TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES
AND
COMPENSATION COMMITTEE

(Committee Chair and Members are Subject to Change at the September Board Meeting—Ms. Sissney, Chair; Ms. Clifton; Mr. Colonnetta; Mr. Kelly; & Ms. Palmer, Committee Members)

AGENDA

September 12, 2013 – 1:30 p.m.
TRS East Building, 5th Floor, Boardroom

The September 12-13, 2013 meetings of the TRS Board of Trustees and Compensation Committee will be held by telephone conference call as authorized under Texas Government Code Section 551.130. The Board and Compensation Committee intend to have quorums physically present at 1000 Red River Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.

1. Consider the approval of the proposed minutes of the September 13, 2012 committee meeting – Committee Chair.

2. Discuss and consider recommending to the Board proposed amendments to and ratification of the Performance Incentive Pay Plan for the period beginning October 1, 2013 – Jerry Albright.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Compensation Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Compensation 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.
The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas (TRS) met on September 13, 2012 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following committee members were present:

The following members of the committee were present:
Nanette Sissney, Chair
Charlotte Clifton
Joe Colonnetta
David Kelly
Anita Palmer

Other TRS Board members present:
Todd Barth
Karen Charleston
Eric McDonald
Chris Moss

Others present:
Brian Guthrie, TRS
Ken Welch, TRS
Conni Brennan, TRS
Janet Bray, TRS
Britt Harris, TRS
Amy Barrett, TRS
Jerry Albright, TRS
Jase Auby, TRS
Dennis Gold, TRS
Eric Lang, TRS
Denise Lopez, TRS
Dan Herron, TRS
Janis Hydak, TRS
Dan Junell, TRS
Lynn Lau, TRS
Hugh Ohn, TRS
Noel Sherman, TRS
Chi Chai, TRS
Sharon Toalson, TRS
Angela Vogeli, TRS
Tim Wei, TRS
Steve Huff, TRS
Dr. Keith Brown, Investment Advisor
Steve Voss, Hewitt EnnisKnupp
Brady O’Connell, Hewitt EnnisKnupp
Ronnie Jung
Philip Mullins

Ms. Sissney called the meeting to order at 12:52 p.m. with a quorum of committee members present.

1. **Consider the approval of the proposed minutes of the September 15, 2011 committee meeting – Committee Chair.**

On a motion by Ms. Clifton, seconded by Mr. Kelly, the committee unanimously approved the minutes of the September 15, 2011 committee meeting, as presented.
2. Consider recommending to the Board adoption of a Performance Incentive Pay Plan for performance periods commencing October 1, 2012 and each October 1 thereafter – Jerry Albright.

Mr. Albright reviewed TRS Performance Incentive Pay Plan (plan) for the Investment Management Division (IMD), including its philosophy, history, and accomplishments. He presented the following proposed amendments to the plan:

- Amending Addendum A and B to show organizational changes and to revise performance comparison allocations;
- Deleting Addendum C, the content of which has been incorporated into the Investment Policy Statement referenced by the plan;
- Awarding employees leaving an eligible position within TRS for the final, partial performance period worked in the eligible position;
- Specifying that the qualitative performance component of the Maximum Award Opportunity will be based on a system of performance evaluation approved by the Executive Director;
- Clarifying that no changes will be applied retroactively, unless the law requires it;
- Adding a new section to address the addition of new profit centers in the IMD; and
- Deleting section 4.6(c) describing the implementation of the plan during the first two years.

Mr. Albright referred the board to the marked and clean versions of the proposed amended plan. He noted a typo in Addendum A that the real assets benchmark, “NCREIF,” should be “NCREIF Odyssey.”

Per Ms. Sissney’s request, Mr. Huff commented on the proposed plan. He suggested that the board review and address the compensation clawback issues under Dodd-Frank Reform Act in the future.

On a motion by Mr. Kelly, seconded by Ms. Clifton, the committee unanimously voted to recommend to the board the adoption of the Performance Incentive Pay Plan for performance periods commencing October 1, 2012.

The meeting adjourned at 1:09 p.m.
Memorandum

TO: Compensation Committee and Board of Trustees
FROM: Office of the General Counsel
COPY: Brian Guthrie, Ken Welch, Don Green, Britt Harris, Jerry Albright, Mary Chang, Janet Bray
DATE: August 28, 2013
RE: Compensation Committee agenda item 2
    Board agenda item 6
    Amendment, ratification, and confirmation of Performance Incentive Pay Plan effective October 1, 2013

In September 2012, the board reviewed and adopted the Plan, with some minor revisions, for Performance Periods commencing October 1, 2012 and after. In anticipation of this year’s allocation to energy and natural resources in the Investment Policy Statement, the 2012 Plan added a new Natural Resources investment area to Plan Addendum A. As of September 2012, the board intended to review the Plan every two years. After adoption, the State Auditor’s Office recommended that the board annually confirm the Plan to evidence the board’s monitoring of the Plan and to create an annual record of board-approved continuation of the Plan.

Section 4.1(c) has been added to the plan to implement the SAO’s recommendation.

The Compensation Committee will consider recommending to the board the adoption, ratification, and continuation of the Plan for Performance Periods beginning October 1, 2013.

The following resolution can be used for adoption at the September board meeting:

Resolved, That the Board hereby adopts the amended Performance Incentive Pay Plan as recommended by the Compensation Committee, and hereby ratifies and confirms continuation of the Plan, as amended, for the Performance Periods beginning October 1, 2013.
This version of the Plan is effective for Performance Periods beginning on or after October 1, 2013. Any awards for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods. No modification of the Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.
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1. PERFORMANCE INCENTIVE PLAN PURPOSE AND AUTHORIZATION

To remain competitive in its efforts to attract and retain high caliber Investment Management Division (IMD) employees, the Teacher Retirement System of Texas (TRS) strives to offer a competitive compensation package. Awards of performance incentive pay based on specified performance criteria are an industry standard practice in the private investment sector and are rapidly becoming a standard practice in the public sector. By offering both a competitive base salary and performance incentive award opportunity, TRS enhances its ability to fulfill its mission to “prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principals.” Therefore, pursuant to the laws governing TRS, the TRS Board of Trustees (the “Board”) has determined that establishing and expending funds for this Performance Incentive Pay Plan (the “Plan”) is consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system.

2. PLAN OBJECTIVES AND STRATEGY

2.1 Plan Objectives

The Plan serves a number of objectives:

- To attract and retain IMD employees who have outstanding ability;
- To create incentives for IMD employees to develop a strong commitment to the long-term investment performance of the assets for which TRS has been delegated investment responsibility; and
- To motivate investment professionals to focus on maximizing real, long-term returns for all funds managed by TRS while assuming appropriate levels of risk.

2.2 Plan Strategy

The Plan strategy includes:

- Base salaries, targeted at competitive levels, as defined by the Executive Director and the Board with actual individual base salaries determined by an employee’s experience, education, knowledge, skills, and overall job performance.
- Performance incentive pay award opportunities, calculated as a percentage of an employee’s base salary for performance above pre-determined standards, earned contingent upon continued employment in an Eligible Position at specified times and generally payable in two annual installments, subject to deferral as set forth in Section 4.8(b).

3. BASE SALARY ADMINISTRATION

3.1 Salary Structure

(a) Notwithstanding any other law, the Board approves the rates of compensation of all IMD employees. Under state law, the Board’s Bylaws, and as part of the annual TRS budgeting process, the Board authorizes the Executive Director to determine and propose base salary rates of compensation generally based on the salary schedules, position classifications and salary administration practices of Article IX of the General Appropriations Act, Chapter 659 of the Texas Government Code and other relevant legislation to the extent the Executive Director determines a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.

(b) Under the terminology of the state compensation program, “classified” employees are those employees whose position classification titles, pay groups and ranges, and pay administration
practices are based on the State Position Classification Plan and related salary administration provisions.

(c) Upon hiring or promotion, classified employees are assigned to a classification title that is consistent with assigned responsibilities. Initial base salaries for classified employees are set between the minimum and maximum of the assigned pay group, considering the employee’s experience, education, knowledge and skills, and issues of external competitiveness and internal equity.

(d) “Exempt” employees’ job titles, pay groups and ranges, and pay administration practices are not based on the State Position Classification Plan and related salary administration system. For purposes of the Plan, the Chief Investment Officer and the Investment Fund Directors are considered exempt employees, while the remainder of IMD employees are considered classified for compensation and other purposes. Employees who are exempt from the salary classification schedules do not have base salary ranges. As part of the annual TRS budgeting process, the Board authorizes the Executive Director to determine base salaries for exempt positions up to a not-to-exceed rate specified in the General Provisions of the TRS Budget. Initial base salaries for exempt employees are set by the Executive Director at or below the applicable not-to-exceed rate, considering the employee’s experience, education, knowledge and skills, and issues of external competitiveness and internal equity.

3.2. Salary Adjustments

(a) Classified employees may receive base salary increases for a number of reasons, including but not limited to career ladder promotions, and merit increases for individual performance. Exempt employees may receive base salary adjustments (increase within the not-to-exceed rate or decrease) at the discretion of the Executive Director.

(b) Notwithstanding subsection 3.2(a), all base salary changes will be executed in accordance with TRS salary administration procedures.

4. INCENTIVE PAY PLAN

4.1. Purpose of the Plan and Effective Date; Board Continuation Requirement

(a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance incentive pay based on specific criteria relative to TRS’s investment performance and the employee’s job performance.

(b) This version of the Plan is effective for Performance Periods beginning on or after the effective date shown on the cover page. A Potential Award for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the version of the Plan effective for those Performance Periods.

(c) Effective for Performance Periods beginning on or after October 1, 2013, Potential Awards may be earned for a Performance Period only if the Board has confirmed continuation of the Plan for such Performance Period during the calendar quarter preceding the first day of such Performance Period.

4.2. Performance Period

For purposes of the Plan, the “Performance Period” begins on October 1st of each year and ends the following September 30th.

4.3. Participation in the Plan

(a) An IMD employee who is in an “Eligible Position” on October 1 of the Performance Period is eligible to participate in the Plan (a “Participant”) during that Performance Period.
(b) Notwithstanding Section 4.3(a) above, an IMD employee who first begins employment in an
Eligible Position (through new hire, promotion or reassignment) after the beginning of the
Performance Period will become a Participant as follows:

(i) If an IMD employee begins employment in an Eligible Position with an official hire date
or effective date after October 1 but no later than January 1 the employee will become a
Participant on January 1 and the Participant’s award opportunity will be prorated to 75%
of the Potential Award for that Performance Period.

(ii) If an IMD employee begins employment in an Eligible Position with an official hire date
or effective date after January 1 but no later than April 1 the employee will become a
Participant on April 1 and the Participant’s award opportunity will be prorated to 50% of
the Potential Award for that Performance Period.

(iii) If an IMD employee begins employment in an Eligible Position with an official hire date
or effective date after April 1 but no later than July 1 the employee will become a
Participant on July 1 and the Participant’s award opportunity will be prorated to 25% of
the Potential Award for that Performance Period.

(iv) If an IMD employee begins employment in an Eligible Position with an official hire date
or effective date after July 1 of a Performance Period the employee will not become a
Participant until the beginning of the next Performance Period (assuming such employee
is employed by TRS in an Eligible Position on October 1 of the Performance Period).

(v) If a Participant leaves an Eligible Position during a Performance Period and begins TRS
employment in a non-Eligible Position, the Participant’s Potential Award for the partial
Performance Period will be prorated based on the number of completed calendar quarters
worked in all Eligible Positions during that Performance Period.

(c) Generally, all permanent, full time employee positions assigned to the IMD are Eligible
Positions under the Plan. Each Eligible Position within the IMD is assigned to an investment area
that determines the profit center allocations included in the Participant’s Potential Award
calculation under Addendums A and B.

(d) Secondees, contract workers, and other temporary workers are not TRS employees and are not
eligible to participate in the Plan.

(e) An Eligible Position in one Performance Period is not automatically an Eligible Position in any
subsequent Performance Period.

(f) The Director of Human Resources will certify to the Executive Director in writing the name,
base salary, hire date, effective date, Eligible Position title, and investment area assignment of
each eligible Participant for the applicable Performance Period, including Participants employed
in an Eligible Position for only a portion of the Performance Period.

(g) After the beginning of a Performance Period, if a Participant moves from one Eligible Position to
another Eligible Position with a different position title or area assignment, the Participant’s
Potential Award for that Performance Period and the measurement of the Participant’s
performance will be prorated between the award calculated for the former Eligible Position title
or investment area assignment and the award calculated for the new Eligible Position or
investment area assignment as follows:

(i) If a Participant moves to a new Eligible Position or investment area assignment after
October 1 but no later than January 1 the Participant’s Potential Award and the
measurement of the Participant’s performance will be based on the former Eligible
Position or investment area assignment for the period October 1 through December 31,
and on the new Eligible Position or investment area assignment for the period January 1 through September 30.

(ii) If a Participant moves to a new Eligible Position or investment area assignment after January 1 but on or before April 1 the Participant’s Potential Award and the measurement of the Participant’s performance will be based on the former Eligible Position or investment area assignment for the period October 1 through March 31, and on the new Eligible Position or investment area assignment for the period April 1 through September 30.

(iii) If a Participant moves to the new Eligible Position or investment area assignment after April 1 but no later than July 1 the Participant’s Potential Award and the measurement of the Participant’s performance will be based on the former Eligible Position or investment area assignment for the period October 1 through June 30, and on the new Eligible Position or investment area assignment for the period July 1st through September 30.

(iv) If a Participant moves to a new Eligible Position or investment area assignment after July 1 of a Performance Period the Participant’s Potential Award will be based on the former Eligible Position or investment area assignment for the entire Performance Period.

(h) An employee will cease to be a Participant in the Plan on the earliest to occur of:

(i) Except as specifically provided in Section 4.3(b)(v) with respect to continued TRS employment, the date the employee is no longer employed in an Eligible Position;

(ii) The date of termination of the employee’s employment with TRS for any reason. (For purposes of the Plan, the date of termination is the employee’s last day worked and does not include any leave the employee was allowed to use to extend their employment for payroll purposes.);

(iii) The date of termination of the Plan.

4.4. **Investment Performance Components, Qualitative Components, and Potential Award**

(a) Participants’ Potential Awards will be based on a combination of investment performance and qualitative performance components.

(b) The investment performance components comprise two performance categories: 1) performance measured against pre-determined benchmarks and applicable excess return targets, and 2) performance measured against pre-determined peer groups.

(i) The benchmark index category of the investment performance component will determine 50% of the total Potential Award.

(ii) The peer group category of the investment performance component will determine 30% of the total Potential Award.

(c) Notwithstanding that the Performance Period is October 1 through September 30, due to the delay in availability of final performance data for Private Equity and Real Assets, performance measurements for these two investment areas will experience a one quarter time lag, such that all incentive calculations involving Private Equity and Real Assets performance will use data for the one and three year periods ending each June 30.

(d) Each Eligible Position will be assigned specific weightings for Total Fund and investment area performance as shown in Addendums A and B.

(i) To encourage a focus on the “big picture” and a sense of shared mission, the investment performance component (both benchmark and peer group categories) for all Eligible Positions will have a Total Fund weighting of at least 20%. Weightings for investment area performance categories will be divided among the Eligible Position’s primary
investment area and other investment areas with which the Eligible Position has regular interaction.

(ii) Where no investment area peer group performance measures are available, that investment area peer group performance weighting allocation is added to the Total Fund peer group performance weighting allocation.

(e) The qualitative performance component will be measured as part of each Participant’s annual performance appraisal process and may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success that are not directly measured in the investment performance component, such as interpersonal relationship skills, accountability, effective teamwork, etc.

(i) Regardless of a Participant’s performance towards the qualitative performance component, a Potential Award will only include the portion attributed to qualitative performance if the Participant has attained at least the threshold level of performance in the investment performance component.

(ii) To encourage appropriate organizational behaviors, the qualitative performance component for all Eligible Positions will be weighted at 20% of the Potential Award.

(f) A Potential Award is the gross award amount calculated based on the actual performance achieved in the Performance Period. Depending on performance, the Potential Award in a Performance Period varies from zero to 100% of the Maximum Potential Award. The Maximum Potential Award that can become earned and payable under the Plan is limited to the percentage of a Participant’s Base Salary in an Eligible Position that is listed opposite each Eligible Position in the table below. The Maximum Potential Award applies regardless of whether a Participant has exceeded the stated maximum performance targets or the gross amount of the Potential Award calculated under the Plan.

<table>
<thead>
<tr>
<th>ELIGIBLE POSITION</th>
<th>MAXIMUM POTENTIAL AWARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Investment Officer</td>
<td>125%</td>
</tr>
<tr>
<td>Deputy CIO</td>
<td>125%</td>
</tr>
<tr>
<td>Senior Managing Director</td>
<td>125%</td>
</tr>
<tr>
<td>Managing Director</td>
<td>125%</td>
</tr>
<tr>
<td>Senior Director</td>
<td>110%</td>
</tr>
<tr>
<td>Director</td>
<td>110%</td>
</tr>
<tr>
<td>Senior Investment Manager</td>
<td>90%</td>
</tr>
<tr>
<td>Investment Manager</td>
<td>85%</td>
</tr>
<tr>
<td>Senior Associate</td>
<td>65%</td>
</tr>
<tr>
<td>Associate</td>
<td>50%</td>
</tr>
<tr>
<td>Senior Analyst</td>
<td>35%</td>
</tr>
<tr>
<td>Analyst</td>
<td>25%</td>
</tr>
<tr>
<td>Administrative Assistants</td>
<td>5%</td>
</tr>
</tbody>
</table>

(g) Notwithstanding the Maximum Potential Award listed in Section 4.4(f) above, those Participants titled “Senior Investment Manager” who remain in the Eligible Position that was titled “Lead Investment Manager” or “Lead Trader” in the Plan effective October 1, 2007, will continue to have a Maximum Potential Award of 100% of Base Salary. If the Participant transfers to a different Eligible Position with a title other than Senior Investment Manager, the Maximum
Potential Award will change to that appropriate for the new Eligible Position and be prorated as set forth in Section 4.3(g).

(h) For each investment area, the profit center weighting and excess return relative to each assigned excess return target will combine to determine the Potential Award for each Eligible Position.

(i) The Potential Award includes a threshold, a maximum, and intermediate levels of Potential Award that correspond to specific levels of investment performance.

(ii) Intermediate levels of the Potential Award for investment performance are determined by linearly interpolating between the threshold and maximum.

(iii) For the qualitative component, intermediate levels of the Potential Award will be based on a system of annual performance evaluation approved by the Executive Director.

4.5. Compliance with TRS Policies

(a) IMD employees exercise fiduciary responsibilities delegated by the Board under applicable law. Investment professionals manage the portfolio according to the Board’s policies, advise and inform the Executive Director and the Board about investments, and recommend modifications to the Investment Policy Statement. In addition, all IMD employees are responsible for complying with TRS policies, including without limitation the Investment Policy Statement, Ethics Policy, and the Fraud, Waste and Abuse Policy.

(b) Excess performance by a Participant or Participants resulting from a failure to manage the assets of TRS in accordance with applicable law, the Investment Policy Statement, or TRS Ethics Policy will result in the forfeiture for that portion of the Potential Award for those Participants resulting from that excess performance for the Performance Period in which the noncompliance occurred. The Executive Director will make this determination on a case-by-case basis.

(c) Serious violations of the TRS Investment Policy Statement, Ethics Policy, Fraud, Waste and Abuse Policy, or other TRS policy by a Participant, as determined by the Executive Director, will result in forfeiture of all Potential Awards for the Performance Period in which the violation(s) occurred, as well as for earlier Performance Periods that have not yet become earned (including without limitation any Potential Awards that are unearned and deferred as set forth in Section 4.8(b) below). Additionally, during the investigation of possible serious violations of law or policy, the Executive Director or the Board may suspend earning and payment of Potential Awards until the conclusion of the investigation.

4.6. Performance Standards and Measurements

(a) Investment Performance (for both benchmark and peer group categories) is measured on one year and three year historical performance data, weighted at 33% for one year performance (i.e., performance during the Performance Period) and 67% for the historical three year performance that includes the Performance Period. Investment Performance is measured relative to appropriate pre-defined benchmarks as detailed in the asset allocation and benchmarks table, including applicable footnotes, in the Board’s Investment Policy Statement (“IPS”), as amended from time to time. For the purposes of this Plan, changes to the IPS benchmarks during a Performance Period will be effective from and after the effective date of such changes in the IPS, subject to revisions to the Plan adopted by the Board of Trustees. In no event may benchmark changes be applied retroactively except as required to comply with applicable law, including federal tax laws and regulations.

(b) Notwithstanding Section 4.6(a), the performance of any new profit center will be calculated for purposes of the Plan as follows:
(i) The investment performance of any new profit center (for both benchmark and peer group categories) will commence with the first full Performance Period commencing on or after the date the profit center is created;

(ii) For a new profit center’s first full Performance Period, the profit center’s investment performance will be based 100% on the profit center’s performance data for the first full Performance Period;

(iii) For a new profit center’s second full Performance Period, the profit center’s investment performance will be weighted (x) 50% on the profit center’s performance during the second full Performance Period, and (y) 50% on the profit center’s two-year performance during the first and second full Performance Periods.

(iv) For all Performance Periods commencing after the second full Performance Period, the investment performance of a new profit center will be weighted (x) 33% on the profit center’s performance during the one-year Performance Period just ended, and (y) 67% on the profit center’s three-year performance during the three full Performance Periods just ended.

(v) For the purposes of this Plan, no investment performance will be calculated for a Performance Period for a new profit center created during that Performance Period, unless it existed on October 1 of that Performance Period.

(c) The qualitative performance component is measured annually as part of the Participant’s current annual performance appraisal process.

4.7. Potential Award Calculations

(a) Following the end of each Performance Period, the Executive Director will review the actual performance of each Participant relative to the applicable performance components.

(b) Potential Awards are calculated based on the Participant’s level of performance achieved in the applicable investment performance and qualitative performance components in each Performance Period.

(c) Relative performance data and calculations may be reviewed by an external independent source selected by the Executive Director, but final calculations are approved by the Executive Director.

4.8. Earning Potential Awards and Payouts

(a) Notwithstanding the Executive Director’s approval of Potential Award calculations, Potential Awards will only become earned and payable as stated below:

(i) Subject to Section 4.8(b), if a Participant is employed by TRS on January 1 following the end of the Performance Period for which that employee was a Participant, 50% of the Potential Performance Incentive Award will become earned and payable. Payment of this award will generally be processed with that January payroll for delivery on or about February 1 of that calendar year; provided however that in no event will payment be made later than February 15 of that calendar year.

(ii) Subject to Section 4.8(b), if a Participant is employed by TRS on January 1 following the first anniversary of the end of the Performance Period for which that employee was a Participant, the remaining 50% of the Potential Performance Incentive Award will become earned and payable. Payment of this award will generally be processed with that January payroll, for delivery on or about February 1 of that calendar year; provided however that in no event will payment be made later than February 15 of that calendar year.

The payment dates in respect of a Performance Period shall be the same for all Participants.
(b) Notwithstanding subsection 4.8(a), no Potential Awards will become earned or payable following a Performance Period in which the Fund experiences a total return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become earned on the January 1 next following the end of that Performance Period will not become earned until January 1 following the next Performance Period in which the Total Fund has a return greater than zero during a Performance Period, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this award will be processed with the January payroll, typically issued on or about February 1 of that calendar year; provided however that in no event will payment be made later than February 15 of that calendar year.

(c) If an employee ceases to be a Participant before the end of a Performance Period due to termination of employment with TRS for any reason other than involuntary termination of employment due to a Reduction in Force, death, or disability within the meaning of Section 409A of the Internal Revenue Code, a Potential Award for that Performance Period will not become earned and will not be paid. Potential Awards from earlier Performance Periods that have not yet become earned (as set forth in Section 4.8(b) above) will not become earned and will not be paid.

(d) If an employee ceases to be a Participant before the end of a Performance Period due to involuntary termination of employment with TRS because of a Reduction in Force, death, or disability within the meaning of Section 409A of the Internal Revenue Code, a Potential Award for that Performance Period will not become earned and will not be paid. Notwithstanding Sections 4.8(a) – (b), Potential Awards from earlier Performance Periods will immediately become earned and payable. Payments under this subsection will be made to the terminated employee, or to the estate of the deceased employee, or to the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but no later than 2½ months after the end of the calendar year in which the Reduction in Force, death or disability occurred.

(e) If an employee ceases to be a Participant before the end of a Performance Period due to termination of the Plan (as provided for in Section 5.1), a Potential Award for that Performance Period will not become earned and will not be paid. Potential Awards from earlier Performance Periods that have not yet become earned (as set forth in this Section 4.8), can become earned and be paid according to the terms in this Section 4.8, if the Board determines that such payments continue to be consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system, and if such payments are not prohibited by applicable law.

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension and Termination

The Board shall have the right in its sole discretion to modify the Plan or any portion thereof at any time. The Board shall have the right in its sole discretion to suspend or terminate the Plan entirely or any portion thereof at any time. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of this Plan may be given retroactive effect in the administration of this Plan except as required to comply with applicable law, including federal tax laws and regulations.

5.2 Plan Administration

Consistent with the provisions of the Plan, the Executive Director has the sole discretion to administer and interpret the Plan. The Executive Director may adopt such procedures and practices as deemed advisable to carry out the Plan.
5.3 **Record Keeping and Reporting**

All employee performance, salary and incentive pay records for the Plan shall be maintained by the Director of Human Resources.

5.4 **Compliance with State and Federal Law**

If the Executive Director or a court with appropriate jurisdiction determines that any provision of the Plan violates applicable state or federal law, that provision shall not be given effect. The remaining provisions of the Plan shall remain in full force and effect to the maximum extent possible, and any amendments or modifications that are necessary to give effect to the remaining provisions will be deemed to have been made to allow proper administration of the Plan.

6. **AT-WILL EMPLOYMENT**

Nothing in the adoption of this Plan or the awarding of performance incentive pay alters the at-will nature of TRS employment, creates a contract between TRS and any TRS employee, confers on any TRS employee the right to continued employment with TRS, or affects in any way the right of TRS to terminate the employment of employees at any time.

7. **OTHER PLAN PROVISIONS**

7.1. **Non-assignment and Non-transferability of Awards**

Potential Awards or the actual awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment or levy of any kind.

7.2 **Plan Does Not Create a Property Interest, Trust, or Entitlement**

(a) Neither the establishment of the Plan, the calculation of Potential Awards or the actual awards shall be deemed to create a property interest, trust or entitlement. The Plan is an unfunded, unsecured liability of TRS to make payments in accordance with the provisions of the Plan. Any amounts budgeted by TRS for awards earned under the Plan are TRS assets, and no employee or third party shall have any property, security, or other interest in any assets of TRS by reason of the Plan.

(b) Nothing in the Plan shall be deemed to create or confer any right, interest, or title to any specific property of TRS to any Participant, or to any personal representative or beneficiary of a Participant.

7.3 **Tax and Other Deductions**

All payments under the Plan shall be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time of payment and (2) for any and all amounts owed by the employee to TRS at the time of payment. TRS is not obligated to advise an employee of the existence of any tax or the amounts that TRS will be required to withhold.

7.4 **Payments Not Eligible for Retirement Purposes**

Any payments made pursuant to the Plan are fringe benefits and are not eligible compensation for TRS pension plan purposes.

7.5 **Grievances**

All grievances related to the Plan will be addressed according to the TRS Grievance and Appeals Policy or any successor policy, as amended from time to time.
8. **DEFINITIONS**

**Base Salary** for use in the Plan is the Participant’s annualized monthly salary as of October 1 of the applicable Performance Period (not including longevity or benefit replacement pay), or the annualized monthly salary of new Participants as of the date they first become a Participant, as certified by the Director of Human Resources.

**Eligible Position** is defined in Section 4.4(f). Eligible Position refers to the position, not the actual Participant in the position, and includes all positions assigned to the Investment Division and listed in Section 4.4(f).

**Investment areas** are listed in the first column of Addendums A and B.

**Maximum Potential Award** is defined in Section 4.4(f) and is the maximum Potential Award that can become earned and payable with respect to an Eligible Position during a Performance Period.

**Participant** is an employee in an Eligible Position on October 1 of the Performance Period, or who first is employed in an Eligible Position after the beginning of the Performance Period based on the schedule detailed in the Plan, as certified by the Director of Human Resources.

**Performance Period** is the period beginning on October 1 of each year and ending on September 30 of the following year.

**Potential Award** is defined in Section 4.4(f) and is the amount calculated based on the Participant’s performance achieved in the applicable investment performance and qualitative performance components. A Potential Award is capped at the Maximum Potential Award, regardless of whether the Participant exceeds the stated maximum performance. The phrase “award opportunity” is synonymous with Potential Award.

**Profit centers** are listed in the first row of Addendum A, except that Trade Management is also listed as a profit center in the first row of Addendum B only for peer allocation purposes.

**Reduction in Force** for use in the Plan refers to termination of an employee due to elimination of the employee’s position caused by a required reduction in the number of TRS Full-Time Equivalents (FTEs) or by a required reduction in expenses within the TRS operating budget. The Executive Director has sole discretion in determining whether an employee’s termination is due to a Reduction in Force.

**SAA** means the Strategic Asset Allocation investment area.

**SPN** means a Strategic Partner Network investment area. TRS has both private markets and public markets SPNs.

**TAA** means the Tactical Asset Allocation investment area.

**Total Fund** means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested by the IMD to provide retirement, death, and disability benefits administered by the system, including cash and cash equivalents. For avoidance of doubt, for the purposes of the Plan the Total Fund does not include the assets of health plans administered by TRS and held in trust by the Board of Trustees.
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<thead>
<tr>
<th>Administrative Policy</th>
<th>Current effective date: October 1, 2013*</th>
</tr>
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<tr>
<td>Reviewers: Executive Director, Chief Investment Officer, Human Resources, Legal Services</td>
<td>First issued: October 1, 2007</td>
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<tr>
<td>Review Cycle: Biennial</td>
<td>Last reviewed September 13, 2012</td>
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<tr>
<td>Authorized by: Board of Trustees</td>
<td>Next review due: August, 2014</td>
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<tr>
<td>Approved:</td>
<td>Date authorized: September 13, 2012</td>
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<tr>
<td>By: ______________________</td>
<td>Date approved: September ____ , 2013</td>
</tr>
<tr>
<td>Brian K. Guthrie, Executive Director</td>
<td></td>
</tr>
</tbody>
</table>

*This version of the Plan is effective for performance periods beginning on or after October 1, 2013. Any awards for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.
### Addendum A

**Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark (50% of Potential Award)**

<table>
<thead>
<tr>
<th>Fund Level</th>
<th>Total Fund</th>
<th>Internal Public</th>
<th>External Public</th>
<th>Private Equity</th>
<th>Stable Value / SAA</th>
<th>Real Assets</th>
<th>TAA</th>
<th>Public and Private SPN and Opportunistic</th>
<th>Natural Resources</th>
<th>Emerging Managers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Index</strong></td>
<td><strong>Total Fund Policy Composite Index</strong></td>
<td><strong>Global Equity Portfolio vs. MSCI ACWI Free (net)</strong></td>
<td><strong>Daily Weighted Excess Return Based on Actual Portfolio Weights</strong></td>
<td><strong>State Street Private Equity Index</strong></td>
<td><strong>Daily Weighted Excess Return Based on Actual Portfolio Weights</strong></td>
<td><strong>NCREIF ODCE</strong></td>
<td><strong>Total Profit &amp; Loss for Incentive Period/Total Trust Average Daily Balance</strong></td>
<td><strong>Daily Weighted Excess Return Based on Actual Portfolio Weights</strong></td>
<td><strong>Daily Weighted Excess Return Based on Actual Portfolio Weights</strong></td>
<td><strong>Daily Weighted Excess Return Based on Actual Portfolio Weights</strong></td>
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**Notes:**
1. Risk group allocation excludes Trust hedging activities.
2. Benchmark for Public SPN is the SPN Composite Index.
## Addendum B

### Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison

(30% of Potential Award)

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<tr>
<th>Fund Level</th>
<th>Total Fund</th>
<th>Trade Management Group</th>
<th>Private Equity</th>
<th>Real Assets</th>
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<tr>
<td><strong>Index</strong></td>
<td><strong>TUUCS Public Funds &gt; $10 Billion Universe</strong></td>
<td><strong>ITG / Plexus</strong></td>
<td><strong>TUUCS Private Equity &gt; $1 billion Universe</strong></td>
<td><strong>Real Estate vs. TUUCS Real Estate &gt; $1 billion Universe</strong></td>
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