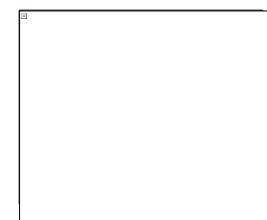


September 2024

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. Nance, Mr. Rutherford and Mr. Walls)*

*All or part of the September 19, 2024, 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, 5th Floor, Boardroom.***

The open portions of the September 19, 2024, meeting are being broadcast over the Internet. Access to the Internet broadcast and agenda materials of the meeting is provided at www.trs.texas.gov. A recording of the meeting will be available at www.trs.texas.gov.

**AGENDA
September 19, 2024 – 8:30 a.m.**

1. Call roll of Committee members.
2. Consider the approval of the proposed minutes of the July 2024 committee meeting – Chair John Elliott.
3. Review and consider recommending to the Board adoption of the proposed amendments to the Investment Policy Statement – Katy Hoffman.
4. Review and consider recommending to the Board proposed amendments to the Benefit Counseling Policy – Barbie Pearson and Adam Fambrough.
5. Consider updates to the Policy Review Schedule – Katherine Farrell.

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.

Minutes of the Policy Committee
July 18, 2024

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on July 18, 2024, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

Committee members present:

Mr. John Elliott, Chair
Ms. Brittney Allred
Mr. James Dick Nance
Mr. John Rutherford
Mr. Robert H. Walls, Jr.

Other TRS Board Members present:

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

Others who participated:

Brian Guthrie, TRS
Caasi Lamb, 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 1:52 p.m.

1. Call roll of Committee members.

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

2. Consider the approval of the proposed minutes of the May 2024 committee meeting – Chair.

On a motion by Mr. Nance, seconded by Ms. Allred, the committee unanimously voted to approve the proposed minutes for the May 2024 Policy Committee meeting as presented.

3. Review and consider recommending to the Board proposed amendments to the Procurement Policy – Heather Traeger.

Ms. Heather Traeger provided an overview as to the Board Procurement Policy setting forth the way in which contracts are procured by the Board. She said there were not substantive recommendations, only clean-up as to statutory authority and clarifications as to current practices.

On a motion by Mr. Walls, seconded by Mr. Nance, the committee unanimously voted to recommend to the Board adoption of the amendments to the Procurement Policy, as presented by staff.

4. Consider recommending to the Board adoption of the following proposed repeal and new rule in Chapters 51 of Title 34, Part 3 of the Texas Administrative Code – Heather Traeger and James Burshtyn:

- a. [REPEAL] § 51.2 Vendor Protests, Dispute Resolution, and Hearing;
- b. [NEW] § 51.2 Vendor Protests and Appeals.

Mr. James Burshtyn provided an overview of the proposed rule, to repeal the section and replace it with a revised version that is more streamline and reflective of current practices. He said the proposed section establishes clearer deadlines and processes for filing protests. He noted the rule was authorized for publication in May by the Committee and no comments were received.

On a motion by Mr. Rutherford, seconded by Ms. Allred, the committee unanimously voted to recommend to the Board to adoption of the proposed repeal of the existing rule and the adoption of the new rule in Chapter 51 of Title 34, Part 3 of the Texas Administrative Code, as presented by staff.

5. Consider recommending to the Board adoption of the following proposed new rule in Subchapter A of Chapter 41 of Title 34, Part 3 of the Texas Administrative Code, related to Retiree Health Care Benefits (TRS-Care) – Heather Traeger and Roberto Cortez-Moreno:

- a. [NEW] §41.17 Limited-Time Enrollment Opportunity for Medicare-eligible retirees.

Mr. Roberto Cortes-Moreno reported the proposed rule was in response to the Legislature's letter requesting TRS to lower the premiums for TRS-Care Medicare Advantage enrollees and provide a limited opportunity to enroll in the plan. He said the rule was published for 30 days since May 31, and no comments were received. In response to Mr. Ball's inquiry, Mr. Cortes-Moreno noted the enrollment period would open in October with a start date of January 1, 2025. He said the period was open until March 31, 2026 at which time it reverts back to no opportunity to enroll if one opted out of the plan.

On a motion by Mr. Nance, seconded by Mr. Rutherford, the committee unanimously voted to recommend to the Board to adoption of the proposed new rule in Chapter 41 of Title 34, Part 3 of the Texas Administrative Code, as presented by staff.

6. Consider authorizing for publication in the Texas Register notice of proposed repeal and new rules in Chapter 43 of Title 34, Part 3 of the Texas Administrative Code, related to Contested Cases – Heather Traeger and Nick Gonzalez:
- a. [REPEAL] §43.1 Administrative Review of Individual Requests
 - b. [REPEAL] §43.2 Effect of Invalidity of Rule
 - c. [REPEAL] §43.3 Definitions
 - d. [REPEAL] §43.4 Decisions Subject to Review by an Adjudicative Hearing
 - e. [REPEAL] §43.5 Request for Adjudicative Hearing
 - f. [REPEAL] §43.6 Filing of Documents
 - g. [REPEAL] §43.7 Computation of Time
 - h. [REPEAL] §43.8 Extensions
 - i. [REPEAL] §43.9 Docketing of Appeal for Adjudicative Hearing and Dismissal for Failure to Obtain Setting
 - j. [REPEAL] §43.10 Authority to Grant Relief
 - k. [REPEAL] §43.11 Classification of Pleadings
 - l. [REPEAL] §43.12 Form of Petitions and Other Pleadings
 - m. [REPEAL] §43.13 Filing of Pleadings and Amendments
 - n. [REPEAL] §43.14 Briefs
 - o. [REPEAL] §43.15 Motions
 - p. [REPEAL] §43.16 Notice of Hearing and Other Action
 - q. [REPEAL] §43.17 Agreements To Be in Writing
 - r. [REPEAL] §43.18 Motion for Consolidation
 - s. [REPEAL] §43.19 Additional Parties
 - t. [REPEAL] §43.20 Appearance and Representation
 - u. [REPEAL] §43.21 Lead Counsel
 - v. [REPEAL] §43.23 Powers of the Administrative Law Judge
 - w. [REPEAL] §43.24 Prehearing Conference and Orders
 - x. [REPEAL] §43.25 Conduct of Hearing
 - y. [REPEAL] §43.26 General Admissibility
 - z. [REPEAL] §43.27 Exhibits
 - aa. [REPEAL] §43.28 Pre-filed Direct Testimony in Disability Appeal Proceedings
 - bb. [REPEAL] §43.29 Limit on Number of Witnesses
 - cc. [REPEAL] §43.33 Failure to Appear
 - dd. [REPEAL] §43.34 Conduct and Decorum at Hearing
 - ee. [REPEAL] §43.35 Official Notice
 - ff. [REPEAL] §43.36 Ex Parte Consultations
 - gg. [REPEAL] §43.37 Recording of the Hearing; Certified Language Interpreter
 - hh. [REPEAL] §43.38 Dismissal without Hearing
 - ii. [REPEAL] §43.39 Summary Disposition

- jj. [REPEAL] §43.40 The Record
- kk. [REPEAL] §43.41 Findings of Fact
- ll. [REPEAL] §43.42 Reopening of Hearing
- mm. [REPEAL] §43.43 Subpoenas and Commissions
- nn. [REPEAL] §43.44 Discovery
- oo. [REPEAL] §43.45 Proposals for Decision, Exceptions, and Appeals to the Board of Trustees
- pp. [REPEAL] §43.46 Rehearings
- qq. [REPEAL] §43.47 Procedures Not Otherwise Provided
- rr. [REPEAL] §43.48 Cost of Preparing Administrative Record
- SS. [NEW] SUBCHAPTER A. GENERAL ADMINISTRATION
- tt. [NEW] §43.1 Applicability.
- uu. [NEW] §43.2 Definitions.
- vv. [NEW] §43.3 Filing of Documents.
- ww. [NEW] §43.4 Computation of Time.
- xx. [NEW] §43.5 Extensions.
- yy. [NEW] §43.6 Ex Parte Consultations.
- zz. [NEW] §43.7 Procedures Not Otherwise Provided.
- aaa. [NEW] SUBCHAPTER B. REQUESTS FOR ADJUDICATIVE HEARING
- bbb. [NEW] §43.101. Administrative Review of Individual Requests.
- ccc. [NEW] §43.102. Administrative Review of Disability Determinations.
- ddd. [NEW] §43.103. Administrative Review of Option Beneficiary or Optional Retirement Annuity Plan Changes.
- eee. [NEW] §43.104. Request for Adjudicative Hearing.
- fff. [NEW] §43.105. Docketing of Petition for Adjudicative Hearing and Dismissal for Failure to Obtain Setting.
- ggg. [NEW] §43.106. Authority to Grant Relief.
- hhh. [NEW] §43.107. Subpoenas and Commissions.
- iii. [NEW] SUBCHAPTER C. HEARINGS NOT DOCKETED AT SOAH
- jjj. [NEW] §43.201. Applicability.
- kkk. [NEW] §43.202. Form of Pleadings.
- lll. [NEW] §43.203. Filing of Pleadings and Amendments.
- mmm. [NEW] §43.204. Briefs.
- nnn. [NEW] §43.205. Motions.
- ooo. [NEW] §43.206. Discovery.
- ppp. [NEW] §43.207. Notice of Hearing and Other Action.
- qqq. [NEW] §43.208 Agreements To Be in Writing.
- rrr. [NEW] §43.209 Motion for Consolidation.
- sss. [NEW] §43.210 Additional Parties.

ttt. [NEW]	§43.211. Appearance and Representation.
uuu. [NEW]	§43.212. Lead Counsel.
vvv. [NEW]	§43.213. Powers of the Administrative Law Judge.
www. [NEW]	§43.214. Prehearing Conference and Orders.
xxx. [NEW]	§43.215. Conduct of Hearing.
yyy. [NEW]	§43.216. General Admissibility.
zzz. [NEW]	§43.217. Exhibits.
aaaa. [NEW]	§43.218. Pre-filed Direct Testimony in Disability Appeal Proceedings.
bbbb. [NEW]	§43.219. Limit on Number of Witnesses.
cccc. [NEW]	§43.220. Failure to Appear.
dddd. [NEW]	§43.221. Conduct and Decorum at Hearing.
eeee. [NEW]	§43.222. Official Notice.
ffff. [NEW]	§43.223. Recording of the Hearing; Certified Language Interpreter.
gggg. [NEW]	§43.224. Dismissal without Hearing.
hhhh. [NEW]	§43.225. Summary Disposition.
iiii. [NEW]	§43.226. The Record.
jjjj. [NEW]	§43.227. Findings of Fact.
kkkk. [NEW]	§43.228. Reopening of Hearing.
llll. [NEW]	SUBCHAPTER D. FINAL DECISIONS OF TRS.
mmmm. [NEW]	§43.301. Proposals for Decision and Exceptions.
nnnn. [NEW]	§43.302. Decision of Executive Director.
oooo. [NEW]	§43.303. Proposals for Decision and Exceptions regarding Eligibility for Disability Retirement.
pppp. [NEW]	§43.304. Appeals to the Board of Trustees.
qqqq. [NEW]	§43.305. Final Decision of TRS.
rrrr. [NEW]	§43.306. Rehearings.
ssss. [NEW]	§43.307. Cost of Preparing Administrative Record.

Mr. Nick Gonzalez provided an overview of the proposed repeal of existing Chapter 43 and the proposed adoption of brand-new Chapter 43 regarding contested cases including pension appeals. He said the proposed changes focus on a restructuring, a non-substantive style changes and administrative improvements such as clearly identifying when time periods begin. He said the most substantive proposed change related to the Executive Director determining, in consultation with the Board Chair, whether or not oral arguments will be allowed, eliminating the need to have a hearing on whether to allow oral arguments. He said the other substantive proposal is to allow for briefing and exceptions when someone appeals to the Board. In response to Mr. William's inquiry, Mr. Gonzalez responded he would ensure the proposed rule states that the Executive Director "shall" consult the Board Chair in determining whether oral arguments would be allowed.

On a motion by Mr. Nance, seconded by Mr. Rutherford, the committee unanimously voted to authorize publication in the Texas Register notice of proposed repeal and new rules in Chapter 43 of Title 34, Part 3 of the Texas Administrative Code, related to contested cases, as presented by staff and amended by discussion.

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

Approved by the Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas on September _____, 2024.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date

TAB 3

Investment Policy Proposals

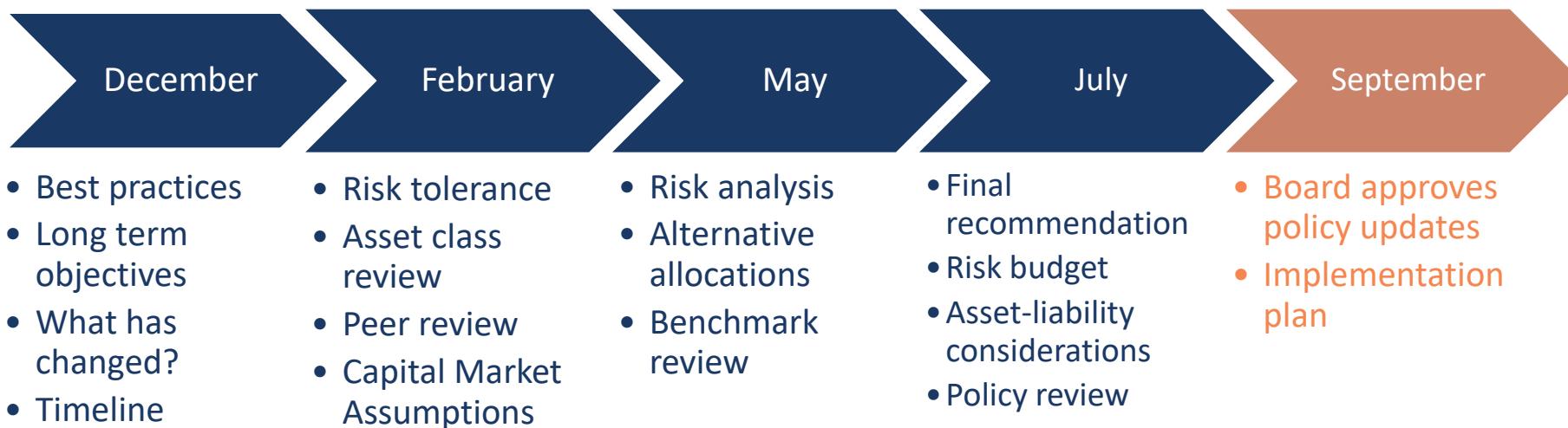
Katy Hoffman, Chief of Staff

September 2024



Introduction

- A final step in the Strategic Asset Allocation study is to update to the Investment Policy Statement (IPS) reflecting the Board's changes
 - These modifications were presented in July to the Investment Management Committee and are repeated in the Appendix
 - Board's feedback on the Private Equity Maximum allocation range was incorporated
 - Marked and clean versions of the IPS are provided for your review as well as memos from Board Advisors discussing their views
- A formal proposal is presented today to the Policy Committee for consideration in making a recommendation to the Board to adopt proposed changes



Summary of Changes

- The table below summarizes proposed modifications to the Investment Policy Statement (IPS)
 - Modifications are primarily driven by the Strategic Asset Allocation (SAA) recommendation (modifications #1-10)

Modification #	Proposed Modifications
1	Incorporate new asset class target weights
2	Add two new asset classes – “All Country” public equity and “Government Bonds – Real”
3	Update public equity benchmarks to include small capitalization stocks and exclude China and Hong Kong
4	Update asset class ranges including maintaining Private Equity maximum <u>until October 1, 2027</u>
5	Change Stable Value Hedge Fund benchmark
6	Customize Private Equity benchmark
7	Establish a 6-month transition plan to implement new asset class weights
8	Establish maximum tracking error for Government Bonds – Real
9	Allocate global equity Hedge Funds to the All Country asset class
10	Expand CIO authority to increase internal shorting capacity
11	Incorporate recommendation from Aon’s review of TRS Investment Practices and Performance Review

Modification 5

Change Stable Value Hedge Funds benchmark

Proposal

- Change the benchmark for Stable Value Hedge Funds (SVHF) to SOFR+250 bp
 - SOFR stands for Secured Overnight Financing Rate and is the industry standard for the return of riskless cash

Rationale

- The current benchmark, HFRI Fund of Funds Conservative, has material market correlation and suffers from a dwindling number of benchmark constituents. The number of constituents have fallen from over 100 to under 25, many of which have very small assets under management
- The objectives of SVHF are to produce absolute return uncorrelated with the markets. Cash is a riskless absolute return asset and is the closest opportunity cost for the portfolio

Background Information

- SVHF has been benchmarked to HFRI Fund of Funds Conservative since the inception of the portfolio in October 2011
- Prior to 2011, Hedge Funds were benchmarked to LIBOR+200 bp

Excerpt: September 2011 Policy Committee

Modifications 1 and 2

Resulting Asset Allocation



- ❑ As a result of Modifications 1 and 2, the Trust asset allocation will change as follows:

Asset Class	Benchmark	Current	Proposed
US Large Cap	MSCI USA	20	18
US Small Cap	MSCI USA Small Cap	5	2
Non-US Developed	MSCI EAFE+Canada	15	15
Emerging Markets	MSCI EM	10	10
Directional Hedge Funds	HFRI Fund of Funds Composite	0	5
Private Equity	State Street Private Equity	10	12
Total Global Equity		60	62
<hr/>			
US Treasuries	Barclays Capital Long Treasury	15	13
Absolute Return	LIBOR+200 bp	4	0
Stable Value Hedge Funds	HFRI Fund of Funds Conservative	0	4
Cash	Citigroup 90-day US Treasury	1	1
Total Stable Value		20	18
<hr/>			
Global Inflation Linked Bonds	Barclays Capital US Treasury TIPS	5	5
Real Assets	NCREIF ODCE	15	15
Commodities	Goldman Sachs Commodity	0	0
REITS	MSCI US REIT	0	0
Total Real Return		20	20
<hr/>			
TOTAL TRUST		100%	100%

Modification #1
Modification #2

Excerpt: September 2011 Policy Committee

Modification 1

Use of New Hedge Fund Authority



Proposal

- Add a 5% allocation to Directional Hedge Funds benchmarked to HFRI Fund of Funds Composite
- Fund the allocation with 2% from US Treasuries and 3% from US Small Cap
- Change Stable Value Hedge Funds benchmark to HFRI Fund of Funds Conservative
- Add a Directional Hedge Funds tracking error target of 600 bp

Additional Notes

- The External Public Markets group earlier presented a plan to the Committee on proposed usage of the expanded Hedge Fund Authority
- The plan would add a 5% allocation to Directional Hedge Funds in addition to our current 4% allocation to Stable Value Hedge Funds of a total allocation to Hedge Funds of 9%
- Directional Hedge Funds differ from Stable Value Hedge Funds in that they have an incrementally larger exposure to market risk. Accordingly:
 - Directional Hedge Funds will be benchmarked to the HFRI Fund of Funds Composite
 - Stable Value Hedge Funds will be benchmarked to the HFRI Fund of Funds Conservative

Reviewed by:
 HEK Audit
 Keith Brown Legal

Excerpt: September 2011 Investment Management Committee

Two Hedge Fund Portfolios



Stable Value Portfolio	Directional Portfolio
Stable Value Investment Objectives (4%)	Global Equity Investment Objective (5%)
<ul style="list-style-type: none">■ Focus on absolute return hedge funds	<ul style="list-style-type: none">■ Focus on equity and market sensitive hedge funds
<ul style="list-style-type: none">■ Core strategies have low to negative market sensitivity	<ul style="list-style-type: none">■ Core strategies have moderate market sensitivity, lower volatility than equities
<ul style="list-style-type: none">■ Expected to have positive returns when markets are down	<ul style="list-style-type: none">■ Expected to outperform equities when markets are down, but will underperform strong markets
<ul style="list-style-type: none">■ Expected to outperform US Treasuries over the long term	<ul style="list-style-type: none">■ Expected to outperform US Treasuries over the long term
<ul style="list-style-type: none">■ HFRI Fund of Funds Conservative benchmark with target tracking error of 400 bps	<ul style="list-style-type: none">■ HFRI Fund of Funds Composite benchmark with target tracking error of 600 bps

SVHF Objectives

Stable Value Hedge Fund Objectives	Status	Details
Hedge Fund Types Focus on absolute return hedge funds		<ul style="list-style-type: none"> Return: 5.8%¹ Sharpe Ratio: 1.5
Market Sensitivity and Risk Core strategies have low to negative market sensitivity		<ul style="list-style-type: none"> Correlation to Global Equities²: 0.2 Beta to Global Equities: 0.0
Market Regime Performance Expected to have positive returns when markets are down		<ul style="list-style-type: none"> Outperformed equities in every down month for stocks, by an average of 3.8% Positive returns in 73% of 52 down equity months since October 2011
Performance versus US Treasuries Expected to outperform US Treasuries over the long term		<ul style="list-style-type: none"> 5.8% return versus Treasuries³ 1.0%; 3.1% volatility versus Treasuries 12.5% 06/30/24 10-year Treasury yield-to-maturity: 4.3%
Performance versus Benchmark Stable Value HF benchmark ⁴ with target tracking error of 4%		<ul style="list-style-type: none"> 1.9% ahead of Stable Value HF benchmark since inception Tracking error of 2.7%

Sources: State Street Bank, Bloomberg

Note: Performance is annualized and is net of fees

¹Dates: October 2011 (inception) to June 2024

²MSCI All Country World Index

³Bloomberg Barclays US Long Treasury Total Return Index

⁴HFRI Fund of Funds Conservative Index

Modification 5 - Continued

Change Stable Value Hedge Fund benchmark

- Tracking Error of SVHF to the current and proposed benchmarks have historically been in line, except for the period during the COVID-19 pandemic, where SVHF performance was more volatile relative to cash



- SVHF has a neutral tracking error target of 400 bp. We do not recommend altering that target in this proposal

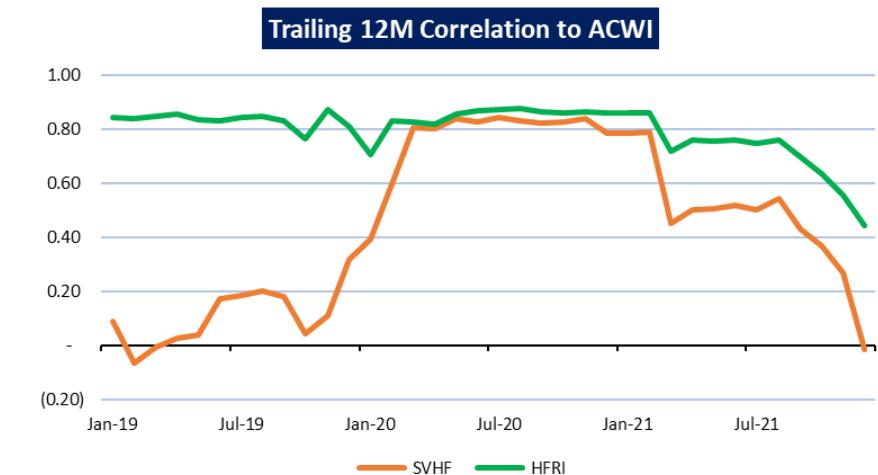
SVHF Relative Performance in Q1 2020

- IPS includes a tracking error neutral for SVHF of 400bps
- We observed a spike in tracking error relative to the proposed benchmark during the COVID pandemic

Q1 2020 Return	
SVHF	-4.4%
HFRI	-7.2%
MSCI ACWI	-21.3%
SOFR+250	0.9%



- The portfolio exhibited materially higher market sensitivity than we have historically, driving a large increase in tracking error to SOFR+250, which carries no market sensitivity
- HFRI FoF Conservative already has significant sensitivity to market exposure, so our tracking error to our existing benchmark was only modestly affected



Source: State Street Bank, TRS IMD

Modification 5 - Continued

Change Stable Value Hedge Fund benchmark

- Proposed benchmark more closely mirrors the market exposure of our portfolio

Market Exposure of SVHF and Benchmarks		
	Correlation to MSCI ACWI	Beta to MSCI ACWI
SVHF	0.2	0.0
SOFR + 250	0.0	0.0
HFRI FoF Conservative	0.7	0.2

Based on monthly data from 10/1/2011 to 4/30/2024

SOFR replaced LIBOR in April 2018

- Benchmark performance has been similar over relevant time periods

Historical Performance of Benchmark Alternatives				
	1 Year	5 Year	10 Year	Since SVHF
SVHF	12.6%	8.0%	6.4%	5.8%
SOFR + 250	8.0%	4.5%	3.9%	3.6%
HFRI FoF Conservative	7.5%	4.9%	3.6%	3.9%

Annualized returns based on monthly data through 4/30/2024

Stable Value Hedge Fund portfolio inception is 10/1/2011

SOFR replaced LIBOR in April 2018

- The current benchmark is much more sensitive to market movements than our portfolio, meaning that relative returns can often be determined by what direction equity markets have moved

- Larger deviations in the benchmarks occur in equity drawdowns when the riskless benchmark maintains its value and the market sensitive HFRI benchmark declines

APPENDIX

Excerpt: May 2023 Investment Management Committee

TRS Benchmark Evaluation

Asset Class	Global Equity*				Stable Value			Real Return			Risk Parity	Cash	Leverage
Sub -Asset Class	U.S Equity	Non-U.S. Equity Developed	Non-U.S. Equity Emerging	Private Equity	U.S. Treasuries	Stable Value HF	Absolute Return	Real Estate	Energy Nat. Res. Infra	Commodities	Risk Parity	Cash Equiv.	Asset Allocation Leverage
Benchmark	Custom MSCI U.S.A. IMI	Custom MSCI EAFE + Canada	Custom - 50% MSCI EM / 50% MSCI EM ex China	State Street Private Equity	Bloomberg Long-Term Treasury	HFRI Fund of Funds Conservative	SOFR + 4%	NCREIF ODCE (lagged)	80% Cambridge + 20% CPI (lagged)	GS Commodity	HFR Risk Parity Vol 12 Index	FTSE 3 Month Treasury Bill	SOFR + 26.161 bps
Long Term Target	18%	13%	9%	14%	16%	5%	0%	15%	6%	0%	8%	2%	-6%
Current Target	16%	12%	8%	18%	14%	4%	0%	17%	7%	0%	7%	2%	-6%
Specified in Advance													
Appropriate													
Measurable													
Unambiguous													
Reflective													
Accountable													
Investable													
Overall View													
AIUSA Comments	None	Consider adding small cap exposure	Consider adding small cap exposure	Consider upcoming refinements	None	Peer Universe has been shrinking	None	Portfolio includes non-core real estate	None	None	None	None	None
Benchmark for Consideration	Current	Current	Current	Current	Current	Current	Current	Consider Potential Return Premium	Current	Current	Current	Current	Current



- Property of the benchmark is valid
- Property of the benchmark is nuanced
- Property of the benchmark is not valid



*Public equity benchmarks are customized to exclude restricted securities that TRS may not invest in

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Modification 1 – 4

Implement the 2024 Strategy Asset Allocation study proposals

- Proposed Asset Allocation table
- Clean version on next page

2 – New All Country

3 – Update Benchmarks

4 – Update Ranges

1 – New Targets

Asset Class	Benchmark	Minimum Range ^{1,2,3}	Maximum Range ^{1,2}	Target ^{2,9}
Global Equity: All Country	MSCI All Country World Investible Market ex China and Hong Kong⁴	34%	44%	39%
USA	MSCI USA Investible Market ³⁴	13.5%	23.5%	18.0%
Non-US Developed	MSCI EAFE and Canada Investible Market ex Hong Kong⁴⁴	8.0%	18.10%	13.5%
Emerging Markets	50% MSCI EM/50% MSCI EM Investible Market ex China⁴⁴	-4%	14.6%	9.1%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁴⁵	9.7%	19%	14.12%
Total Global Equity	Target-weighted Blend	47.50%	61.64%	54.57%
Stable Value:				
Government Bonds – Nominal⁵	Bloomberg Barclays Long Treasury Index	0%	21.15%	16.10%
Government Bonds – Real	Bloomberg US Treasury Inflation-Linked Index	0%	11%	6%
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	0%	20%	0%
Stable Value Hedge Funds ⁸	HFRI Fund of Funds Conservative SOFR + 2.5%	0%	10%	5%
Total Stable Value	Target-weighted Blend	14%	28%	21%
Real Return:				
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	1%	11%	6%
Commodities	Goldman Sachs Commodity Index	0%	5%	0%
Total Real Return	Target-weighted Blend	14%	28%	21%
Risk Parity:				
Risk Parity	HFR Risk Parity Vol 12 Institutional Index	0%	13.10%	8.5%
INVESTMENT EXPOSURE			115%	104%
Asset Allocation Leverage:				
Cash	FTSE 3 Month Treasury Bill	0%	7%	2%
Asset Allocation Leverage ^{7, 8}	SOFR + 26.161 bp			-6%
Net Asset Allocation Leverage				-4%
TOTAL FUND	Target-weighted Blend			100%

Modification 1 – 4

Implement the 2024 Strategy Asset Allocation study proposals

- Proposed Asset Allocation table

3 – Update Benchmarks					4 – Update Ranges
Asset Class	Benchmark	Minimum Range ^{1,2,3}	Maximum Range ^{1,2}	Target ^{2,9}	1 – New Targets
Global Equity: All Country	MSCI All Country World Investible Market ex China and Hong Kong ⁴	34%	44%	39%	
USA	MSCI USA Investible Market ⁴	-5%	5%	0%	
Non-US Developed	MSCI EAFE and Canada Investible Market ex Hong Kong ⁴	0%	10%	5%	
Emerging Markets	MSCI EM Investible Market ex China ⁴	-4%	6%	1%	
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁵	7%	19%	12%	
Total Global Equity	Target-weighted Blend	50%	64%	57%	
Stable Value: Government Bonds – Nominal	Bloomberg US Long Treasury Index	0%	15%	10%	
Government Bonds – Real	Bloomberg US Treasury Inflation-Linked Index	0%	11%	6%	
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	0%	20%	0%	
Stable Value Hedge Funds ⁸	SOFR + 2.5%	0%	10%	5%	
Total Stable Value	Target-weighted Blend	14%	28%	21%	
Real Return: 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	1%	11%	6%	
Commodities	Goldman Sachs Commodity Index	0%	5%	0%	
Total Real Return	Target-weighted Blend	14%	28%	21%	
Risk Parity: Risk Parity	HFR Risk Parity Vol 12 Institutional Index	0%	10%	5%	
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage: Cash	FTSE 3 Month Treasury Bill	0%	7%	2%	
Asset Allocation Leverage ^{7, 8}	SOFR + 26.161 bp			-6%	
Net Asset Allocation Leverage				-4%	
TOTAL FUND	Target-weighted Blend			100%	

Modification 4

Update asset class ranges

Proposal

- Update asset class policy maximum and minimum range to reflect new target weights (generally +/- 5%)
 - Add restriction that USA and Emerging Markets can only be negative if offset with allocations within All Country
- Maintain Private Equity current maximum allocation at 19% until October 1, 2027 at which point the range reduces to 17%

Rationale

- Current private equity allocation is ~17% and expect to reach target allocation within the next 5 years

Background Information

- All Country asset class is comprised of approximately 64% US, 28% Non-US Developed and 8% Emerging Market stocks

Modification 6

Customize the Private Equity benchmark

Proposal

- Modify the benchmark for Private Equity (PE) to match the vintage year exposures of the PE portfolio and remove funds \$1 billion or less in size

Rationale

- The current benchmark, State Street Private Equity Index (SSPEI), has two key factors which impact performance but are largely outside of the TRS PE group's control
 - SSPEI has a different vintage year mix than the TRS portfolio given our fixed target allocation and expected target reduction
 - TRS has limited ability to allocate to smaller funds given our size and resources

Background Information

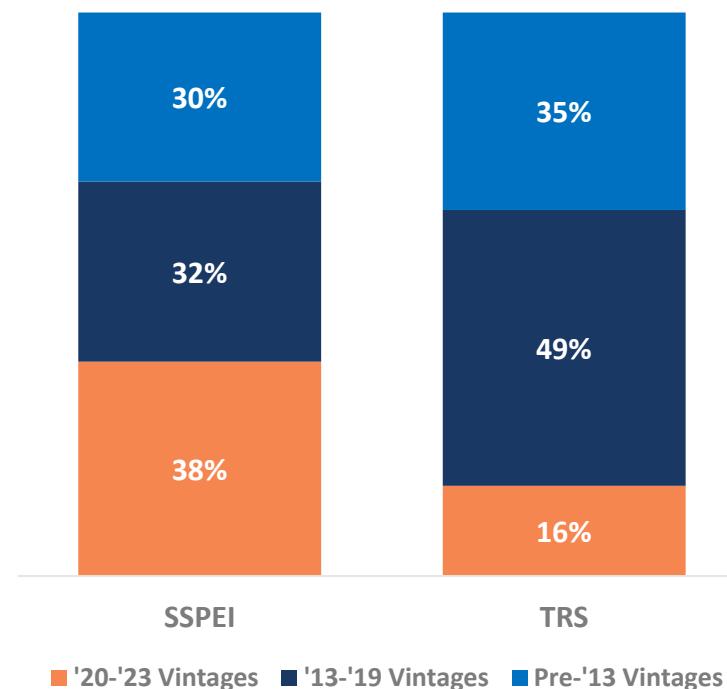
- SSPEI includes approximately 4,000 funds in its benchmark and is built using data from State Street's custodial and administrative servicing relationships
 - There are 2700 funds with assets under \$1 billion and represents 21% of the market based on capitalization
- PE has been benchmarked against the SSPEI since October 2009

Modification 6 - Continued

Customize the Private Equity benchmark

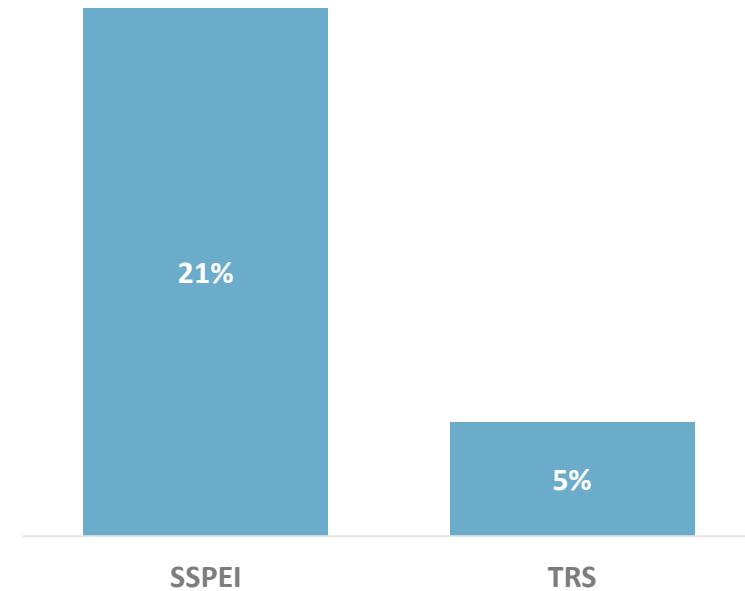
- TRS's slower growth in annual commitments relative to the benchmark is expected to lead to a growing vintage year mismatch. The effect will be further amplified if TRS reduces the PE target allocation

Commitments by Vintage Year



- TRS scale and resources limits PE's ability to match the benchmark's exposure of funds \$1 billion or less in size

Commitments to Funds \$1bn or Less as a Percentage of Total Investments

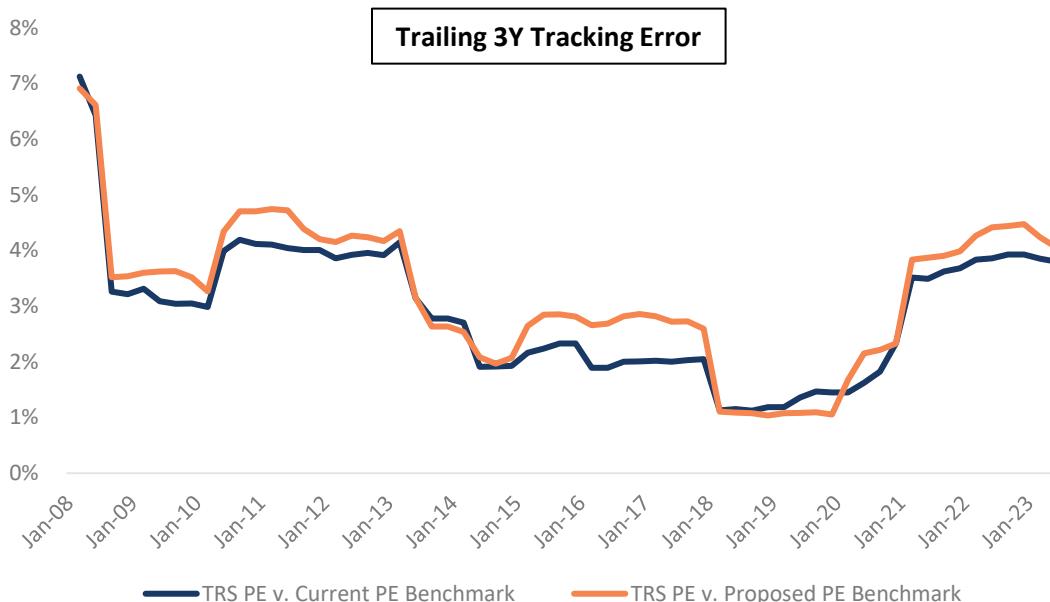


Source: State Street, TRS IMD

Modification 6 – Continued

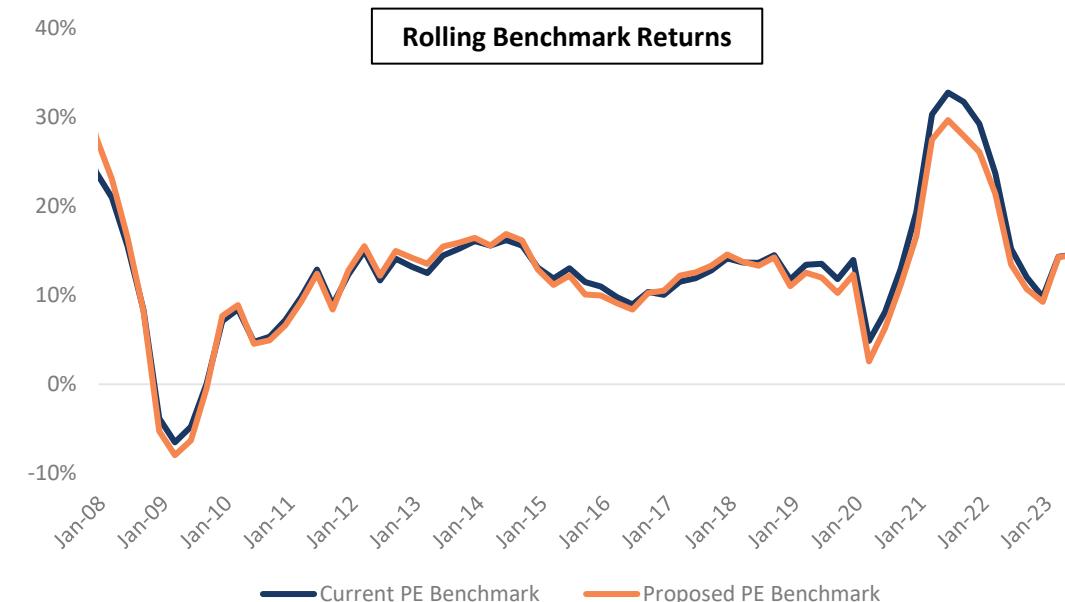
Customize the Private Equity benchmark

- The current and proposed benchmark returns are highly correlated with only a modest difference in tracking error over time



Tracking Error Comparison			
	<u>vs. Current</u>	<u>vs. Proposed</u>	Variance
Average 3Y TE	2.91%	3.22%	31bps
Median 3Y TE	3.01%	3.21%	19bps

- Current benchmark has outperformed proposed benchmark until most recent year



	1 Year	5 Year	10 Year	15 Year
TRS PE	8.1%	13.9%	12.8%	14.0%
Custom SSPEI (Proposed)	7.8%	13.5%	12.1%	13.3%
SSPEI (Current)	7.1%	14.6%	13.0%	13.7%

Source: TRS IMD

Note: Tracking Error comparison based on blended 1- and 3-year rolling returns as of 6/30/23 and historical performance returns as of 12/31/23

Modification 7

Establish transition plan

Proposal

- Establish a 6-month transition period to achieve new target weights and move to public equity benchmarks

Rationale

- New SAA requires trades that impact approximately 20% of the Trust assets
- US Presidential election expected to increase volatility in the market

Background Information

- Benchmark target weights will be set by CIO two business days prior to each month during the transition. Prior notice to Investment Management Committee Chair and Chief Compliance Officer is required
 - This process matches our most recent change to the Emerging Market benchmark

Modification 8

Establish tracking error maximum for Government Bonds - Real

Proposal

- Establish Government Bonds – Real tracking error maximum at 300 bp

Rationale

- Government Bonds – Real tracking error maximum identical to existing level for Government Bonds – Nominal

Background Information

- Government Bonds are managed passively internally while external Public SPNs actively manage these portfolios
- Total Public Fund tracking error neutral target of 100 bp and maximum of 300 bp

Modification 9

Allocate global equity hedge funds to the All Country asset class

Proposal

- Clarify intent that hedge funds in the Global Equity broad asset class will be allocated to the All Country

Rationale

- Currently, Directional Hedge Funds (DHF) reside in each of the regional public equity asset classes
- Consolidating within one asset class will simplify management and require only one overlay portfolio to achieve full portfolio risk

Background Information

- In the 2019 SAA review, DHF were integrated within the public equity portfolio
- Since integration, DHF + overlay has generated over \$600 million in relative value add above benchmark since inception (October 2019)
- Board limits total hedge fund exposure to 15%

Modification 10

Expand CIO authority to increase internal shorting capacity

Proposal

- Expand CIO authority to increase internal shorting capacity from 25% to 50% of internal equity portfolios

Rationale

- CIO currently has this ability with our External Manager portfolio
- IMD plans to increase allocation to our successful internal quantitative strategies which short securities to achieve new SAA target weights
 - Managing asset internally provides fee savings relative to paying external managers

Background Information

- IMD has over 9 years of experience shorting securities from an investment and operational perspective
- Over the last three years, the majority of internal quantitative ~350 bp outperformance has come from shorting stocks
- IPS public equity tracking error neutral will remain consistent at 300 bp

Modification 11

Incorporate recommendation from Aon's review of TRS Investment Practices and Performance Review

Proposal

- Add language to clarify existing requirement for IIC review of new internally actively managed investment strategies

Rationale

- Recommendation from Aon based on their legislatively required review of TRS Investment Practices and Performance Review

Background Information

- The Sunset Commission recommended the IIC review new internal active strategies and provide prior Board notification of these consideration items. These changes were made to IPS in 2020
 - This change formalized existing practice that had been in place since 2012
 - IIC Guidelines and Procedures provide further details and requirements

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MEMORANDUM

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

FROM: Suzanne M. Dugan
Fiduciary Counsel

DATE: August 27, 2024

RE: Proposed Revisions to the TRS Investment Policy Statement

At its September 2024 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 2024 meeting. In brief, these modifications will:

- Incorporate new asset class target weights
- Add two new asset classes – “All Country” public equity and “Government Bonds-Real”
- Update public equity benchmarks to include small capitalization stocks and exclude China and Hong Kong
- Update asset class ranges including maintaining Private Equity maximum
- Change Stable Value Hedge Fund benchmark
- Customize Private Equity benchmark
- Establish a 6-month transition plan to implement new asset class weights
- Establish maximum tracking error for Government Bonds-Real
- Allocate global equity Hedge Funds to the All Country asset class
- Expand CIO authority to increase internal shorting capacity
- Incorporate recommendations from Aon’s review of TRS Investment Practices and Performance Review

The modifications are more fully discussed in the materials from the Investment Management Division (“IMD”) and in the memos from the Board advisors, Aon and Dr. Brown. Those discussions are not repeated herein as the focus from a fiduciary perspective is on procedural prudence. It is important to note that Aon is comfortable with the proposed changes and recommends that the Board adopt them as presented by IMD. Dr. Brown endorses 10 of the modifications and recommends that the Board consider adopting Modification #5 (change stable value hedge fund benchmark) after a further evaluation of the issues involved with that proposal.

The materials before the Board for its review include detailed information provided by IMD 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. As noted, the proposed IPS modifications are part of an iterative process that included a presentation at a previous Board meeting.

The Board's investment advisors have each provided a memo to the Board with comprehensive discussion regarding each of the proposed modifications. 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. Brown. These discussions have been comprehensive and have provided opportunity for questions to be answered and input.

Fiduciaries are judged by the process undertaken to reach decisions, and establishment of a reasonable decision-making process and adherence to that process helps to demonstrate prudence. In reviewing the process that was undertaken with regard to the drafting of the proposed changes to the IPS, it is my opinion that the Board has sufficient information before it from staff, as well as the advice of 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 its outside experts, as well as internal staff, in order to obtain answers to any and all questions the Board may have with regard to the proposals before it. 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.

The decision-making process should always be documented, and decisions monitored to determine if they remain prudent. The IPS is not intended to remain static but rather is regularly reviewed by the Board to ensure that it remains consistent with current best practices. Overall, the Board will have demonstrated appropriate fiduciary oversight should it choose to adopt the proposed revisions to the IPS.



DEPARTMENT OF FINANCE
THE UNIVERSITY OF TEXAS AT AUSTIN

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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 21, 2024

I have reviewed the 11 modifications to the Investment Policy Statement (IPS) that the Investment Management Division (IMD) has proposed recently. Overall, I endorse ten of these modifications (#1-4, 6-11) and recommend their adoption. I also recommend that the Board consider adopting Modification #5 after a further evaluation of the issues involved with that proposal.

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 July 2024.

- *#1: Incorporate New Asset Class Target Weights*

This is the first of several changes to the IPS required to implement the new Strategic Asset Allocation (SAA) study that was recently adopted. Specifically, this proposal updates the target allocations for the allowable universe of asset classes approved by the Board.

As noted during the comprehensive discussion of these SAA issues during the July 2024 Board meeting, the most substantive changes to the current asset allocation scheme are as follows: (i) an overall increase in the allocation to the Global Equity silo of 3% (from 54% to 57%); (ii) a 2% reduction in the Private Equity asset class (from 14% to 12%); and (iv) a decline in the Risk Parity strategy of 3% (from 8% to 5%).

These are fairly minor shifts in TRS' asset allocation strategy, but IMD did make a compelling argument that they reposition the overall portfolio to take risk more effectively,

particularly with respect to downside risk exposure. Importantly, based on the capital market assumptions adopted by the Board, the TRS policy portfolio is expected to remain capable of generating returns in excess of the actuarial rate of return assumption.

- #2: *Add Two New Asset Classes: “All Country” Public Equity and “Government Bonds-Real”*

The new SAA scheme also requires amending the IPS to reflect two “new” asset classes: All Country Public Equity and Government Bonds-Real. The quotation marks around the word “new” serve to underscore that both these asset classes have enjoyed line-item status in past IPS documents—World Equity as recently as 2010, Inflation-Linked Bonds as recently as 2019—so what this proposed change really does is resurrect these familiar investment categories.

There are, though, two interesting things about these modifications. First, the decision to combine the public equity position into a single asset class category (albeit with separate strategic and tactical ranges specified for the USA, Non-US Developed, and Emerging Markets sub-classes) effectively reverses the 2010 decision to split these categories apart. Second, although the Government Bonds-Real asset class now reappears after a brief absence from the IPS, it does so in a markedly different location than before: namely, it has been shifted from the Real Return silo to the Stable Value silo. Consequently, while it is the same asset class it always has been, it is now being reintroduced to the IPS with a wholly different economic purpose in mind. Analysis provided by IMD makes a persuasive case that these inflation-linked securities are relatively ineffective as inflation hedges and therefore fit better with the other Government Bond positions assigned to the Stable Value asset silo.

- #3: *Update Public Equity Benchmarks to Include Small Capitalization Stocks and Exclude China and Hong Kong*

Consistent with the reintroduction of the All Country public equity asset class mandated by the new SAA program is the adoption of a new benchmark for this position. The specific benchmark that has been proposed is the “MSCI All Country World Investible (ACWI) Market ex China and Hong Kong”. In its original, unaltered form, the MSCI ACWI index captures large cap and mid cap representation across 23 developed market (DM) and 24 emerging market (EM) countries and covers more than 2,700 constituents comprising approximately 85% of the global investable equity opportunity set. As such, it is an appropriate benchmark for the way the public equity position has been redefined.

The important thing to notice here is that the benchmark being proposed is not the original MSCI ACWI indicator, but an alteration of that index that removes altogether equity positions from China and Hong Kong. As discussed at length during the July 2024 Board meeting, this adjustment is tantamount to the Board expressing the judgment that the normal public equity position for TRS should have a 0% allocation to Chinese or Hong Kong-domiciled stocks. Note, however, that this “divestment” opinion on the part of the Board does not preclude IMD from actually investing in Chinese or Hong Kong securities,

but in the event that such an investment occurred, it would be regarded as a tactical overweight position that IMD would be responsible for justifying.

For historical perspective, it is also worth noting that this proposed benchmark completes a process began two years ago of removing Chinese equity holdings completely from the strategic asset allocation scheme adopted into policy. Recall that at the September 2022 meeting, the Board adopted a proposal which effectively reduced the strategic allocation to Chinese stocks by 50% of its natural position in the MSCI EM index. This latest proposal finishes that evolution.

- #4: *Update Asset Class Ranges Including Maintaining Private Equity Maximum*

A final proposed change to the IPS associated with the newly adopted SAA scheme involves adjusting the tactical allocation ranges for each permissible asset class. By way of review, the purpose of specifying a tactical investment range around the strategic target allocation for each asset class is twofold: (i) it provides IMD with the ability to create overweight or underweight positions to time broader market movements and create positive alpha returns; and (ii) it allows sufficient “slack” so that unexpectedly large market price movements do not automatically render an asset class position out of compliance with policy. Historically, tactical ranges have been set at +/- 5% relative to the target allocation (e.g., the target allocation for the Real Estate asset class is 15%, with a minimum allowable allocation of 10% and a maximum allowable allocation of 20%).

For the most part, the proposed adjustments to the tactical ranges in the new SAA follow this process. There are, however, two deviations worth noting. First, with the reintroduction of an explicit allocation to All Country public equity—which has a target allocation of 39% and minimum and maximum allowable allocations of 34% and 44%, respectively—the target allocations and tactical ranges for the sub-categories in this asset class (i.e., USA, Non-US Developed, Emerging Markets) are now expressed on a relative basis, rather than in absolute terms. So, the proposed USA target allocation of 0% means that the long-term normal allocation to US equities should be equal to its position in the MSCI ACWI ex China and Hong Kong benchmark. The minimum tactical allocation of -5% should then be interpreted as a five percentage point underweight relative to this long-term normal index position and not as an explicit shorting of the US economy. While this way of organizing the Asset Allocation table in the IPS creates an unfortunate optical challenge, it does not have any material impact once understood in the proper context.

A second tactical range deviation involves the allowable maximum allocation for the Private Equity holding, which remains at 19% despite the proposed target allocation being lowered from 14% to 12%. The purpose of this departure in form—setting a maximum allocation of 17% would be consistent with the pattern used elsewhere in the IPS—is to create sufficient slack in policy as this illiquid asset class transitions to a lower target allocation over time. While this does permit the possibility of a significant overweight position in the Private Equity portfolio relative to the lower proposed target allocation, it is a reasonable concession to the practical challenges involved with managing investments in this asset class. It should be noted, though, that there does appear to be language in the existing IPS that allows for an alternative way of handling this “temporarily out of

compliance during the transition period” issue. Specifically, Footnote 1 to the Asset Allocation Table in Section 1.6 of the IPS states:

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.

Thus, the maximum allowable Private Equity allocation could be set at 17% (i.e., 12% + 5%), with the possibility of exceeding this threshold on an “if needed” basis. Finally, a new Footnote 10 is being added to the Asset Allocation Table to indicate that the maximum allowable Private Equity allocation will be adjusted down to 17% on October 1, 2027.

- #5: *Change Stable Value Hedge Fund Benchmark*

In what may be the most impactful change being proposed, this modification would alter the benchmark used to measure the performance of the Stable Value Hedge Fund (SVHF) portfolio from its existing index-based specification (i.e., HFRI Fund of Funds, Conservative index) to one based on a “cash-plus” design (i.e., SOFR + 2.5%).

For historical perspective, from the inception of TRS’ hedge fund investment program around 2000 and continuing during alterations made to the program through 2011, the benchmark specified in the IPS was primarily of the cash-plus variety (e.g., CPI + 4.0%, LIBOR + 2.0%), although a “hybrid” model comprising a weighted average of LIBOR and the S&P 500 index was also used. In 2011, consistent with the expansion of the hedge fund investment program to two separate categories—Stable Value and Directional—the hedge fund benchmarks were changed to index-based measures, based on two different fund-of-funds indexes maintained by Hedge Fund Research Inc. (HFRI). The argument made at the time for the switch in benchmark regimes was that index-based alternatives provided a better fit for the way the hedge fund investment program was being redefined. The SVHF portfolio has remained benchmarked to this same metric to the current day.

The decision to now reverse the long-standing benchmarking policy for this asset class contains both philosophical and practical considerations. At the outset, it is worth noting that both index-based and cash-plus benchmarks—as well as hybrid combinations of the two—are widely used in practice. For perspective, Exhibit 1 at the end of this memorandum displays the absolute return hedge fund benchmarks (i.e., the closest

matching category for the SVHF portfolio) used by the roughly 230 public pension plans contained in the Public Plans Database compiled by the Center for Retirement Research at Boston College over the period from 2002 to 2022. Notice that there is considerable representation across all three benchmark categories, meaning that an appeal to what constitutes industry “best practice” is unlikely to guide the Board to a definitive choice.

As to the practical considerations supporting this proposed change, IMD notes that the hedge fund constituency defining the HFRI FOF, Conservative index has dwindled considerably and may no longer be fully representative of the asset class. More to the point, however, IMD has also presented substantial analysis (contained in a separate document, but summarized in the following chart) that the statistical properties (i.e., the correlation coefficient and the beta coefficient relative to the MSCI ACWI equity index) of the existing benchmark depart significantly from those associated with the current implementation of the SVHF strategy, indicating a mismatch between the benchmark and the managed portfolio. Further, this same discrepancy was true for a vast majority of the other index-based benchmarks they analyzed. (One exception was the HFRI FOF, Market Defensive index, but this metric contains only six constituent funds.) By contrast, the proposed cash-plus benchmark was shown to have a more desirable statistical fit to the overall equity market and so, based in part on this analysis, the SOFR + 2.5% benchmark is being recommended for adoption.

	Annualized Return	Volatility	Sharpe Ratio	Beta	Correlation	Jensens Alpha
SVHF	5.51%	3.13%	1.45	0.04	0.21	+416 bp
HFRI FoF Conservative	3.61%	3.26%	0.81	0.16	0.69	+131 bp
HFRI Market Defensive	1.58%	3.61%	0.17	0.03	0.13	+33 bp
HFRI 500 Low Beta	3.57%	3.16%	0.82	0.11	0.48	+169 bp
SVHF Strategy Weighted	3.45%	3.37%	0.73	0.07	0.31	+185 bp
SOFR + 250	3.55%	0.41%	6.37	0.00	-0.06	+259 bp
Cash	0.97%	0.41%	0.00			
MSCI ACWI	9.43%	14.33%	0.59			

All statistics from 10/1/2011 to 10/31/2023

On the other hand, this modification is more challenging to justify on philosophical grounds. To begin with, it is worth noting that the ultimate purpose of any benchmark in this context is for the Board to express its vision of how a particular asset class is to be defined and how passively invested capital in that asset class should be organized. Said more plainly, a benchmark represents the Board’s mandate to the investment staff and not the other way around. So, an argument that there is a prospective benchmark that better matches the properties of how the active portfolio is currently being managed would seem to get the “chain of command” aspect of the fiduciary process exactly backwards.

Exhibit 2 appended at the end of this memorandum summarizes the characteristics that any effective benchmark should possess. (This listing has been drawn from work by the CFA Institute, a leading association of investment professionals devoted to financial education and the promotion of standards in ethics and professional excellence in the investment

management industry.) While both the current and proposed benchmarks satisfy many of these characteristics, one that the proposed cash-plus benchmark does not meet is the *Investable* standard. This is not a trivial matter because, to be considered as a genuine “opportunity cost” to the actively managed portfolio, the financial capital devoted to an asset class should have the option of being placed in an investable version of the benchmark. The proposed SOFR + 2.5% metric fails that test because, although investments generating SOFR do exist, there is no way to reliably capture the incremental 250 basis points of return, which can be viewed as representing the “alpha” return component necessary to justify an investment in this asset class. Consequently, the Board needs to consider whether there are enough merits to the proposed adoption of a cash-plus SVHF benchmark to offset this considerable limitation.

One curious outcome of this proposed modification is that TRS’ SVHF strategy would track substantially *less closely* with the new cash-plus benchmark than it does with the existing index-based benchmark. Based on analysis provided by IMD, the actual tracking error for the SVHF portfolio never exceeded 4% over the past decade whereas the same risk metric relative to the SOFR-based benchmark would have eclipsed the 4% threshold for an extended period (i.e., roughly from September 2020 through September 2022, as shown in the chart below). That is a significant finding because the neutral tracking error target for this asset class—which is a primary way in which the Board specifies its risk control preferences—is set at 400 basis points (see Appendix A and Section 10.1e of the IPS). Thus, while the proposed benchmark has some statistical characteristics—such as correlation and beta with the overall stock market—that might be viewed as being superior to those associated with any index-based alternative, the SVHF would have been out of compliance with the IPS under a SOFR-based benchmark for a lengthy stretch of time.



Finally, it is not clear how the “2.5%” portion of the proposed “SOFR + 2.5%” benchmark was determined as the appropriate level. As noted above, this 250 basis point increment can be viewed as the additional “alpha” return on top of the compensation for investing

cash (i.e., SOFR) that is required for SVHF investments. However, as shown in Exhibit 1, the alpha increment adopted by comparable pension plans using a cash-plus benchmark model ranges from 0.0% to 7.0% (along with different definitions of the cash return), with an amount in excess of 400 basis points being the most common for this sample period.

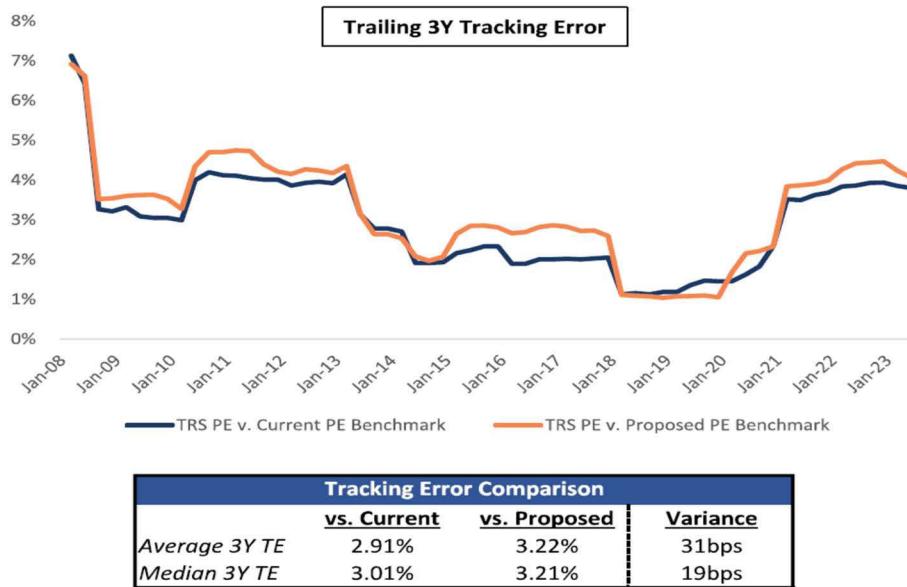
- #6: *Customize Private Equity Benchmark*

This is a second proposed alteration to an asset class-specific benchmark, although this modification would involve modifying the existing metric rather than changing to a different format altogether, as in the previous SVHF proposal.

Specifically, under this proposal the “Customized State Street Private Equity Index (SSPEI)-lagged one quarter”, which has been the benchmark used for the Private Equity (PE) asset class since 2009, would be modified in two ways: (i) the manner in which the constituent funds in the index are weighted would be adjusted to better reflect the vintage year investment scheme of the TRS PE portfolio; and (ii) constituent funds of less than \$1 billion in value would be removed from the index. (These alternations are summarized in Footnote 5 of the Asset Allocation Table in Section 1.6 of the revised IPS.)

One of the primary characteristics that a good benchmark should possess is that it reflects accurately the investable universe of assets that an active manager can access (this is summarized by the characteristics of *Appropriate* and *Relevant* in Exhibit 2 discussed above). That is, it is not appropriate to hold a manager accountable for the performance of asset positions that he or she was not allowed to invest in, whether because of explicit policy restrictions or practical barriers involving the requisite scale of the capital commitment. In that regard, this proposal is reasonable, at least in principle, because it would adjust the constituent funds comprising the SSPEI to better reflect the investment environment that IMD has faced (or will face) in managing its own PE portfolio. (By the way, one of the real advantages of the SSPEI is that it represents a sizeable collection of actual PE funds that *can* be customized for just such purposes as this.)

That said, it is once again curious that the TRS PE portfolio appears to be *less connected* to the proposed benchmark than it is to the existing one. According to IMD’s analysis, the tracking error between the actual PE portfolio and the modified SSPEI is slightly higher than it would be without these adjustments:



Granted, the difference in tracking errors using the existing and proposed benchmarks is modest—perhaps even immaterial. Still, this is an unexpected finding given that the whole purpose of customizing the original SSPEI was to create a benchmark that aligns more closely with the investment strategy in the managed PE portfolio. Thus, the Board needs to be comfortable as to whether the modification process underlying this proposed change has been executed in an optimal manner.

- #7: Establish a 6-month Transition Plan to Implement New Asset Class Weights

By IMD estimates, the changes associated with the new SAA plan will impact about 20% of the entire portfolio. Consequently, a six-month transition period is also being proposed to allow for an orderly migration of asset positions that will permit the effective management of market impact costs.

Footnote 9 of the Asset Allocation Table in Section 1.6 of the IPS has been added to include the following language regarding the transition schedule and procedures:

The transition period to the new strategic allocation will be October 1, 2024, through March 31, 2025, 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 target allocation during the following month for the following asset classes: All Country, USA, Non-US Developed, Emerging Markets, Government Bonds – Nominal, Government Bonds – Real and Risk Parity. The maximum and minimum range for these asset classes will take effect at the end of the transition period. For Non-US Developed and Emerging Markets, the CIO will designate the percentage of each asset class benchmarked to the prior benchmark and to the new benchmark. The CIO will also provide notice to the Board of the end of the transition period.

This transition process is comparable in nature to those used to implement other significant portfolio restructurings done recently, such as the last major SAA adjustment in 2019 and the Emerging Market benchmark conversion in 2022.

- #8: *Establish Maximum Tracking Error for Government Bonds-Real*

In conjunction with the proposed inclusion of Government Bonds-Real as a new asset class in the Strategic Asset Allocation scheme (cf. Proposal #2 above), this modification would insert a tracking error restriction for this category into the chart listed in Appendix A of the IPS. Specifically, the maximum tracking error permitted for Government Bonds-Real is 300 basis points, which is consistent with the level designated for the existing Government Bonds asset class (which becomes Government Bonds-Nominal in the proposed revision.)

This is an appropriate inclusion that is necessary to ensure that appropriate risk controls are put in place for this asset class specification that is being reintroduced to the IPS. That said, it seems unlikely that this real return-focused asset class would be managed in such an active manner relative to its benchmark that its tracking error would ever approach a level as high as 300 basis points, suggesting that this maximum amount may be set higher than it needs to be. However, it is consistent with the tracking error maximums in place for the rest of the System portfolio.

- #9: *Allocate Global Equity Hedge Funds to the All Country Asset Class*

This proposed change will modify Section 2.5 of the IPS to include the following language:

Generally, Hedge Funds in the Global Equity broad asset class category will be allocated to the All Country asset class.

This adjustment is consistent with the reintroduction of an explicit line-item allocation to the All Country public equity asset class mandated by the SAA scheme.

For context, from its inception in 2011 until September 2019, an asset class labeled Directional Hedge Funds received a separate line-item allocation in the Global Equity asset silo. In conjunction with the last SAA study, the Board adopted a policy that removed Directional Hedge Funds as an explicitly stated asset class category and incorporated those positions into other asset classes according to the nature of the investment strategy underlying the portfolio. Under this proposal, the vast majority of those directional hedge funds will simply be placed in the All Country asset class, which will expedite the implementation of risk management and portfolio overlay strategies that IMD deploys.

One final point worth mentioning is that this policy of embedding these Directional Hedge Fund positions within other asset class categories—which is not the case for the Stable Value Hedge Funds discussed earlier—makes the System’s total allocation across all hedge fund classifications somewhat less transparent to ascertain. That is an important consideration given the Board has limited the System’s total hedge fund exposure to 15%.

- #10: *Expand CIO Authority to Increase Internal Shorting Capacity*

This proposal amends the risk control language in Section 2.3c to allow IMD, upon CIO approval, to implement direct short sale positions in the internally managed public markets strategies up to 50% of the market value of those portfolios. The existing short sale limit for internal portfolios is set at 25%. This change would mirror language currently in place for externally managed public markets portfolios (see Section 2.6b), allowing IMD to manage the System’s internal strategies in a similar manner to the external managers it employs.

Given the experience and performance history that IMD staff has amassed over the past decade, allowing them the latitude to use short selling positions on par with the way in which outside managers are already permitted to do is a sensible modification. However, it is worth noting that asset short sales represent one of the ways in which a manager can create leverage in a portfolio (along with direct borrowing or using certain derivative positions). Thus, this proposed modification represents another way in which the Board is allowing IMD to increase the use of leverage in managing the System’s assets, following the adoption of several other leverage-increasing measures in recent years (e.g., expanded derivative use, creation of explicit Asset Allocation leverage, increase in the risk target for the Risk Parity benchmark). While the increased use of leverage is not necessarily bad—as has been discussed many times over the years, these techniques can be very effective risk management tools—the Board needs to be comfortable with the overall level of leverage that IMD is permitted to deploy.

- #11: *Incorporate Recommendation from Aon’s Review of TRS Investment Practices and Performance Review*

Language has been added to Section 1.3 (“Roles of Board, Staff, Advisors, and Consultants”) to make clear that the Internal Investment Committee of IMD is responsible for reviewing and approving any new internal actively managed investment strategies. This is a fair expansion of IIC’s duties.

Exhibit 1: Benchmark Specifications for Absolute Return Hedge Fund Allocations at U.S. Public Pension Funds: 2002-2022

1. Cash-Plus	2. Index-Based	3. Hybrid
1-month T-Bill + 4.5% 3-month T-Bill 3-month T-Bill + 1.0% 3-month T-Bill + 2.0% 3-month T-Bill + 3.0% 3-month T-Bill + 4.0% 3-month T-Bill + 5.0% 3-month T-Bill + 5.7% 3-month T-Bill + 6.0% 3-month T-Bill + 7.0% 1-year Treasury + 5.0%	HFRI Diversified FOF HFRI Diversified FOF, lag HFRI Conservative FOF HFRI Conservative FOF, lag HFRI Composite FOF HFRX Absolute Return HFRX Global Hedge Fund	50% HFRX Absolute Return Index + 50% HFRX Market Directional Index
1-month LIBOR 1-month LIBOR + 5.0% 3-month LIBOR + 2.0% 3-month LIBOR + 3.0% 3-month LIBOR + 3.5% 3-month LIBOR + 4.0-4.7% 3-month LIBOR + 5.0% 4-month LIBOR + 2.0% 4-month LIBOR + 4.0% 5-month LIBOR + 4.0%	PERS Absolute Return Program Benchmark S&P LSTA Leveraged Loan GTAA Blended Benchmark	1: MSCI ACWI; 2: Barclays Capital U.S. Aggregate Bond Index; 3: Merrill Lynch High Yield Master II Index
7.5% Annualized Return 8.0% Annualized Return	Custom Absolute Return Benchmark ARS Custom Benchmark	HFRI Fund-Weighted Composite; 3-Month T-Bill + 4.0% HFRI Fund-Weighted Composite; 3-Month T-Bill + 5.0%
	Barclays Global HY Index + 1.0%	Bloomberg Barclays U.S. Treasury 20+year Total Return Index; SG Trend Index; HFRI Macro: Discretionary Thematic Index; Eurekahedge MF Risk Premia Index

Exhibit 2: Investment Benchmark Characteristics

Required Characteristics of Benchmarks¹

Bailey, Richards, and Tierney (2007) considered the issue of the appropriate definition for normal portfolios, which are customized benchmarks that reflect the specific styles of alternative managers.² They contend that any useful benchmark should have the following characteristics:

- **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.
- **Investable.** The option is available to forgo active management and simply hold an index fund based on the benchmark.
- **Measurable.** It is possible to calculate the return on the benchmark on a reasonably frequent basis.
- **Appropriate.** The benchmark is consistent with the manager's investment style or biases.
- **Reflective of current investment opinions.** The manager has current investment knowledge (be it positive, negative, or neutral) of the securities that make up the benchmark.
- **Specified in advance.** The benchmark is constructed prior to the start of an evaluation period.
- **Owned.** The manager should accept accountability for benchmark performance.

If a benchmark does not possess all these properties, it is considered an ineffective management tool. One example of a flawed benchmark is using the median manager from a broad universe in a peer group comparison.

Selecting an Appropriate Benchmark³

A benchmark is appropriate if it reflects the composite's or pooled fund's investment mandate, objective, or strategy. There may be multiple benchmarks, however, that meet this single criterion. Firms should therefore consider additional characteristics of valid benchmarks when selecting a benchmark. A valid composite or pooled fund benchmark is one that is:

¹ Adapted from Section 18.7.3 of Reilly, Frank K., Keith C. Brown, and Sanford J. Leeds, 2025, *Investment Analysis and Portfolio Analysis*, 12th ed., Mason, OH: Cengage Learning.

² Bailey, Jeffrey V., Thomas M. Richards, and David E. Tierney, 2007, "Evaluating Portfolio Performance." In *Managing Investment Portfolio: A Dynamic Process*, 3rd ed., eds. John L. Maginn, Donald L. Tuttle, Jerald E. Pinto, and Dennis W. McLeavey. Hoboken, NJ: Wiley.

³ Excerpted from Global Investment Performance Standards, 2021, *Guidance Statement on Benchmarks for Firms*, Charlottesville, VA: CFA Institute.

- **Specified in advance.** Although this scenario may not always be the case, firms should select a composite or pooled fund benchmark prior to the evaluation period.
- **Relevant.** The benchmark reflects the investment mandate, objective, or strategy of the composite or pooled fund.
- **Measurable.** The benchmark is quantifiable.
- **Unambiguous.** The constituents of the investable universe can be clearly identified and priced.
- **Representative of current investment options.** The firm has current knowledge of the investable universe.
- **Accountable.** The firm selects the benchmark and is accountable for any deviations from the benchmark.
- **Investable.** It is possible to forgo active management and simply hold the benchmark.
- **Complete.** The benchmark provides a broad representation of the segment of the market to which it pertains.

If a firm is choosing an index as a benchmark, it is important that the firm considers how the index has balanced the trade-off between being complete and investable. A more complete index can provide broader, more diversified performance, but it may be less investable. An index that has fewer and/or more liquid securities will be more investable.



Memo

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

From Mike McCormick; Mike Comstock

Date August 7, 2024

Re 2024 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 stakeholders, 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 primarily represent the implementation of the recommendations resulting from the asset-liability study and Strategic Asset Allocation review (SAA), changes to asset class benchmarks, and changes required based on the continued evolution of IMD. Overall, we believe 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 as it relates to implementing the recommended long-term asset allocation. Importantly, we think the current policy reflects best practices.

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

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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 primarily represent the implementation of the recommended long-term asset allocation discussed and reviewed during the SAA, changes to asset class benchmarks, and changes required based on the continued evolution of IMD. 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 three categories described above. For consistency purposes we have numbered our modifications to match the presentation and redline document provided by IMD.

Modifications 1-4 & 7-9: Changes required to implement the Strategic Asset Allocation recommendations

- Modification 1 – Amend strategic asset allocation targets to reflect the new SAA
 - The Board selected a new strategic asset allocation. This modification documents the new strategic asset allocation targets within the IPS.
- Modification 2 – Add line items for the two new asset classes resulting from the SAA “All Country” public equity and “Government Bonds Real”
 - The new strategic asset allocation includes 2 new asset classes. This modification adds the new asset classes (“All Country” and “Government Bonds Real”) to the asset allocation table within the IPS.
- Modification 3 – Modify the international market benchmarks to include small capitalization stocks and exclude China and Hong Kong
 - *International Small Cap* – The alternative allocation considered during the SAA expanded the Non-US Developed and Emerging Markets asset classes to include small cap stocks. The legacy benchmark included ~85% of the largest stocks in the investible market, where the new benchmark covers ~99% of the investible market across large, mid, and small cap stocks. This will add further diversification to the portfolio. This modification amends the benchmarks to match the new policy exposure.
 - *Exclusion of China and Hong Kong Exposure* – The alternative allocation considered during the SAA removed exposure to China and Hong Kong. This modification amends the benchmarks to match the new policy exposure.
- Modification 4 – Amend the asset class ranges to reflect the new SAA
 - TRS, as well as other institutional investors, establish allocation “ranges” (maximum and minimum asset allocations) as a form of risk control. These ranges are intended to ensure that the broad market exposures desired by the Board, and selected as part of the SAA process, are always maintained. Amendments to the targets (Modification 1 above) necessitate commensurate amendments to the ranges around the new targets.
 - The maximum allocation to private equity will not be reduced until 10/1/27, as this will allow the portfolio to be managed toward the new target over time (current maximum



allocation is 19%; will be reduced to 17%). Given the current weight of the portfolio (~17%) and relatively low liquidity of private equity, phasing in the new maximum allocation will facilitate ongoing management of the portfolio.

- Modification 7 – Establish a transition plan to implement new SAA
 - During a 6-month transition period (October 1, 2024 to March 31, 2025) benchmarks will transition from the old targets to the new targets.
 - No later than two business days before the beginning of each month the CIO will communicate the monthly transition target weights to the Chairman of the Investment Management Committee and Chief Compliance Officer.
 - This will include target weights for All Country, USA, Non-US Developed, Emerging Markets, Government Bonds – Nominal, Government Bonds – Real, and Risk Parity.
 - The CIO will also communicate the ratio between the old and new benchmark for Non-US Developed and Emerging Markets.
 - Additional detail associated with the rebalancing procedures has been outlined in a memo from IMD to Aon and available to the Board upon request.
- Modification 8 – Amend tracking error guidelines to include new SAA asset classes
 - The new strategic asset allocation includes 2 new asset classes, “All Country” public equity and “Government Bonds Real”. This modification adds a tracking error target for the new All Country asset class (300bps) and a tracking error maximum for the new Government Bonds Real asset class (300bps).
- Modification 9 – Document general intent for global equity Hedge Funds to be allocated to the All Country asset class
 - Directional Hedge Funds currently resides in each of the public equity asset classes. The new strategic asset allocation aggregates ~87% of the public equity assets within the All Country asset class. This Modification articulates IMD’s expectation that directional hedge funds will predominately reside within the All Country asset class.

We are in favor of the proposed changes outlined above (Modifications 1-4 & 7-9) and see them as required changes associated with the Board’s decision to change the strategic asset allocation. Aon is comfortable with the proposed transition plan and rebalancing procedures, and all benchmark target weight changes are being communicated and documented in advance.

Modification 5 and 6: Changes to Asset Class Benchmarks

- Modification 5 – Change Stable Value Hedge Fund benchmark to SOFR + 2.5%
- Modification 6 – Customize the Private Equity benchmark to match the vintage year exposures of the Private Equity Portfolio commitments and exclude funds less than \$1 billion

Below we provide a review of each proposed benchmark change in further Detail.

Modification 5 – Change Stable Value Hedge Fund benchmark to SOFR + 2.5%



The Stable Value Hedge Fund portfolio (SVHF) has been benchmarked to the HFRI Fund of Funds Conservative index since the portfolio's inception in October of 2011. Prior to that, hedge funds were benchmarked to LIBOR + 2%.

Aon has historically been an advocate for the current SVHF benchmark, and we have historically utilized this same benchmark for our stable value hedge fund portfolio utilized by our OCIO clients. The HFR Indices are peer benchmarks, and ultimately require peer data for their creation. Over time we have seen the number of constituents within this benchmark decline from over 100 to less than 25, with some of the remaining strategies managing a relatively small level of assets. Given this decline over time, our conviction in the benchmark's continued appropriateness has waned.

IMD has performed significant analysis reviewing the articulated goals of SVHF relative to the current and alternative HFR indices as well as SOFR + 2.5%. IMD's findings were commensurate to those of Aon when reviewing benchmarks for our own stable value hedge fund portfolio. The HFR indices often represent a higher level of market beta than desired, and the changing constituents within a benchmark with a relatively small level of samples is problematic. Following Aon's internal review for our stable value hedge fund portfolio we selected SOFR + a premium as the primary benchmark, and we believe it is appropriate for SVHF as well. While SOFR + 2.5% is not investible, it meets the goals of the SVHF portfolio in a way that the HFR alternative benchmarks are incapable of doing. Aon is supportive of SOFR +2.5% as the primary benchmark of the SVHF portfolio.

Modification 6 – Customize the Private Equity benchmark to match the vintage year

Over the years we have had many discussions with the Board regarding the difficulty of benchmarking private asset classes, and particularly benchmarking private equity (PE). The current benchmark for the PE portfolio is the State Street Private Equity Index (SSPEI). This benchmark is created by gathering the cash flow and market value detail of ~4,000 direct private equity fund investments reported on the State Street custody platform and aggregating that data to calculate a quarterly return. This return is then included in the calculation of the TRS Total Fund Benchmark.

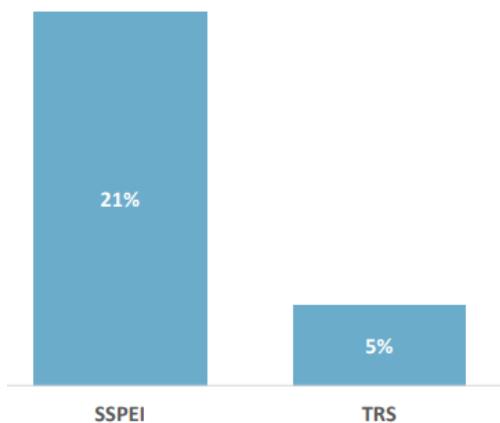
There are two changes being proposed to the SSPEI benchmark.

1. Remove funds \$1 billion or less in size
2. Match vintage year exposure between the portfolio and the benchmark

Remove funds \$1 billion or less in size

Of the ~4,000 direct private equity funds within the benchmark ~2,700 of them are \$1 billion or less in size. They account for 21% of the market capitalization of the benchmark. Private equity funds less than \$1 billion currently account for ~5% of the TRS portfolio.

**Commitments to Funds \$1bn or Less as a
Percentage of Total Investments**



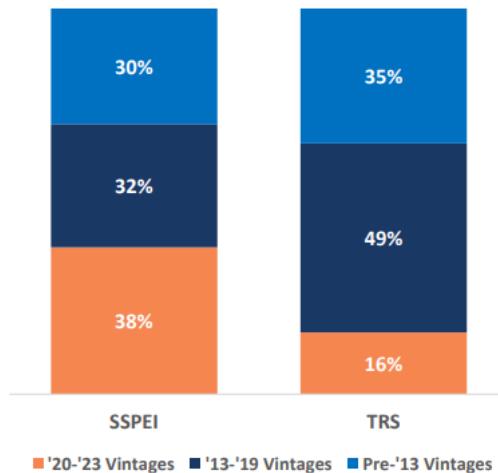
Private equity funds less than \$1 billion have an asset allocation across segments (buyout, venture, debt) which differs from the broad SSPEI benchmark. This component of smaller funds tends to be overweight venture and underweight buyout. Removing these funds which have proven difficult for TRS to invest in will make the benchmark look more like the TRS portfolio from a strategy perspective.

The TRS private equity Team has and will continue to work to include investments that are less than \$1 billion in the portfolio, but IMD does not expect they will be able to achieve an allocation commensurate to the benchmark in the short or medium term. This modification will make the benchmark more like the portfolio with regards to fund size and strategy allocation.

Match vintage year exposure between the portfolio and the benchmark

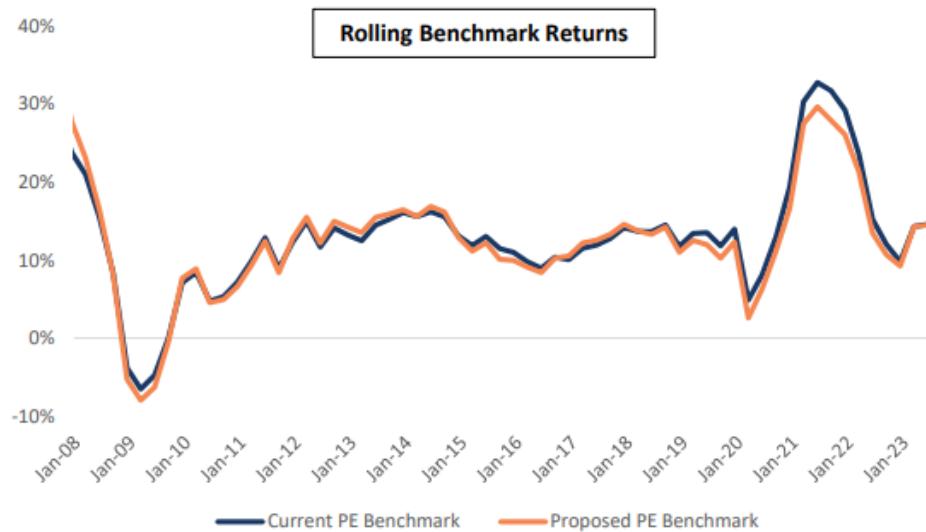
Private equity is currently ~17% of the TRS portfolio. Following the changes to the strategic asset allocation the target weight to private equity will be decreasing from 14% to 12%. TRS is working to manage the actual weight of the portfolio to the new policy target (12%) over the next 5 years. This 5-year transition to a lower target will require capital commitments to continue to be at levels below where they had been prior to 2023 over the next 5 fiscal years. The chart below created by IMD shows the commitments by vintage year of the SSPEI benchmark relative to TRS.

Commitments by Vintage Year



As shown, TRS has reduced exposure to the most recent vintages relative to the SSPEI benchmark. We expect this difference to continue and likely grow, as IMD manages the PE portfolio down to the new policy target through smaller commitment levels.

IMD performed analysis comparing the investment results of the current and proposed PE benchmark. As shown in their analysis below, the investment results of the two benchmarks have been similar over time. The current benchmark has had slightly higher returns over longer periods, with the customized benchmark having higher returns over the most recent year. We consider the tracking error of the two benchmarks to be statistically similar.





We are comfortable with the proposed changes to the private equity benchmark. These changes will make the benchmark more like the portfolio in key ways that are somewhat outside the control of IMD. The new benchmark will:

1. Remove the significant underweight to funds less than \$1 billion
2. Have a strategy allocation closer to the Portfolio
 - a. This is due to the removal of funds less than \$1 billion and their relative underweight to buyout
3. Have vintage year commitment levels/pacing commensurate with the Portfolio

We are comfortable with the Board implementing these modifications to the private equity benchmark.

Modification 10 and 11: Evolution of TRS Portfolio

- Modification 10 – Expand CIO authority to increase internal shorting capacity from 25% to 50%
 - This change will increase internal shorting capacity from 25% to 50% for internally managed portfolios. This change will match the current short position limit of the external public markets portfolio. The change is being proposed to facilitate the increased allocation to the internal quantitative strategies portfolio, partially resulting from the change in the strategic asset allocation.
 - IMD has been shorting securities for more than 9 years, and the portfolio's neutral tracking error target will continue to be 300bps.
- Modification 11 – Add language clarifying existing requirement for the IIC to review new internally managed active investment strategies
 - This documentation of current practice within the IPS is the result of Aon's recommendation made during the Investment Practices and Performance Review.

Aon is comfortable with the Board implementing these modifications to the policy.

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 most of the changes are required to implement the investment strategy changes recommended during the SAA. 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



INVESTMENT POLICY STATEMENT

(Adopted September [1520, 2023](#)[2024](#), to be effective [September 23, October 1, 2023](#)[2024](#))

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	4
ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN.....	6
1.1. Introduction	6
1.2. Purpose and Design	6
1.3. Roles of Board, Staff, Advisors, and Consultants	6
1.4. Total Fund Objectives	8
1.5. Total Fund Investment Standard.....	8
1.6. Total Fund Asset Mix and Benchmarks	8
1.7. Total Fund Measurement and Reporting Criteria	13 14
1.8. Total Fund Portfolio Implementation and Design; Restrictions	14 13
ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS	1514
2.1 Public Markets Portfolios Objectives	15 14
2.2 Public Markets Portfolios Authorized Investments	15 14
2.3 Public Markets Portfolios Restrictions	16 14
2.4 External Public Markets Portfolios.....	16 15
2.5 Hedge Fund Defined.....	16 15
2.6 External Public Markets Portfolio Authorization	18 17
2.7 External Public Markets Portfolio Restrictions	19 17
2.8 External Public Markets Portfolio Conflicts of Interest.....	19 18
2.9 Risk Parity Portfolios.....	19 18
ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS	1918
3.1 Private Markets Portfolios	19 18
3.2 Private Markets Portfolios Authorization	20 18
ARTICLE 4 – PRIVATE EQUITY PORTFOLIO	2019
4.1 Private Equity Portfolio Objectives	20 19
4.2 Private Equity Portfolio Authorized Investments	21 19
4.3 Private Equity Portfolio Restrictions	21 19
ARTICLE 5 – REAL ESTATE PORTFOLIO.....	2119
5.1 Real Estate Portfolio Objectives.....	21 19
5.2 Real Estate Portfolio Authorized Investments.....	21 20
5.3 Real Estate Portfolio Restrictions	21 20

ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO	<u>2120</u>
6.1 Energy, Natural Resources and Infrastructure Portfolio.....	<u>2120</u>
6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments.....	<u>2220</u>
6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions	<u>2221</u>
ARTICLE 7 – EMERGING MANAGERS PROGRAM.....	<u>2221</u>
ARTICLE 8 – OVERLAY PORTFOLIOS	<u>2321</u>
8.1 Overlay Portfolios Objectives.....	<u>2321</u>
8.2 Overlay Portfolios Authorized Investments	<u>2321</u>
8.3 Overlay Portfolios Restrictions.....	<u>2322</u>
ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES	<u>2322</u>
9.1. Derivatives Policy Scope.....	<u>2422</u>
9.2. Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)	<u>2422</u>
9.3. Derivatives Definition; Authorization	<u>2423</u>
9.4. Derivatives Applications Permitted.....	<u>2523</u>
9.5. Derivatives Applications Not Permitted	<u>2524</u>
9.6. Derivatives Documentation and Controls.....	<u>2624</u>
9.7. Derivatives Limitations	<u>2624</u>
9.8. Derivatives Risk Management and Compliance.....	<u>2625</u>
ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT	<u>2725</u>
10.1. Market Risk Management	<u>2725</u>
10.2. Foreign-Exchange Risk Management.....	<u>2726</u>
10.3. Credit Risk Management	<u>2826</u>
10.4. Liquidity Risk Management	<u>2827</u>
10.5. Operations Risk Management.....	<u>2927</u>
10.6. Settlement Risk Management.....	<u>2928</u>
10.7. Legal Risk Management.....	<u>2928</u>
10.8. Risk Management Compliance Cure Periods and Remedies.....	<u>2928</u>
10.9. Permitted Sources of Leverage Financing	<u>3028</u>
ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO	<u>3029</u>
11.1. Health Insurance Program Portfolio Objective.....	<u>3029</u>
11.2. Authorized Investments for the Health Insurance Program Portfolio.....	<u>3029</u>
ARTICLE 12 – INVESTMENT INTEGRITY POLICY.....	<u>3029</u>
12.1. Scope	<u>3029</u>
12.2. Purpose	<u>3129</u>
12.3. Philosophy	<u>3129</u>
12.4. Required Disclosures and Questionnaire	<u>3130</u>
12.5. Contractual Representations, Warranties, and Covenants	<u>3130</u>
12.6. Prohibitions.....	<u>3230</u>
12.7. Reporting	<u>3231</u>
12.8. Definitions	<u>3231</u>
APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)	<u>3433</u>

APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS	<u>3534</u>
APPENDIX C – CURRENCY HEDGE RATIOS.....	<u>3736</u>
APPENDIX D – GENERAL AUTHORITY RESOLUTION	<u>3837</u>
APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE	<u>4241</u>
APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION.....	<u>4645</u>
DEFINITIONS	<u>4847</u>

EXECUTIVE SUMMARY

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	<u>54.57%</u>	<u>47.50%</u>	<u>61.64%</u>
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	<u>8.5%</u>	0%	<u>13.10%</u>
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 All Country)	300 bps	
Stable Value Hedge Funds	400 bps	
Risk Parity	400 bps	
Government Bonds – Nominal		300 bps
Government Bonds - Real		300
Total Public Fund	100 bps	300 bps

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

—TOTAL FUND AND PORTFOLIO DESIGN

1.1 Introduction

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.

1.3 Roles of Board, Staff, Advisors, and Consultants

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 and will approve new internal actively managed investment strategies 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.

1.4 Total Fund Objectives

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.

1.5 Total Fund Investment Standard

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.

1.6 Total Fund Asset Mix and Benchmarks

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 ^{1,2,3}	Maximum Range ^{1,2,10}	Target ^{2,9}
Global Equity: <u>All Country</u>	<u>MSCI All Country World Investible Market ex China and Hong Kong⁴</u>	<u>NU753853</u>	<u>34%</u>	<u>44%</u>	<u>39%</u>
USA	MSCI USA Investible Market ³⁴	MIMUUSAG	<u>13_-5%</u>	<u>23_5%</u>	<u>18_0%</u>
Non-US Developed	MSCI EAFE and Canada <u>Investible Market ex Hong Kong³⁴</u>	<u>NDDUECNU</u>	<u>8_0%</u>	<u>18_10%</u>	<u>13_5%</u>
Emerging Markets	<u>50% MSCI EM/50% MSCI EM Investible Market ex China³⁴</u>	<u>757408</u> <u>NDUEEGF</u> <u>M1CXBRV_N</u> <u>U711294</u>	<u>-4%</u>	<u>14_6%</u>	<u>9_1%</u>
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁴⁵		<u>97%</u>	19%	<u>14_12%</u>
Total Global Equity	Target-weighted Blend		<u>47_50%</u>	<u>61_64%</u>	<u>54_57%</u>
Stable Value: Government Bonds – <u>Nominal⁵</u>	Bloomberg <u>US Barclays</u> Long Treasury Index	LUTLTRUU	0%	<u>21_15%</u>	<u>16_10%</u>
<u>Government Bonds – Real</u>	<u>Bloomberg US Treasury TIPS Index</u>	<u>LBUTTRUU</u>	<u>0%</u>	<u>11%</u>	<u>6%</u>
Absolute Return (Including Credit Sensitive Investments) ^{6,8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	<u>20_10%</u>	0%
Stable Value Hedge Funds ⁸	<u>HFRI Fund of Funds – Conservative</u> <u>SOFR + 2.5%</u>	<u>HFRIFOCS_OFRRATE</u> (Plus 2.5%)	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return: Real Estate	NCREIF ODCE – lagged one quarter	CPI (for CPI)	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		1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity: Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	<u>13_10%</u>	<u>8_5%</u>
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage ^{7,8}	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
Net Asset Allocation Leverage					-4%

TOTAL FUND	<i>Target-weighted Blend</i>				100%
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1 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.

2 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 55%~~25%~~ of such difference applied to All Country, USA, 18% ~~7%~~ to Non-US Developed, 141% to Emerging Markets, -87% to Stable Value Hedge Funds, +27% to Risk Parity, and 2314% to Government Bonds – Nominal and 9% to Government Bonds - Real.

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.

3 Allocation to USA and Emerging Markets may only be negative if offset by allocations within the All Country asset class.

3.4 Benchmarks will be adjusted for transitions authorized by Policy and 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 NU757432, GU722807, NU722808 and NU752166NU722809.

5 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. The benchmark will exclude funds with size of \$1 billion or less and will be adjusted to match the vintage year of the Private Equity Portfolio commingled fund commitments.

5 Global sovereign nominal and inflation linked bonds may be held in the Government Bond portfolio.

6 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.

7 “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.

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

9 The transition period to the new strategic allocation will be October 1, 2024, through March 31, 2025, 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 target allocation during the following month for the following asset classes: All Country, USA, Non-US Developed, Emerging Markets, Government Bonds – Nominal, Government Bonds – Real and Risk Parity. The maximum and minimum range for these

asset classes will take effect at the end of the transition period. For Non-US Developed and Emerging Markets, the CIO will designate the percentage of each asset class benchmarked to the prior benchmark and to the new benchmark.

The CIO will also provide notice to the Board of the end of the transition period.

#4

10 The Maximum Range for the Private Equity Asset Class will change to 17% on October 1, 2027.

1.7 Total Fund Measurement and Reporting Criteria

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.

1.8 Total Fund Portfolio Implementation and Design; Restrictions

- 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.

—PUBLIC MARKETS PORTFOLIOS

2.1 Public Markets Portfolios Objectives

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.

2.2 Public Markets Portfolios Authorized Investments

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.

2.3 Public Markets Portfolios Restrictions

- 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 without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the internal equity portfolios exceed 50% 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.

2.4 External Public Markets Portfolios

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.

2.5 Hedge Fund Defined

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:

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.

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. [Generally, Hedge Funds in the Global Equity broad asset class category will be allocated to the All Country asset class.](#)

#9

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, 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.

2.7 External Public Markets Portfolio Restrictions

- 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.

2.8 External Public Markets Portfolio Conflicts of Interest

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.

2.9 Risk Parity Portfolios

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.

—PRIVATE MARKETS PORTFOLIOS

3.1 Private Markets Portfolios

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).

3.2 Private Markets Portfolios Authorization

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.

—PRIVATE EQUITY PORTFOLIO

4.1 Private Equity Portfolio Objectives

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.

4.2 Private Equity Portfolio Authorized Investments

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.

4.3 Private Equity Portfolio Restrictions

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

—REAL ESTATE PORTFOLIO

5.1 Real Estate Portfolio Objectives

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.

5.2 Real Estate Portfolio Authorized Investments

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.

5.3 Real Estate Portfolio Restrictions

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

—ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO

6.1 Energy, Natural Resources and Infrastructure Portfolio

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.

6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments

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.

6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions

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

—EMERGING MANAGERS PROGRAM

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.

—OVERLAY PORTFOLIOS

8.1 Overlay Portfolios Objectives

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.

8.2 Overlay Portfolios Authorized Investments

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.

8.3 Overlay Portfolios Restrictions

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.

—AUTHORIZED USES OF DERIVATIVES

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

9.1 Derivatives Policy Scope

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.

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

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.

9.3 Derivatives Definition; Authorization

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.

9.4 Derivatives Applications Permitted

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.

9.5 Derivatives Applications Not Permitted

- 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.

9.6 Derivatives Documentation and Controls

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.

9.7 Derivatives Limitations

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.

9.8 Derivatives Risk Management and Compliance

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).

RISK MANAGEMENT AND OVERSIGHT

10.1 Market Risk Management

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.

10.2 Foreign-Exchange Risk Management

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.

10.3 Credit Risk Management

- 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.

10.4 Liquidity Risk Management

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.

10.5 Operations Risk Management

- 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.

10.6 Settlement Risk Management

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

10.7 Legal Risk Management

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.

10.8 Risk Management Compliance Cure Periods and Remedies

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.

10.9 Permitted Sources of Leverage Financing

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.

—HEALTH INSURANCE PROGRAM PORTFOLIO

11.1 Health Insurance Program Portfolio Objective

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

11.2 Authorized Investments for the Health Insurance Program Portfolio

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.

—INVESTMENT INTEGRITY POLICY

12.1 Scope

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.

12.2 Purpose

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.

12.3 Philosophy

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.

12.4 Required Disclosures and Questionnaire

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.

12.5 Contractual Representations, Warranties, and Covenants

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.

12.6 Prohibitions

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.

12.7 Reporting

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.

12.8 Definitions

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.

APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)¹

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

	Neutral	Maximum
Government Bonds- Nominal		300
Government Bonds – Real		<u>300</u>
Total Public Fund Tracking Error	100	300

¹ 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 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.

APPENDIX C – CURRENCY HEDGE RATIOS

Portfolio	Currency Hedge Ratio
Public Markets Portfolios	0%
Private Markets Portfolios	0%

APPENDIX D – GENERAL AUTHORITY RESOLUTION

Board of Trustees
Revised General Authority Resolutions
Adopted September 15, 2023

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:

Chief Financial Officer	Senior Director of Investment Accounting
Deputy Chief Financial Officer	Manager of Investment Accounting
Director of Accounting Operations	Director of Budget and Financial Analysis

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: Executive Director, Deputy Director, and Assistant Deputy Director. 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.

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.

Compliance 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.

APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

Investment Name: _____

Name of Responding Entity: _____

Responding Entity Type: _____

Fund or Manager Party
 Placement Agent

Completed by: _____

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

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:

By: _____

Name: _____

Title: _____

Date: _____

Attachment: Exhibit A, TRS Persons

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

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.

DEFINITIONS

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 20, 2024, to be effective September 23, 2024)

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	4
ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN.....	6
1.1 Introduction	6
1.2 Purpose and Design	6
1.3 Roles of Board, Staff, Advisors, and Consultants	6
1.4 Total Fund Objectives	8
1.5 Total Fund Investment Standard.....	8
1.6 Total Fund Asset Mix and Benchmarks	8
1.7 Total Fund Measurement and Reporting Criteria	12
1.8 Total Fund Portfolio Implementation and Design; Restrictions	13
ARTICLE 2 – PUBLIC MARKETS PORTFOLIOS	14
2.1 Public Markets Portfolios Objectives	14
2.2 Public Markets Portfolios Authorized Investments	14
2.3 Public Markets Portfolios Restrictions	15
2.4 External Public Markets Portfolios.....	15
2.5 Hedge Fund Defined.....	15
2.6 External Public Markets Portfolio Authorization	17
2.7 External Public Markets Portfolio Restrictions	18
2.8 External Public Markets Portfolio Conflicts of Interest	18
2.9 Risk Parity Portfolios.....	18
ARTICLE 3 – PRIVATE MARKETS PORTFOLIOS	18
3.1 Private Markets Portfolios	18
3.2 Private Markets Portfolios Authorization	18
ARTICLE 4 – PRIVATE EQUITY PORTFOLIO	19
4.1 Private Equity Portfolio Objectives	19
4.2 Private Equity Portfolio Authorized Investments	19
4.3 Private Equity Portfolio Restrictions	20
ARTICLE 5 – REAL ESTATE PORTFOLIO.....	20
5.1 Real Estate Portfolio Objectives	20
5.2 Real Estate Portfolio Authorized Investments.....	20
5.3 Real Estate Portfolio Restrictions	20

ARTICLE 6 – ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO	20
6.1 Energy, Natural Resources and Infrastructure Portfolio.....	20
6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments.....	21
6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions.....	21
ARTICLE 7 – EMERGING MANAGERS PROGRAM.....	21
ARTICLE 8 – OVERLAY PORTFOLIOS	22
8.1 Overlay Portfolios Objectives.....	22
8.2 Overlay Portfolios Authorized Investments	22
8.3 Overlay Portfolios Restrictions.....	22
ARTICLE 9 – AUTHORIZED USES OF DERIVATIVES	22
9.1 Derivatives Policy Scope.....	22
9.2 Derivatives Use by External Managers and Private Investment Funds (Hedge Funds)	23
9.3 Derivatives Definition; Authorization	23
9.4 Derivatives Applications Permitted.....	24
9.5 Derivatives Applications Not Permitted.....	24
9.6 Derivatives Documentation and Controls.....	24
9.7 Derivatives Limitations	25
9.8 Derivatives Risk Management and Compliance.....	25
ARTICLE 10 – RISK MANAGEMENT AND OVERSIGHT	26
10.1 Market Risk Management	26
10.2 Foreign-Exchange Risk Management.....	26
10.3 Credit Risk Management	27
10.4 Liquidity Risk Management	27
10.5 Operations Risk Management.....	28
10.6 Settlement Risk Management.....	28
10.7 Legal Risk Management.....	28
10.8 Risk Management Compliance Cure Periods and Remedies.....	28
10.9 Permitted Sources of Leverage Financing.....	29
ARTICLE 11 – HEALTH INSURANCE PROGRAM PORTFOLIO	29
11.1 Health Insurance Program Portfolio Objective.....	29
11.2 Authorized Investments for the Health Insurance Program Portfolio.....	29
ARTICLE 12 – INVESTMENT INTEGRITY POLICY.....	29
12.1 Scope	29
12.2 Purpose	30
12.3 Philosophy	30
12.4 Required Disclosures and Questionnaire.....	30
12.5 Contractual Representations, Warranties, and Covenants	30
12.6 Prohibitions	31
12.7 Reporting	31
12.8 Definitions	31
APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)	33

APPENDIX B – IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION	
ALLOCATION LIMITS	34
APPENDIX C – CURRENCY HEDGE RATIOS.....	36
APPENDIX D – GENERAL AUTHORITY RESOLUTION	37
APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE	41
APPENDIX F - EXTERNAL ADVISORY COMMITTEES OR BOARDS, BOARD OBSERVERS, AND BOARD REPRESENTATION.....	45
DEFINITIONS	47

EXECUTIVE SUMMARY

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	57%	50%	64%
Stable Value	21%	14%	28%
Real Return	21%	14%	28%
Risk Parity	5%	0%	10%
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	
Equity (International; Non-US, EAFE)	300	
Equity (International; Emerging Markets)	300	
Equity (All Country)	300	
Stable Value Hedge Funds	400	
Risk Parity	400	
Government Bonds – Nominal		300
Government Bonds - Real		300
Total Public Fund	100	300

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

TOTAL FUND AND PORTFOLIO DESIGN

1.1 Introduction

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.

1.3 Roles of Board, Staff, Advisors, and Consultants

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 and will approve new internal actively managed investment strategies 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.

1.4 Total Fund Objectives

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.

1.5 Total Fund Investment Standard

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.

1.6 Total Fund Asset Mix and Benchmarks

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 ^{1,2,3}	Maximum Range ^{1,2,10}	Target ^{2,9}
Global Equity: All Country	MSCI All Country World Investible Market ex China and Hong Kong ⁴	NU753853	34%	44%	39%
USA	MSCI USA Investible Market ⁴	MIMUUSAG	-5%	5%	0%
Non-US Developed	MSCI EAFE and Canada Investible Market ex Hong Kong ⁴	NU757408	0%	10%	5%
Emerging Markets	MSCI EM Investible Market ex China ⁴	NU711294	-4%	6%	1%
Private Equity	Customized State Street Private Equity Index – lagged one quarter ⁵		7%	19%	12%
Total Global Equity	Target-weighted Blend		50%	64%	57%
Stable Value: Government Bonds – Nominal	Bloomberg US Long Treasury Index	LUTLTRUU	0%	15%	10%
Government Bonds – Real	Bloomberg US Treasury TIPS Index	LBUTTRUU	0%	11%	6%
Absolute Return (Including Credit Sensitive Investments) ^{6, 8}	SOFR + 4%	SOFRRATE (Plus 4%)	0%	10%	0%
Stable Value Hedge Funds ⁸	SOFR + 2.5%	SOFRRATE (Plus 2.5%)	0%	10%	5%
Total Stable Value	Target-weighted Blend		14%	28%	21%
Real Return: Real Estate	NCREF ODCE – lagged one quarter	CPI (for CPI)	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		1%	11%	6%
Commodities	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%
Total Real Return	Target-weighted Blend		14%	28%	21%
Risk Parity: Risk Parity	HFR Risk Parity Vol 12 Institutional Index	HFRPV12I	0%	10%	5%
INVESTMENT EXPOSURE				115%	104%
Asset Allocation Leverage:					
Cash	FTSE 3 Month Treasury Bill	SBMMTB3	0%	7%	2%
Asset Allocation Leverage ^{7, 8}	SOFR + 26.161 bp	SOFRRATE (Plus 26.161 bp)			-6%
Net Asset Allocation Leverage					-4%
TOTAL FUND	Target-weighted Blend				100%

1 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.

2 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 55% of such difference applied to All Country, 7% to Non-US Developed, 1% to Emerging Markets, 7% to Stable Value Hedge Funds, 7% to Risk Parity, 14% to Government Bonds – Nominal and 9% to Government Bonds - Real.

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.

3 Allocation to USA and Emerging Markets may only be negative if offset by allocations within the All Country asset class.

4 Benchmarks will be adjusted for transitions authorized by Policy and 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 NU757432, GU722807, NU722808 and NU722809.

5 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. The benchmark will exclude funds with size of \$1 billion or less and will be adjusted to match the vintage year of the Private Equity Portfolio commingled fund commitments.

6 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.

7 “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.

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

9 The transition period to the new strategic allocation will be October 1, 2024, through March 31, 2025, 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 target allocation during the following month for the following asset classes: All Country, USA, Non-US Developed, Emerging Markets, Government Bonds – Nominal, Government Bonds – Real and Risk Parity. The maximum and minimum range for these asset classes will take effect at the end of the transition period. For Non-US Developed and Emerging Markets, the CIO will designate the percentage of each asset class benchmarked to the prior benchmark and to the new benchmark.

The CIO will also provide notice to the Board of the end of the transition period.

10 The Maximum Range for the Private Equity Asset Class will change to 17% on October 1, 2027.

1.7 Total Fund Measurement and Reporting Criteria

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
- 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.

1.8 Total Fund Portfolio Implementation and Design; Restrictions

- 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.

PUBLIC MARKETS PORTFOLIOS

2.1 Public Markets Portfolios Objectives

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.

2.2 Public Markets Portfolios Authorized Investments

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.

2.3 Public Markets Portfolios Restrictions

- 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 without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the internal equity portfolios exceed 50% of the market value of the internal equity portfolios, 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.

2.4 External Public Markets Portfolios

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.

2.5 Hedge Fund Defined

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:

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
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. Generally, Hedge Funds in the Global Equity broad asset class category will be allocated to the All Country asset class.

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, 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.

2.7 External Public Markets Portfolio Restrictions

- 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.

2.8 External Public Markets Portfolio Conflicts of Interest

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.

2.9 Risk Parity Portfolios

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.

PRIVATE MARKETS PORTFOLIOS

3.1 Private Markets Portfolios

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).

3.2 Private Markets Portfolios Authorization

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.

PRIVATE EQUITY PORTFOLIO

4.1 Private Equity Portfolio Objectives

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.

4.2 Private Equity Portfolio Authorized Investments

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.

4.3 Private Equity Portfolio Restrictions

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

REAL ESTATE PORTFOLIO

5.1 Real Estate Portfolio Objectives

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.

5.2 Real Estate Portfolio Authorized Investments

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.

5.3 Real Estate Portfolio Restrictions

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

ENERGY, NATURAL RESOURCES AND INFRASTRUCTURE PORTFOLIO

6.1 Energy, Natural Resources and Infrastructure Portfolio

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.

6.2 Energy Natural Resources and Infrastructure Portfolio Authorized Investments

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.

6.3 Energy, Natural Resources and Infrastructure Portfolio Restrictions

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

EMERGING MANAGERS PROGRAM

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.

OVERLAY PORTFOLIOS

8.1 Overlay Portfolios Objectives

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.

8.2 Overlay Portfolios Authorized Investments

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.

8.3 Overlay Portfolios Restrictions

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.

AUTHORIZED USES OF DERIVATIVES

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

9.1 Derivatives Policy Scope

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.

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

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.

9.3 Derivatives Definition; Authorization

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.

9.4 Derivatives Applications Permitted

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.

9.5 Derivatives Applications Not Permitted

- 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.

9.6 Derivatives Documentation and Controls

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.

9.7 Derivatives Limitations

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.

9.8 Derivatives Risk Management and Compliance

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).

RISK MANAGEMENT AND OVERSIGHT

10.1 Market Risk Management

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.

10.2 Foreign-Exchange Risk Management

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.

10.3 Credit Risk Management

- 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.

10.4 Liquidity Risk Management

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.

10.5 Operations Risk Management

- 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.

10.6 Settlement Risk Management

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

10.7 Legal Risk Management

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.

10.8 Risk Management Compliance Cure Periods and Remedies

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.

10.9 Permitted Sources of Leverage Financing

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.

HEALTH INSURANCE PROGRAM PORTFOLIO

11.1 Health Insurance Program Portfolio Objective

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

11.2 Authorized Investments for the Health Insurance Program Portfolio

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.

INVESTMENT INTEGRITY POLICY

12.1 Scope

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.

12.2 Purpose

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.

12.3 Philosophy

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.

12.4 Required Disclosures and Questionnaire

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.

12.5 Contractual Representations, Warranties, and Covenants

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.

12.6 Prohibitions

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.

12.7 Reporting

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.

12.8 Definitions

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.

APPENDIX A – TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)¹

	Neutral
Equity (USA)	300
Equity (International; Non-US Developed, EAFE)	300
Equity (International; Emerging Markets)	300
Equity (All Country)	300
Stable Value Hedge Funds	400
Risk Parity	400

	Neutral	Maximum
Government Bonds- Nominal		300
Government Bonds – Real		300
Total Public Fund Tracking Error	100	300

¹ 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 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.

APPENDIX C – CURRENCY HEDGE RATIOS

Portfolio	Currency Hedge Ratio
Public Markets Portfolios	0%
Private Markets Portfolios	0%

APPENDIX D – GENERAL AUTHORITY RESOLUTION

Board of Trustees
Revised General Authority Resolutions
Adopted September 15, 2023

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:

Chief Financial Officer	Senior Director of Investment Accounting
Deputy Chief Financial Officer	Manager of Investment Accounting
Director of Accounting Operations	Director of Budget and Financial Analysis

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: Executive Director, Deputy Director, and Assistant Deputy Director. 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.

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.

Compliance 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.

APPENDIX E – INVESTMENT INTEGRITY QUESTIONNAIRE

Investment Name: _____

Name of Responding Entity: _____

Responding Entity Type:

- Fund or Manager Party
 Placement Agent

Completed by: _____

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://wwwtrs.texas.gov/TRS%20Documents/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:

By: _____

Name: _____

Title: _____

Date: _____

Attachment: Exhibit A, TRS Persons

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

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.

DEFINITIONS

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



Benefit Counseling Policy Change

Presentation Date: September 19, 2024
Presented By: Adam Fambrough



Benefit Counseling Policy

Summary of Policy Changes

Originally adopted in September 2020

Highlight virtual appointments

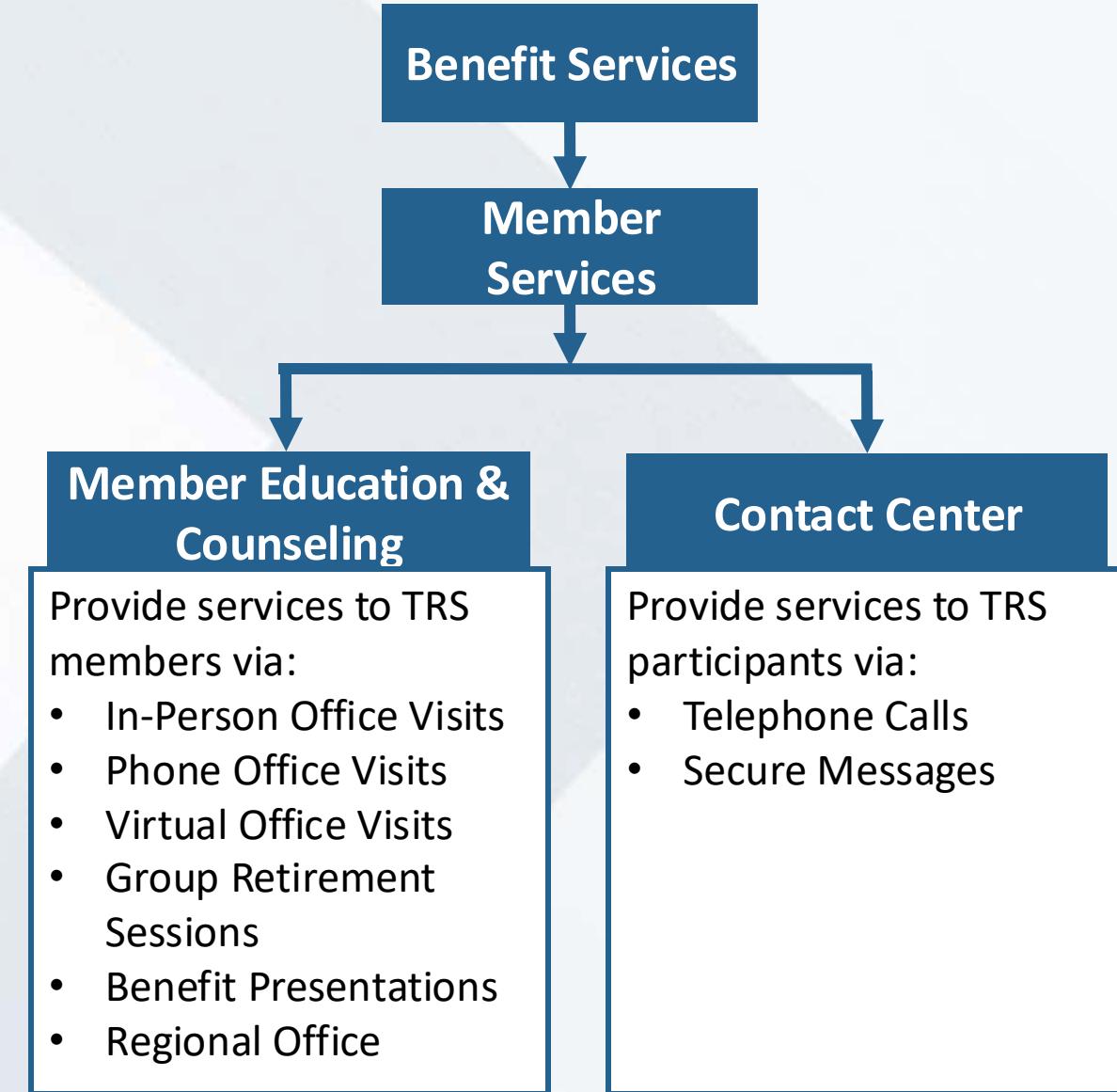
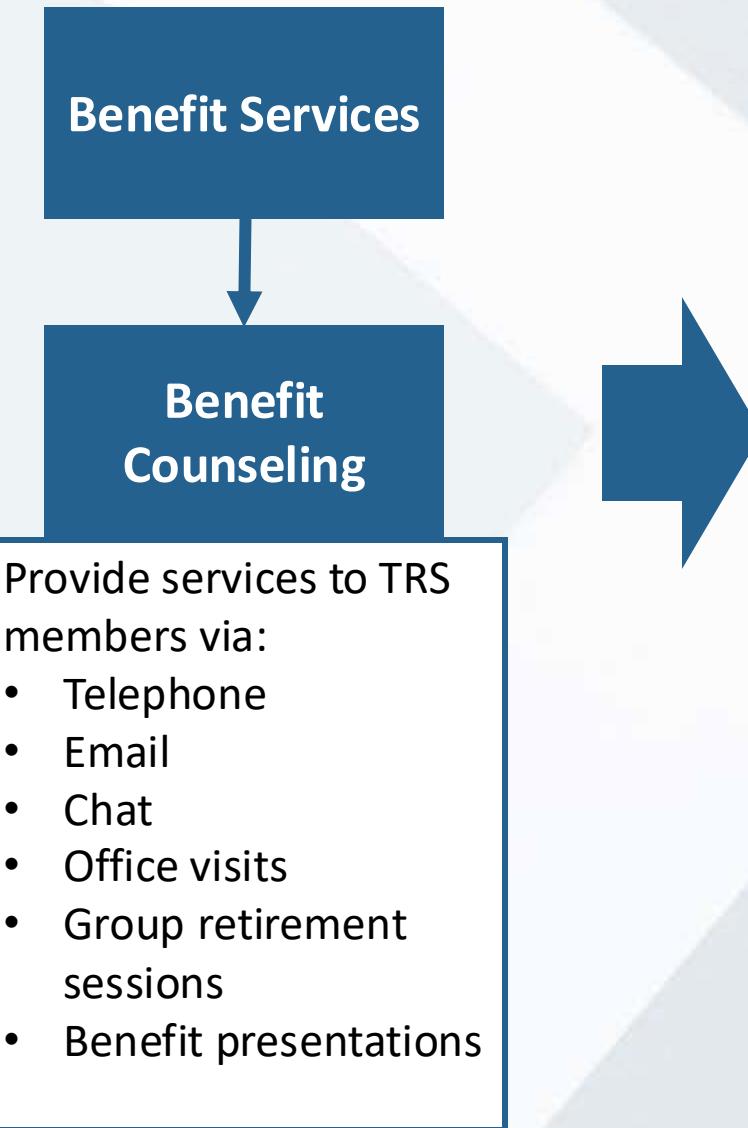
Align with current organizational structure

New policy format



Benefit Counseling Policy

Benefit Services
Organizational
Changes





Benefit Counseling Policy

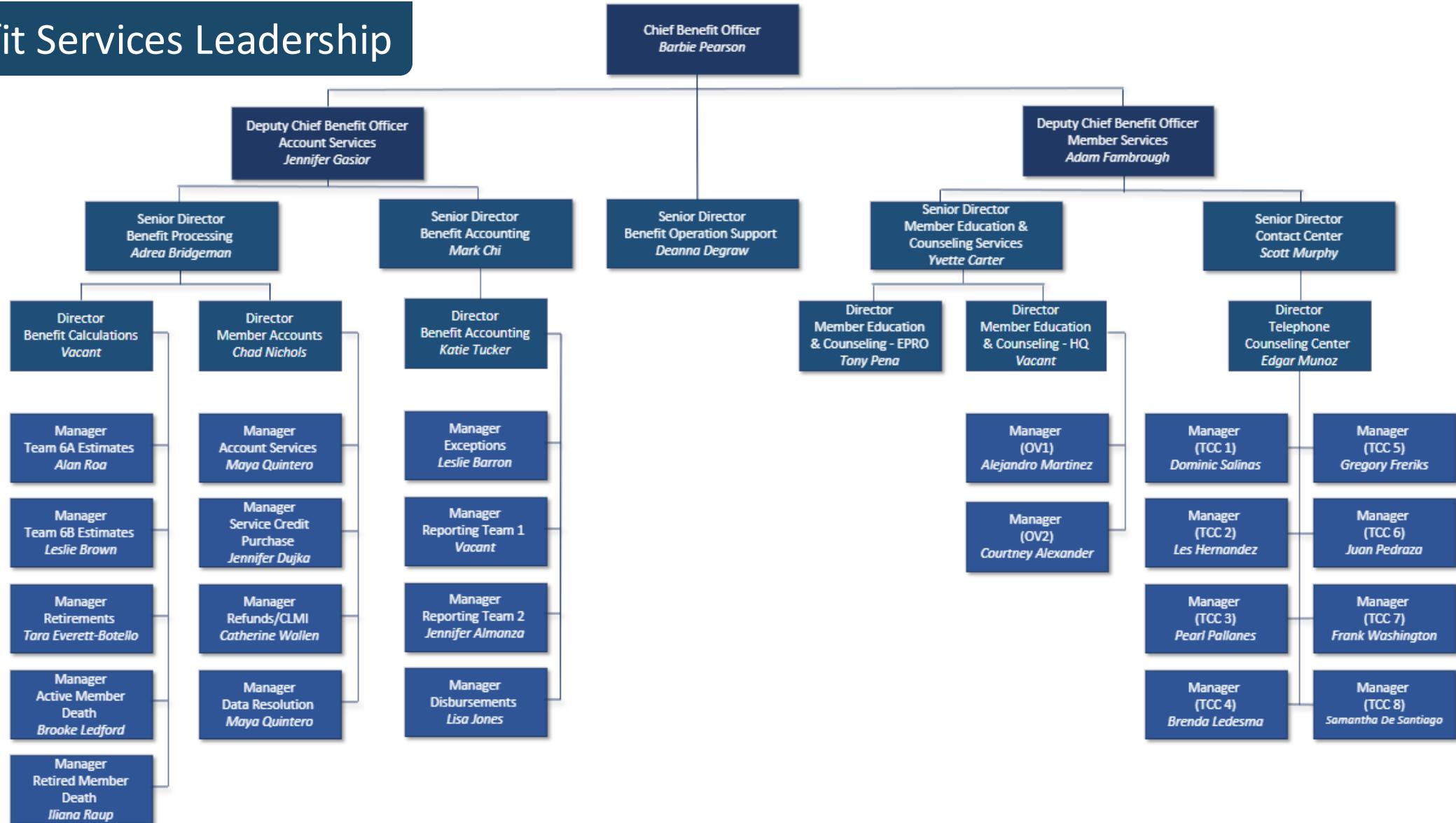


Appendix



Benefit Counseling Policy

Benefit Services Leadership





Benefit Services

Memorandum

DATE: September 19, 2024

TO: Policy Committee of the Board of Trustees

FROM: Barbie Pearson, Chief Benefit Officer

COPY: Brian Guthrie, Executive Director
Caasi Lamb, Deputy Executive Director
Heather Traeger, General Counsel

RE: Benefit Counseling Policy

Pursuant to the Policy Review Schedule, the review of the TRS Board of Trustees Benefit Counseling Policy is due.

The policy was adopted in September 2020 in accordance with Tex. Gov't Code §825.601. The policy defines the process for:

- addressing the manner in which the retirement system makes group and member retirement benefits counseling available throughout the state;
- identifying the geographic regions of the state most in need of retirement counseling services and the manner in which that need will be met; and
- clarifying that the retirement system does not provide financial or legal advice.

Staff is not proposing any substantive change to the Policy. TRS is proposing non-substantive changes. These include updating the policy using TRS' new policy template format, updating department and division names, including virtual appointments as an option, and minor editorial changes for clarity. Staff asks the Policy Committee to recommend that the Board review and adopt the updated Benefit Counseling Policy.

TRS Policy

Benefit Counseling Policy

Purpose:

To adopt a written policy under Tex. Gov't Code § 825.601 governing retirement benefits counseling provided to TRS members, including:

- address the manner in which the retirement system makes group and member retirement benefits counseling available throughout the state;
- identify the geographic regions of the state most in need of retirement counseling services and the manner in which that need will be met; and
- clarify that the retirement system does not provide financial or legal advice.

Core Value:

This policy ties to the value of Member Focus and Accountability because it sets forth TRS' dedication to ensuring that retirement benefit counseling services are provided to members in a variety of manners including meeting our members where they are.

Reference:

- Tex. Gov't Code §822.001 – Membership Requirement
- Tex. Gov't Code §824.001 – Types of Benefits
- Tex. Gov't Code §825.601 – Policies Governing Retirement Benefit Counseling
- Tex. Gov't Code §825.602 – Retirement Benefits Counseling for Individuals
- Tex. Gov't Code §825.506 – Plan Qualification
- 26 U.S.C. §401(a)

Applies to:

- TRS Trustees
- Benefit Services Division

Definitions:

Member Education and Counseling Department: Department within Benefit Services that is responsible for providing service to TRS members via in-person office visits, phone office visits, virtual office visits; group retirement sessions, and benefit presentations.

Contact Center Department: Department within Member Services that is responsible for providing services to TRS participants via telephone calls and secure messages.

Regional Office: A TRS maintained office outside the TRS headquarters in Austin that is used to provide counseling services to TRS members. TRS currently has one regional office in El Paso, TX.

Office Visit (OV) Counselor: TRS employee position that is responsible for providing in-person, phone, and virtual benefit counseling, benefit presentations and group retirement presentations.

Telephone Counselor: TRS employee position that is responsible for providing telephone, email, and chat responses to participant questions.

Benefit Presentation: General presentation delivered by a TRS OV counselor that provides information on TRS member benefits.

Group Retirement Session: In-person retirement sessions specifically for members that intend to retire by January of the following year. During these sessions, attendees are guided by an OV counselor through retirement paperwork preparation. Attendees can ask questions and submit retirement paperwork during session.

Office Visit Appointment: In-person, phone, and virtual appointments available to members to discuss questions about their benefits. These appointments are primarily used by members preparing to submit their retirement paperwork. In-person appointments are available at the TRS headquarters in Austin and the El Paso Regional Office.

Field Office Visit Appointment: In-person appointments available to members at locations across the state. These appointments are limited to members that intend to retire within a year.

Education Service Centers (ESC): Established in 1967 by the Texas Legislature, there are 20 Regional Service Centers that: 1) assist school districts in improving student performance in each region of the system; 2) enable school districts to operate more efficiently and economically; and 3) implement initiatives assigned by the legislature or the Commissioner of Education.

Board: The Board of Trustees of the Teacher Retirement System of Texas as defined by Tex. Gov't Code §821.001(5).

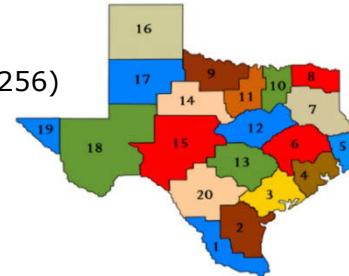
Policy Statement:

Role of Staff: All Benefit Services employees are responsible for maintaining pension benefits knowledge. Member Services provides counseling services to members and their beneficiaries.

Counseling Objectives: Provide accurate and timely service for members throughout their career. Service includes telephone counseling; in-person, phone, and virtual office visit appointments; group retirement sessions, and benefit presentations.

Geographical Regions: Geographical regions are defined by ESCs, allowing for reasonable commute within the area. Regions and average distance from TRS headquarters.

- South Texas: ESC 1 & 2 (average miles: 256)
- Houston: ESC 3, 4, 5, 6 (average miles: 171)
- Dallas-Fort Worth: ESC 7, 8, 9, 10 & 11 (average miles: 256)
- Central Texas: ESC 12, 13 & 20 (average miles: 64)
- Panhandle: ESC 16 & 17 (average miles: 428)
- West Texas: ESC 14, 15 & 18 (average miles: 247)
- El Paso: ESC 19 (average miles: 615)



Member Services Planning: The Teacher Retirement System of Texas (TRS) provides in-person, phone and virtual counseling services and information about TRS benefits. To ensure TRS is offering services in geographical areas most in need, Member Education and Counseling will take the following actions annually to plan and then provide services across geographical regions.

- Analyze member demographics to determine member populations by region of the state. This includes identifying members that are:
 - new to TRS;
 - mid-career; and
 - within five years of retirement eligibility.
- Develop targeted presentations that address questions common to each of the above distinct categories.
- Using defined geographical regions, determine need for services based on average distance from TRS headquarters and number of members eligible to retire within five years.
- Plan in-person and virtual counseling appointments, group retirement sessions, and delivery of presentations proportionate with population for regions in most need of services.
- Schedule services outside of normal working hours creating the opportunity for members to attend without interrupting their work schedule.
- Make counseling appointments available in-person, virtually, and by telephone.
- Make benefit presentations available in-person and virtually.
- Make group retirement sessions available in-person and virtually.
- Identify locations, open, and operate regional offices in areas most in need of services. Specifically, consider regions with dense member populations where travel to headquarters is not within a day's commute.
- Maintain appropriate employee staffing to support contact center and member education operations that are responsive to member needs.
- Publish and promote services and schedule.

Tax, Legal, or Financial Advice: All counseling provided to participants by TRS includes all TRS benefit plans. TRS does not provide tax, legal, or general financial advice. TRS provides information related to the benefits that are available to members. TRS recommends that its participants consult their own tax, legal, and financial planning advisors for all tax and legal questions and for general financial planning.

Violations: N/A

Cross Reference/Related Documents:

- TRS Member and Employer Outreach Plan
- TRS Member Engagement Policy

Policy Type: Board of Trustees	First Issued: September 2020
Contact: Adam Fambrough	Last Review: September 2020
Division Sponsor(s): Barbie Pearson	Next Review Due Date: September 2029
Reviewing Department(s): Benefit Services, Legal & Compliance	Version Number: V1 – September 2024
Review Cycle: Every five years	Version Approved Date: September 19, 2024
Intranet Location: TRS internal policy SharePoint page	

This policy does not constitute a contract, a promise or guarantee of employment, or a guarantee of access to TRS premises or information resources, as applicable, and may be modified, superseded, or eliminated by TRS without notice to the employee.



**Board of Trustees, Teacher Retirement System of Texas
BENEFIT COUNSELING POLICY**
Adopted September 16, 2020 to be effective September 16, 2020

Purpose To adopt a written policy under Tex. Gov't Code §825.601 governing retirement benefits counseling provided to TRS members, including:

- address the manner in which the retirement system makes group and member retirement benefits counseling available throughout the state;
 - identify the geographic regions of the state most in need of retirement counseling services and the manner in which that need will be met; and
 - clarify that the retirement system does not provide financial or legal advice.
-

Authority Tex. Gov't Code §822.001 – Membership Requirement
Tex. Gov't Code §824.001 – Types of Benefits
Tex. Gov't Code §825.601 – Policies Governing Retirement Benefit Counseling
Tex. Gov't Code §825.602 – Retirement Benefits Counseling for Individuals
Tex. Gov't Code §825.506 – Plan Qualification
26 U.S.C. §401(a)

Definitions **BenefitMember Education and Counseling Department:** Department within Benefit Services **Division** that is responsible for providing service to TRS members. ~~Service is delivered through: telephone; email; chat; via in-person office visits, phone office visits, virtual office visits; group retirement sessions; and benefit presentations.~~

Benefit ProcessingContact Center Department: Department ~~responsible for~~within Member Services that is responsible for providing services to TRS participants via telephone calls and secure messages.

Regional Office: A TRS maintained office outside the ~~accurate and timely calculation and processing of benefits~~ TRS headquarters in Austin that is used to provide counseling services to TRS members. ~~TRS currently has one regional office in El Paso, TX.~~

Office Visit (OV) Counselor: TRS employee position that is responsible for providing in-person, phone, and virtual benefit counseling, benefit presentations and group retirement presentations.

Telephone Counselor: TRS employee position that is responsible for providing telephone, email, and chat responses to memberparticipant questions.

Benefit Presentation: General presentation delivered by a TRS OV counselor that provides information on TRS member benefits.

Group Retirement Session: ~~Retirement~~In-person retirement sessions specifically for members that intend to retire by January of the following year. During these sessions, attendees are guided by an OV

**Board of Trustees, Teacher Retirement System of Texas
BENEFIT COUNSELING POLICY**
Adopted September 16, 2020, to be effective September 16, 2020

counselor through retirement paperwork preparation. Attendees can ask questions and submit retirement paperwork during session.

Office Visit Appointment: In-person, phone, and virtual appointments available to members to discuss questions about their benefits. These appointments are primarily used by members preparing to submit their retirement paperwork. TheseIn-person appointments are available at the TRS headquarters in Austin, Texas and the El Paso Regional Office.

Field Office Visit Appointment: In-person appointments available to members at Educational Service Centerslocations across the state. These appointments are limited to members that intend to retire within a year.

EducationalEducation Service Centers (ESC): Established in 1967 by the Texas Legislature, there are 20 Regional Service Centers that: 1) assist school districts in improving student performance in each region of the system; 2) enable school districts to operate more efficiently and economically; and 3) implement initiatives assigned by the legislature or the Commissioner of Education.

BoardofTrustees means the: The Board of Trustees of the Teacher Retirement System of Texas as defined by Tex. Gov't Code §821.001(5).

Roles of Staff All Benefit Services employees are responsible for maintaining pension benefits knowledge. Benefit CounselingMember Services provides counseling services to members and their beneficiaries. Benefit Processing provides support for member services.

Counseling Objectives Provide accurate and timely service for members throughout their career. Service includes: telephone counseling; in-person, phone, and virtual office visit appointments; group retirement sessions, and benefit presentations.

Geographical Regions Geographical regions are defined by ESCs, allowing for reasonable commute within the area. Regions and average distance from TRS headquarters.

South Texas: ESC 1 & 2 (average miles: 256)
Houston: ESC 3, 4, 5, 6 (average miles: 171)
Dallas-Fort Worth: ESC 7, 8, 9, 10 & 11 (average miles: 256)
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West Texas: ESC 14, 15 & 18 (average miles: 247)
El Paso: ESC 19 (average miles: 615)



The Teacher Retirement System of Texas (TRS) provides in-person, phone and virtual counseling services and information about TRS benefits. To ensure TRS is offering services in geographical areas

Board of Trustees, Teacher Retirement System of Texas
BENEFIT COUNSELING POLICY
Adopted September 16, 2020, to be effective September 16, 2020

*Member
Service
Planning*

most in need, ~~Benefit Services~~Member Education and Counseling will take the following actions annually to plan and then provide services across geographical regions.

- Analyze member demographics to determine member populations by region of the state. This includes identifying members that are:
 - new to TRS;
 - mid-career; and
 - within five years of retirement eligibility.
- Develop targeted presentations that address questions common to each of the above distinct categories.
- Using defined geographical regions, determine need for services based on average distance from TRS headquarters and number of members eligible to retire within five years.
- Plan in-person and virtual counseling appointments, group retirement sessions, and delivery of presentations proportionate with population for regions in most need of services.
- Schedule services outside of normal working hours creating the opportunity for members to attend without interrupting their work schedule.
- Make counseling appointments available in-person, ~~through live video~~virtually, and by telephone.
- Make benefit presentations available in-person and virtually.
- Make group retirement sessions available in-person and virtually.
- Identify locations, open, and operate regional offices in areas most in need of services. Specifically, consider regions with dense member populations where travel to headquarters is not within a day's commute.
- Maintain appropriate employee staffing to support contact center and ~~counseling~~member education operations that are responsive to member needs.
- Publish and promote services and schedule.

*Backoffice
Processing*

~~Supports member service planning by: generating service credit purchase cost statements; generating retirement estimates; processing retirement applications; processing refunds; processing death claims; and maintaining member accounts.~~

*Tax, Legal, or
Financial
Advice*

All counseling provided ~~to participants~~ by TRS ~~to its members~~ includes all TRS benefit plans. TRS ~~counseling is does~~ not intended to provide, ~~and should not be relied on for~~, tax, legal, or general financial advice. TRS provides information related to the benefits that are available to members. TRS recommends that its ~~members~~participants consult their own tax, legal, and financial planning advisors for all tax and legal questions and for general financial planning.

TAB 5



Memorandum

DATE: September 19, 2024

TO: TRS Policy Committee

FROM: Katherine H. Farrell, Board Secretary

Through: Brian Guthrie, Executive Director

RE: Policy Review Schedule Update

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. For policies reviewed during the FY 2024 the corresponding dates for the last and next review of the policy were updated. Additionally, the two new policies adopted in FY 2024, Medical Board and TRS-Care Retirees Advisory Committee policies, were added to the schedule.

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 1419, 20232024

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
ADMINISTRATIVE					
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 <u>34</u>	September 202 <u>34</u>	September 202 <u>45</u>
	Investments; OE; Legal		September 202 <u>34</u>	September 202 <u>34</u>	September 202 <u>45</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 ⁱⁱⁱ	September 2022	December 2022	April 2026 ^{iv}
Litigation Policy	Legal	3 years	April-May 202 <u>44</u>	April-May 202 <u>44</u>	April 202 <u>47</u>
Policy on Negotiated Rulemaking and Alternative Dispute Resolution	Executive Director; Legal	5 years	July 2023	July 2023	July 2028
Procurement Policy	Legal	3 years	July 202 <u>44</u>	July 202 <u>44</u>	July 202 <u>47</u>

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
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 <u>2022</u> <u>2024</u>	September <u>2020</u> <u>2024</u>	September <u>2024</u> <u>2026</u>
Outreach Plan ^v	Communications; Benefits	5 years	July 2021	July 2021	July 2026
Inactive Accounts Policy ^{vi}	Benefits	4 years	December 2021	December 2021	December 2025
BOARD GOVERNANCE & ETHICS					
Bylaws of the Board of Trustees	Legal	4 years	September 2022	<u>September 2022</u> <u>December 2023</u>	September 2026
Board Training Policy	Executive Director; OE	4 years	December 2022	December 2022	December 2026
Trustees External Communication Policy	Communications	5 years	<u>April 2019</u> <u>May 2024</u>	<u>December 2019</u> <u>May 2024</u>	April 2024
Trustee Ethics Policy and Position Description	Legal	4 years	December 2021	December 2021	December 2025
<u>Medical Board Policy</u>	<u>Benefits; Legal</u>	<u>3 years</u>	<u>May 2024</u>	<u>May 2024</u>	<u>May 2027</u>
<u>TRS-Care Retirees Advisory Committee Policy</u>	<u>Health; Legal</u>	<u>3 years</u>	<u>May 2024</u>	<u>May 2024</u>	<u>May 2027</u>

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026
EMPLOYEE & VENDOR ETHICS					
Designation of Key Employees	Executive Director	2 years	<u>September 2021</u> <u>December 2023</u>	<u>July 2022</u> <u>December 2023</u>	December 2023 <u>2025</u>
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
INVESTMENTS					
General Authority Resolution (GAR)	Financial; Investments	2 years	September 2023	September 2023	September 2024
Investment Policy Statement	Investments	2 years	September 2023	September 2023	September 2025

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
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

ⁱ Reviews scheduled or rescheduled to begin and to end at the meeting when the current Policy Review Schedule is approved are assumed to have been completed at that meeting, so that date is shown in this column, "Date of Last Policy Committee Comprehensive Review."

ⁱⁱ 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.

ⁱⁱⁱ Texas Gov't Code § 2001.039 requires a comprehensive rule review every four years.

^{iv} 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.

^v The Outreach Plan is required by statute to be reviewed and updated every five years. The plan provides for Communications to annually update the Board on the implementation of the plan.

^{vi} 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 19, 2024

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Trustee Ethics Policy and Position Description	Legal	4 years	December 2021	December 2021	December 2025
Medical Board Policy	Benefits; Legal	3 years	May 2024	May 2024	May 2027
TRS-Care Retirees Advisory Committee Policy	Health; Legal	3 years	May 2024	May 2024	May 2027
Pension Funding Policy	Executive	4 years	December 2022	December 2019	September 2026

BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
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Investment Policy Statement	Investments	2 years	September 2023	September 2023	September 2025
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BOARD POLICIES	STAFF SPONSOR	APPROXIMATE INTERVAL BETWEEN COMPREHENSIVE REVIEWS	DATE OF LAST POLICY COMMITTEE COMPREHENSIVE REVIEWⁱ	DATE OF LAST AMENDMENT	DATE TO BEGIN NEXT REVIEWⁱⁱ
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^v The Outreach Plan is required by statute to be reviewed and updated every five years. The plan provides for Communications to annually update the Board on the implementation of the plan.

^{vi} 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.