAB 9**



## Memorandum

**DATE:** September 14, 2023

**TO:** TRS Policy Committee

**FROM:** Katherine H. Farrell, Board Secretary

**Through:** Brian Guthrie, Executive Director

**RE:** Policy Review Schedule Update

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### ACTION REQUESTED

Staff asks the Policy Committee to:

- Conduct the review of TRS Board policy review schedule and adopt the proposed updates.

### BACKGROUND AND DISCUSSION

TRS Board Bylaws Subsection 3.1.5(c) provides that the Policy Committee (Committee) is to adopt and follow a plan of review for each fiscal year to ensure that all written TRS Board policies are reviewed periodically. To accomplish this requirement, the Committee adopts the Policy Review Schedule (Schedule), which provides for the regular review of all written board policies and is to be adopted every September.

Included in your materials are “redlined” and “clean” copies of the Schedule. At the Committee meeting, staff will propose for the Committee to adopt the following updates to the Schedule. There are no substantive changes proposed this year for adoption. One non-substantive change proposed is to collapse the Employee Ethics Policy and the respective disclosure statements from four to one row and the same for collapsing the Code of Ethics for Contractors and the respective compliance and disclosure statements from five to one row.

The Schedule is only adopted at the Policy Committee level. Therefore, at the September meeting, the Policy Committee will consider updating the Schedule but will not make a recommendation on the matter to the full Board.

**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**POLICY REVIEW SCHEDULE**  
**APPROVED BY THE POLICY COMMITTEE SEPTEMBER ~~15~~14, ~~2022~~2023**

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW <sup>i</sup>	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW <sup>ii</sup>
<b>ADMINISTRATIVE</b>					
Authorization to Approve and Sign Vouchers	Financial; Legal	3 years	April 2022	December 2018	April 2025
Performance Incentive Pay Plan	Executive Director; OE; Legal	1 year	September 202 <del>3</del> <u>2</u>	September 202 <del>3</del> <u>2</u>	September 202 <del>4</del> <u>3</u>
	Investments; OE; Legal		September 202 <del>3</del> <u>2</u>	September 202 <del>3</del> <u>2</u>	September 202 <del>4</del> <u>3</u>
Resolution Regarding Correction of Errors and Other Edits	Executive Director	5 years	September 2022	September 2012	September 2027
Rules of the Board of Trustees – Rule Review, Chapters 21–51	Legal; Finance; Benefits; HIB	4 years <sup>iii</sup>	September 2022	December 2022	April 2026 <sup>iv</sup>
Litigation Policy	Legal	3 years	April 2021	April 2021	April 2024
Policy on Negotiated Rulemaking and Alternative Dispute Resolution	Executive Director; Legal	5 years	July 2018	June 2013	July 2023
Procurement Policy	Legal	3 years	July 2021	July 2021	July 2024

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW <sup>i</sup>	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW <sup>ii</sup>
At Will Employment	OE; Legal	10 years	September 20 <del>13</del> <u>23</u>	September 20 <del>13</del> <u>23</u>	September 20 <del>23</del> <u>33</u>
Member Engagement Policy	Communications	4 years	December 2020	December 2020	December 2024
Benefit Counseling Policy	Benefits	2 years	September 2022	September 2020	September 2024
Outreach Plan <sup>v</sup>	Communications; Benefits	5 years	July 2021	July 2021	July 2026
Inactive Accounts Policy <sup>vi</sup>	Benefits	4 years	December 2021	December 2021	December 2025
<b>BOARD GOVERNANCE &amp; ETHICS</b>					
Bylaws of the Board of Trustees	Legal	4 years	September 2022	September 2022	September 2026
Board Training Policy	Executive Director; OE	4 years	December 20 <del>18</del> <u>22</u>	December 20 <del>18</del> <u>22</u>	December 202 <del>26</del> <u>6</u>
Trustees External Communication Policy	Communica- tions	5 years	April 2019	December 2019	April 2024
Trustee Ethics Policy and Position Description	Legal	4 years	December 2021	December 2021	December 2025
Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026
<b>EMPLOYEE &amp; VENDOR ETHICS</b>					
Designation of Key Employees	Executive Director	2 years	September 2021	July 2022	December 2023

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW <sup>i</sup>	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW <sup>ii</sup>
Employee Ethics Policy (Including Conflict of Interest Disclosure Statement; Ethics Compliance Statement for Employees and Disciplinary Action Disclosure Statement)	Legal	4 years	December 2021	December 2021	December 2025
<del>Conflict of Interest Disclosure Statement (for use with the Employee Ethics Policy)</del>	<del>Legal</del>	<del>4 years</del>	<del>December 2021</del>	<del>December 2021</del>	<del>December 2025</del>
<del>Ethics Compliance Statement for Employees (for use with the Employee Ethics Policy)</del>	<del>Legal</del>	<del>4 years</del>	<del>December 2021</del>	<del>December 2021</del>	<del>December 2025</del>
<del>Disciplinary Action Disclosure Statement (for use with the Employee Ethics Policy)</del>	<del>Legal</del>	<del>4 years</del>	<del>December 2021</del>	<del>December 2021</del>	<del>December 2025</del>
Code of Ethics for Contractors (Including Contractor Annual Ethics Compliance Statement, Expenditure Reporting Memorandum and Form, and Disclosure Statement for Brokers and Financial Advisors and Financial Providers)	Legal	4 years	April 2019 <del>23</del>	April 2019 <del>23</del>	April 2023 <del>7</del>
<del>Contractor Annual Ethics Compliance Statement</del>	<del>Legal</del>	<del>4 years</del>	<del>April 2019</del>	<del>April 2019</del>	<del>April 2023</del>

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW <sup>i</sup>	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEW <sup>ii</sup>
<del>Expenditure Reporting Memorandum</del>	<del>Legal</del>	<del>4 years</del>	<del>April 2019</del>	<del>April 2019</del>	<del>April 2023</del>
<del>Expenditure Reporting Form for Contractors</del>	<del>Legal</del>	<del>4 years</del>	<del>April 2019</del>	<del>April 2019</del>	<del>April 2023</del>
<del>Disclosure Statement for Brokers and Financial Advisors and Financial Providers</del>	<del>Legal</del>	<del>4 years</del>	<del>April 2019</del>	<del>April 2019</del>	<del>April 2023</del>
INVESTMENTS					
General Authority Resolution (GAR)	Financial; Investments	2 years	September 2022	September 2022 <del>3</del>	September 2024
Investment Policy Statement	Investments	2 years	September 202 <del>1</del> <del>3</del>	<del>July 2022</del> <u>September 2023</u>	September 202 <del>3</del> <del>5</del>
Commission Credit Policy	Investments	3 years	December 20 <del>19</del> <del>22</del>	December 2019	December 202 <del>2</del> <del>5</del>
Proxy Voting Policy	Investments	3 years	December 20 <del>19</del> <del>22</del>	<del>February</del> <u>December</u> 2022	December 202 <del>2</del> <del>5</del>
Securities Lending Policy	Financial; Investments	3 years	December 20 <del>19</del> <del>22</del>	<del>April 2019</del> <u>December</u> <u>2022</u>	December 202 <del>2</del> <del>5</del>

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- <sup>ii</sup> Initial review and discussion of the applicable policy occurs at the Board committee level on or about the date listed. Reviews may continue throughout one or more subsequent meetings.
- <sup>iii</sup> Texas Gov't Code § 2001.039 requires a comprehensive rule review every four years.
- <sup>iv</sup> The last review of the rules in Chapters 21-51 was completed on July 14, 2022. Subsequent Rule amendments and repeals recommended based upon this review.
- <sup>v</sup> The Outreach Plan is required by statute to be reviewed and updated every five years. The plan provides for Communications to annual update the Board on the implementation of the plan.
- <sup>vi</sup> Benefit Services shall report on an annual basis regarding the outreach efforts including the number of notification letters sent and the number of accounts that have refunded or rolled over as a result of the efforts.



**TEACHER RETIREMENT SYSTEM OF TEXAS  
POLICY REVIEW SCHEDULE  
APPROVED BY THE POLICY COMMITTEE SEPTEMBER 14, 2023**

<b>BOARD POLICIES</b>	<b>STAFF SPONSOR</b>	<b>APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS</b>	<b>DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEW<sup>i</sup></b>	<b>DATE OF LAST AMENDMENT</b>	<b>DATE TO BEGIN NEXT REVIEW<sup>ii</sup></b>
<b>ADMINISTRATIVE</b>					
Authorization to Approve and Sign Vouchers	Financial; Legal	3 years	April 2022	December 2018	April 2025
Performance Incentive Pay Plan	Executive Director; OE; Legal	1 year	September 2023	September 2023	September 2024
	Investments; OE; Legal		September 2023	September 2023	September 2024
Resolution Regarding Correction of Errors and Other Edits	Executive Director	5 years	September 2022	September 2012	September 2027
Rules of the Board of Trustees – Rule Review, Chapters 21–51	Legal; Finance; Benefits; HIB	4 years <sup>iii</sup>	September 2022	December 2022	April 2026 <sup>iv</sup>
Litigation Policy	Legal	3 years	April 2021	April 2021	April 2024
Policy on Negotiated Rulemaking and Alternative Dispute Resolution	Executive Director; Legal	5 years	July 2018	June 2013	July 2023
Procurement Policy	Legal	3 years	July 2021	July 2021	July 2024

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At Will Employment	OE; Legal	10 years	September 2023	September 2023	September 2033
Member Engagement Policy	Communications	4 years	December 2020	December 2020	December 2024
Benefit Counseling Policy	Benefits	2 years	September 2022	September 2020	September 2024
Outreach Plan <sup>v</sup>	Communications; Benefits	5 years	July 2021	July 2021	July 2026
Inactive Accounts Policy <sup>vi</sup>	Benefits	4 years	December 2021	December 2021	December 2025
<b>BOARD GOVERNANCE &amp; ETHICS</b>					
Bylaws of the Board of Trustees	Legal	4 years	September 2022	September 2022	September 2026
Board Training Policy	Executive Director; OE	4 years	December 2022	December 2022	December 2026
Trustees External Communication Policy	Communica- tions	5 years	April 2019	December 2019	April 2024
Trustee Ethics Policy and Position Description	Legal	4 years	December 2021	December 2021	December 2025
Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026
<b>EMPLOYEE &amp; VENDOR ETHICS</b>					
Designation of Key Employees	Executive Director	2 years	September 2021	July 2022	December 2023

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Employee Ethics Policy (Including Conflict of Interest Disclosure Statement; Ethics Compliance Statement for Employees and Disciplinary Action Disclosure Statement)	Legal	4 years	December 2021	December 2021	December 2025
Code of Ethics for Contractors (Including Contractor Annual Ethics Compliance Statement, Expenditure Reporting Memorandum and Form, and Disclosure Statement for Brokers and Financial Advisors and Financial Providers)	Legal	4 years	April 2023	April 2023	April 2027
<b>INVESTMENTS</b>					
General Authority Resolution (GAR)	Financial; Investments	2 years	September 2022	September 2023	September 2024
Investment Policy Statement	Investments	2 years	September 2023	September 2023	September 2025
Commission Credit Policy	Investments	3 years	December 2022	December 2019	December 2025
Proxy Voting Policy	Investments	3 years	December 2022	December 2022	December 2025
Securities Lending Policy	Financial; Investments	3 years	December 2022	December 2022	December 2025

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