

Compensation Committee Meeting

September 21, 2017



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

*(Committee Chair and Members: Ms. Ramirez, Chair; Mr. Colonna, Mr. Elliott, Dr. Gibson,
and Mr. Kelly)*

*All or part of the September 21, 2017, meeting of the TRS Compensation Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer 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.***

AGENDA

**September 21, 2017 – 3:15 p.m.
TRS East Building, 5th Floor, Boardroom**

1. Call roll of the Committee members.
2. Consider the approval of the proposed minutes of the September 22, 2016, committee meeting – Chair Dolores Ramirez.
3. Consider recommending to the Board continuation and adoption of the Performance Incentive Pay Plan for the Performance Period beginning October 1, 2017, including any necessary amendments – Sylvia Bell and Katy Hoffman.

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

Minutes of the Compensation Committee

September 22, 2016

The Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 22, 2016, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas.

Committee Members present:

Ms. Dolores Ramirez, Chair

Mr. Joe Colonna

Mr. John Elliott

Mr. David Kelly

Other Board Members present:

Ms. Karen Charleston

Mr. David Corpus

Mr. Chris Moss

Ms. Anita Palmer

Others present:

Brian Guthrie, TRS

Ken Welch, TRS

Britt Harris, TRS

Jerry Albright, TRS

Sylvia Bell, TRS

Jase Auby, TRS

Carolina de Onis, TRS

Dennis Gold, TRS

Katherine Farrell, TRS

Philip Mullins, TRTA

Leroy DeHaven, TRTA

Ted Melina Raab, Texas AFT

Compensation Committee Chair Ms. Ramirez called the meeting to order at 5:16 p.m.

1. Call roll of Committee members.

Ms. Farrell called the roll. Dr. Gibson was not present. A quorum was present.

2. Consider the approval of the proposed minutes of the September 24, 2015 committee meeting – Committee Chair Dolores Ramirez.

On a motion by Mr. Colonna, seconded by Mr. Kelly, the proposed minutes for the September 24, 2015, Compensation Committee meeting were approved as presented with Mr. Colonna abstaining.

3. Consider recommending to the Board continuation and adoption of the performance Incentive Pay Plan for the Performance Period beginning October 1, 2016, including any necessary amendments – Sylvia Bell and Jerry Albright.

Ms. Sylvia Bell presented the four proposed modifications to the IMD performance plan. The first proposed modification realigned the team's incentive percentage payout for each portfolio to reflect current responsibilities.

The second proposed modification involved portfolios. This proposal modified two portfolio results for incentive purposes in order to attract and retain talent. The third proposed modification involved ENRI benchmark change. The fourth involved plan updates recommended by TRS legal, external legal counsel and TRS HR.

On a motion by Mr. Kelly, seconded by Mr. Colonna, the Committee unanimously voted to recommend that the Board adopt the proposed plan amendments and confirm continuation and adoption of the Investment Performance Incentive Pay Plan as presented by staff.

Without further discussion, the meeting adjourned at 5:35 p.m.

Approved by the Compensation Committee of the Board of Trustees of the Teacher Retirement System of Texas on September 21, 2017.

Katherine H. Farrell
Secretary of the TRS Board of Trustees

Date



Proposed Modifications to Performance Incentive Plan (PIP)

Sylvia Bell, Chief Operating Officer

Katy Hoffman, Managing Director

September 2017



Performance Pay Plan Modification Overview

- **What Remains the Same:**

- Aligned with Trust performance and IMD Compensation Philosophy
- Goal to attract and retain IMD personnel in a competitive market
- Payouts based on performance relative to benchmarks (50%), peers (30%) and IMD culture (20%)
- Performance measured over 1 year (33%) and 3 year (67%) periods
- Excess return targets remain the same

- **What's New:**

- Unify & Simplify the PIP
- Updates for organizational and portfolio changes
- Removes complexity such as IPM individual performance & Absolute Return portfolio calculations

Modification 1: Addendum A - Benchmark Performance

Proposal

- Update Profit Centers and Portfolios to reflect new organizational structure
 - Establish Executive Team
 - Collapse External Public Markets, Internal Public Markets, and Asset Allocation into Public Markets
 - Active Public Markets measures combined portfolios
- Allocation changes to focus results on total Trust performance
 - Executive, Risk Management and Operations payout based solely on total Trust performance
 - Simplify payout performance calculations for Profit Centers
- Remove Addendum A1 and A2

Rationale

- Updates reflect new organizational structure, better aligns with Trust results and removes complexity

		Portfolios					
	Total Fund	Active Public Markets	Private Equity	Real Assets	Energy Natural Resources Infrastructure	Total	
Index	Total Fund Policy Composite Index	Daily Weighted Excess Return Based on Actual Portfolio Weights (1)	State Street Private Equity Index	NCREIF ODCE	40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI		
Excess Return Target	100 bps	100 bps	200 bps	125 bps	125 bps		
Profit Centers	Executive	100.00%				100%	
	Risk Management	100.00%				100%	
	Public Markets	30.00%	70.00%			100%	
	Public and Private SPN (SPR)	70.00%		15.00%	10.00%	5.00%	100%
	Private Equity	30.00%		70.00%			100%
	Real Assets	30.00%			70.00%		100%
	Energy Natural Resources & Infrastructure	30.00%				70.00%	100%
	Trade Management	60.00%	40.00%				100%
	Investment Operations	100.00%					100%

(1) Active Public Markets includes all Global Equity investments, Hedge Funds and ARP/Innovation portfolios managed by Public Markets. Performance inception 10/1/2017.

Modification 2: Addendum B – Peer Performance

Proposal

- Update Profit Centers as outlined in prior page
- Add Risk Parity Peer comparison with existing 25bps excess return target
- Allocation changes to focus results on total Trust performance

Rationale

- Updates reflect new organizational structure and improves tracking of peer performance

		Portfolios				
Fund Level	Total Fund	Trade Management	Private Equity	Real Assets	Risk Management	Total
Index	TUCS Public Funds > \$10 Billion Universe	ITG / Plexus	TUCS Private Equity > \$1 billion Universe	Real Estate vs. TUCS Real Estate > \$1 billion Universe	Risk Parity Benchmark	
Excess Return Target	100 bps	8 bps	200 bps	125 bps	25bps	
Executive	100.00%					100.00%
Risk Management	50.00%				50.00%	100.00%
Public Markets	90.00%	10.00%				100.00%
Public and Private SPN (SPR)	70.00%		20.00%	10.00%		100.00%
Private Equity	30.00%		70.00%			100.00%
Real Assets	30.00%			70.00%		100.00%
Energy Natural Resources & Infrastructure	100.00%					100.00%
Trade Management	30.00%	70.00%				100.00%
Investment Operations	90.00%	10.00%				100.00%

Profit Centers

APPENDIX

IMD Compensation Philosophy

“To remain competitive in its efforts to attract and retain high caliber investment Division staff, the TRS strives to offer a competitive compensation package.

Performance incentive pay is an industry standard practice in the private sector investment arena and is rapidly becoming a standard practice in the public sector. By offering both a competitive base salary and performance incentive pay, TRS enhances its ability to fulfill the 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 has determined that establishing and expending funds for this Performance Incentive Pay Plan is required to perform the fiduciary duties of the Board in administering the retirement system.”

- Investment Incentive Compensation Plan,
Plan Purpose and Authorization Adopted by
TRS Board of Trustees

- In 2007, compensation targets were recommended to the Board based on the results of an Investment Management Compensation study conducted by McLagan (the nation’s leading financial sector compensation consultant) to:
 - Recommend a compensation strategy that would allow TRS to attract and retain a talented investment organization
 - Establish a long-term compensation philosophy in the IMD
- McLagan’s 2011 Public Fund Roundtable compensation presentation showed indications that TRS’ plan is one of the best designed in the U.S. for large public funds.
 - Unlike many public funds, TRS’ incentive opportunities approach private sector norms – which is critical given that TRS primarily competes with the private sector for talent.
 - TRS’ incentive deferrals are meaningfully sized and balanced relative to cash compensation.
- McLagan’s 2014 study demonstrated that TRS was lagging the Board’s compensation targets, Board supported salary adjustments to bring investment compensation to target levels and made funding available to sustain at target levels in the future.

Adopted Compensation Philosophy	
Base Pay	1 st quartile for Public Funds
Performance Pay	4 th quartile for Private Funds

Performance Pay
<ul style="list-style-type: none"> • Total alignment with TRS members • 33% on 1-year results • 67% on 3-Year results • 80% investment returns/20% individual rank • Paid only when trust Returns are positive





Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

Effective October 1, 201~~6~~7

This version of the Plan is effective for Performance Periods beginning on or after October 1, 201~~6~~7. Any Potential Awards for performance in prior Performance Periods can become Earned Awards 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 PAY PLAN PURPOSE AND AUTHORIZATION

To remain competitive in its efforts to attract and retain high caliber Investment Management Division (IMD) employees, TRS strives to offer a competitive compensation package. Awards of performance 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 pay, 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 principles.” The Board of Trustees (the “Board”) has determined that establishing, and expending funds for, this Performance 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 demonstrate outstanding ability;
- To reinforce employees’ strong commitment to the long-term investment performance of the assets for which TRS is responsible; and
- To motivate investment professionals to focus on maximizing real, long-term returns for funds invested and managed by TRS while assuming appropriate levels of risk.

2.2 Plan Strategy

Implementation of the Plan strategy includes:

- Base salaries targeted to be competitive as determined by the Executive Director and the Board, with individual base salaries based on an employee’s experience, education, knowledge, skills, and overall job performance in an Eligible Position.
- Performance pay award opportunities, calculated as a percentage of an employee’s base salary, based on performance above pre-determined standards, and earned contingent upon continued employment in an Eligible Position through specified dates subject to deferral as set forth in Section 4.7(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 and, the Board’s Bylaws, the Board authorizes the Executive Director, as part of the annual budget process, to determine and propose base salary rates generally based on the salary schedules, position classifications, and salary administration practices of the biennial General Appropriations Act, Chapter 659 of the Texas Government Code, and other relevant legislation to the extent that the Executive Director determines that a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.
- (b) Classified employees are assigned to a classification title that is consistent with their TRS responsibilities. Initial base salary for each classified employee is set within the salary range of the assigned pay group, considering the employee’s experience, education, knowledge and skills, and external competitiveness and internal equity.

- (c) As part of the annual TRS budgeting process, the Board authorizes the Executive Director to determine base salaries for exempt employees up to a not-to-exceed rate specified in 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 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 TRS Budget's not-to-exceed rate or decrease) at the discretion of the Executive Director.
- (b) Notwithstanding Section 3.2(a), all base salary changes will be implemented in accordance with TRS salary administration procedures.

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIODS

4.1. *Purpose of the Plan; Effective Date; Performance Periods; Board Continuation*

- (a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The first Performance Period for this Plan begins on October 1, ~~2017~~2016 and ends September 30, ~~2018~~2017. 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) Potential Awards may become Earned Awards 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. *Participation in the Plan; Proration*

- (a) Subject to Sections 4.2(c) and (d), an IMD employee who holds an Eligible Position as defined in Section 8 on the first day of a Performance Period is eligible to participate in the Plan as a Participant during that Performance Period. Secondees, non-TRS or contract workers, and other temporary workers are not TRS employees and are not eligible to participate in the Plan. An Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period or successor or superseding performance pay plan.
- (b) Within thirty (30) days after the end of each Performance Period, the Director of Human Resources will certify to the Executive Director in writing the master "Participants List" setting forth all relevant information that is required for calculating each Participant's Potential Awards and any proration required under this Section 4.2.
- (c) Notwithstanding Section 4.2(a), an employee who 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 employee begins employment in an Eligible Position after October 1 but on or before January 1, the employee will become a Participant on January 1 and the Participant's Potential Award will be prorated to 75% of the Potential Award calculated for the entire Performance Period.

- (ii) If an employee begins employment in an Eligible Position after January 1 but on or before April 1, the employee will become a Participant on April 1 and the Participant's Potential Award will be prorated to 50% of the Potential Award calculated for the entire Performance Period.
 - (iii) If an employee begins employment in an Eligible Position after April 1 but on or before July 1, the employee will become a Participant on July 1 and the Participant's Potential Award will be prorated to 25% of the Potential Award calculated for the entire Performance Period.
 - (iv) If an employee begins employment in an Eligible Position after July 1 of a Performance Period, the employee will become a Participant on the first day of the next Performance Period, provided that such employee is employed by TRS in an Eligible Position on such date.
 - (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 complete calendar quarters worked in Eligible Positions during that Performance Period. For the avoidance of doubt, a Participant will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position for all of such quarter.
- (d) If, during a Performance Period, a Participant moves from one Eligible Position to another Eligible Position, the Participant's Potential Award and performance measurements for that Performance Period will be prorated between the Potential Award calculated for the vacated Eligible Positions and the Potential Award calculated for the new Eligible Position as follows:
- (i) If a Participant moves to a new Eligible Position after October 1 but on or before January 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position for the period October 1 through December 31, and on the new Eligible Position beginning as of January 1.
 - (ii) If a Participant moves to a new Eligible Position after January 1 but on or before April 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through March 31, and on the new Eligible Position beginning as of April 1.
 - (iii) If a Participant moves to the new Eligible Position after April 1 but on or before July 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through June 30, and on the new Eligible Position beginning as of July 1.
 - (iv) If a Participant moves to a new Eligible Position after July 1 of a Performance Period, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through September 30.
- (e) 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. 2(c)(v) with respect to continued TRS employment, the date the employee is no longer employed in an Eligible Position;
 - (ii) In this Plan, the employment termination date is deemed to be the employee's last day worked, not including any leave the employee is allowed for payroll purposes; or
 - (iii) The date the Plan terminates.

4.3. Performance Components; Potential Awards

- (a) Participants' Potential Awards will be based on a combination of investment performance and qualitative performance measurement and rating components.
- (b) The investment performance components comprise two 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 a Performance Period is October 1 through September 30, due to the delay in availability of final performance data for private markets assets, performance measurements for these investment areas will experience a one quarter time lag, such that all calculations requiring private markets 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 other investment benchmarks based on investment area performance as shown in Addendums A and B. Addendum A correlates benchmarks and excess return targets to investment areas listed in the first column, and allocates performance weights for each area to the relevant excess return targets and benchmarks (50% of Potential Award). Addendum B correlates investment areas in the first column to peer group performance and relevant benchmarks and allocates performance weights among the excess return targets relative to the listed benchmarks (30% of Potential Award).
 - (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 each investment area's benchmarks and excess return targets 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's peer group performance weighting allocation is added to the Total Fund peer group performance weighting allocation.
- (e) The qualitative performance rating component will be measured systematically as part of each Participant's annual performance appraisal process aimed at evaluating, using pre-determined, standard criteria, each Participant's adherence to the core concepts and values of the IMD culture, and may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success that are not directly measured or measurable in the investment performance component, such as interpersonal relationship skills, accountability, effective teamwork, etc.
 - (i) Regardless of a Participant's qualitative performance rating, a Potential Award will include the qualitative performance component only if the Participant has attained at least the required threshold level for the investment performance component.
 - (ii) To encourage appropriate organizational behaviors, the qualitative performance rating 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 final performance results for the relevant Performance Period, weighted as set forth in Addendums A, ~~A-1~~, ~~A-2~~, and B. The Maximum Potential Award that can become an Earned Award with respect to a Performance Period may not exceed the percentage of a Participant’s Base Salary in an Eligible Position (subject to proration under Section 4.2) that is listed opposite the applicable Eligible Position Title in the table below. The Maximum Potential Award applies to limit a Participant’s maximum Earned Award regardless of (x) the amount by which a Participant’s performance has exceeded the excess return targets or (y) the calculated value of the Potential Award.

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Chief Investment Officer	125%
Deputy CIO	125%
Senior Managing Director	125%
Managing Director	125%
Senior Director	110%
Director	110%
Senior Investment Manager	90%
Investment Manager	85%
Senior Associate	65%
Associate	50%
Senior Analyst	35%
Analyst	25%
Junior Analyst	15%
Administrative Assistants	5%

- (g) Notwithstanding the Maximum Potential Award listed in Section 4.3(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 4.2(d).
- (h) For each investment area, the portfolio 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 performance rating component, intermediate levels of the Potential Award will be based on a system of annual performance evaluation approved by the Executive Director.

4.4. *Compliance with TRS Policies*

- (a) IMD employees exercise fiduciary investment responsibilities assigned by the Board under applicable law and policies. Investment professionals manage the portfolio according to the Board's policies, advise and inform the Executive Director and the Board about investment management and performance, and recommend modifications to the Board's investment policies. All IMD employees are responsible for complying with TRS policies. The Executive Director or the Board may suspend earning and payment of Potential Awards and Earned Awards (including deferred payments) until the conclusion of an investigation under this Section 4.4.
- (b) Excess performance by a Participant or Participants resulting from a failure to invest and manage TRS pension assets prudently and in compliance with investment and ethics policies and applicable law will result in disqualification of the Participant or Participants and forfeiture of any award for the relevant Performance Period. The Executive Director will make this determination on a case-by-case basis. The Executive Director's determination under this subsection is final and non-appealable.
- (c) If the Executive Director determines after investigation that a Participant's violation of law or policy is sufficiently serious, the Participant will be disqualified and forfeit all Potential Awards and Earned Awards for the Performance Periods in which the violation(s) occurred, including awards and payments deferred under Section 4.7(b). If the Executive Director determines that no serious violation has occurred, a suspended Earned Award shall be paid to the Participant within 30 days after such determination (or such later date on which the award would have been payable absent the suspension), provided that the Participant has been continuously employed in an Eligible Position through such payment date. The Executive Director's determination under this subsection is final and non-appealable.

4.5. *Performance Standards and Measurements*

- (a) For the purposes of this Plan, investment performance (for both benchmarks and peer group categories) is measured on one year and three year historical performance data, weighted at 33% for one-year performance (i.e., the Performance Period just ended) and 67% for the historical three-year performance that includes the Performance Period just ended. Investment performance is measured relative to appropriate pre-defined benchmarks in the asset allocation and benchmarks table, including applicable footnotes, in the Board's Investment Policy Statement ("IPS"). 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 4.5(a), the investment performance of any new portfolio will be calculated for purposes of the Plan as follows:
 - (i) The investment performance measurement of any new portfolio (for both benchmark and peer group categories) created during a Performance Period will commence only on the next following October 1.
 - (ii) For a new portfolio's first full Performance Period, the investment performance measurement will be based 100% on the portfolio's performance data for the first full Performance Period;
 - (iii) For a new portfolio's second full Performance Period, the investment performance measurement will be weighted (x) 50% on the portfolio's performance during the second

full Performance Period, and (y) 50% on the portfolio'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 portfolio will be weighted (x) 33% on the portfolio's performance measurement during the one-year Performance Period just ended, and (y) 67% on the portfolio's three-year performance measurement during the three full Performance Periods just ended.
- (v) For the purposes of this Plan, no investment performance measurement will be calculated for a new portfolio unless it existed on October 1 of that Performance Period.
- (c) The qualitative performance component is measured annually as part of each Participant's annual performance appraisal process using criteria established before the beginning of each Performance Period.

4.6. *Potential Award Calculations*

- (a) Following the end of each Performance Period, the Executive Director will review the reported performance of each Participant relative to the applicable investment and qualitative 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.

4.7. *Earning Performance Payments*

- (a) Notwithstanding the Executive Director's approval of Potential Award calculations, and except as provided in this Section 4.7, Potential Awards will only become Earned Awards as stated below:
 - (i) Subject to Section 4.7(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 Award will become an Earned Award. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.
 - (ii) Subject to Section 4.7(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 Award will become an Earned Award. Payment of this award will usually be processed with that January's payroll, for delivery on or about February 1 but in no event later than February 15 of that calendar year.

Except as provided in Section 4.7(e), the payment dates of Earned Awards in respect of a Performance Period shall be the same for all Participants.

- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards 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 Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until January 1 following the next Performance Period in which the Total Fund has a

return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.

- (c) If an employee ceases to be a Participant during a Performance Period due to termination of TRS employment for any reason *other than* involuntary termination of employment due to a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during a Performance Period due to involuntary termination of TRS employment because of a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Notwithstanding Sections 4.7(a) and (b), Potential Awards from earlier Performance Periods will immediately become Earned Awards. Payments under this subsection will be made to the terminated employee, the estate of the deceased employee, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not 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 retirement, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards for the two most recent preceding Performance Periods may become Earned Awards if the employee retires on or after January 1 following the end of the most recent preceding Performance Period in accordance with this Section 4.7(e). To establish an employee's eligibility for payment of awards for preceding Performance Periods as of the effective date of retirement, an employee who wishes to retire must (i) notify the Executive Director of the employee's intent to retire on a specified proposed retirement date at least forty-five (45) days before such date; (ii) obtain written approval of the Executive Director to (x) retire as of the proposed retirement date and (y) be eligible for payment of Earned Awards for the two most recent preceding Performance Periods; (iii) establish eligibility, apply for and submit the required documentation for retirement benefits under the TRS pension plan; and (iv) retire as of the proposed effective retirement date. Payments under this subsection for all earlier Performance Periods will be made to the retired employee as soon as administratively practicable after retirement, but not later than 2½ months after the end of the calendar year in which the employee retires. If a retired employee dies before the date on which TRS makes payment to the retired employee, TRS will pay any Earned Awards to the retiree's estate or as otherwise provided by law as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the deceased employee retired or, if payment within such period is administratively impracticable, and such impracticability was unforeseeable on the first day of the Performance Period, as soon as administratively practicable thereafter.
- (f) If an employee ceases to be a Participant before the end of a Performance Period due to Plan termination, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards, can become Earned Awards and be paid according to this Section 4.7 if the Board determines that such payments would 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, including payments of awards, entirely or any portion thereof at any time. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of this Plan or any performance criteria relating to this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

5.2 Plan Administration

The Executive Director has the sole discretion to administer and interpret the Plan in accordance with its terms and conditions. The Executive Director may adopt such procedures and practices as he considers advisable to carry out the purposes of the Plan in accordance with the Code.

5.3 Record Keeping and Reporting

A record of the master "Participants List" including the data forming the basis for all Plan calculations shall be maintained by the Director of Human Resources.

5.4 Compliance with State and Federal Law

If the Executive Director or a court having 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 this Plan or the payment of Earned Awards 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-transferability of Awards

Potential Awards and Earned Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, pledge, lien, security interest, 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 or the calculation of Potential Awards or Earned 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 and applicable law. Any amounts budgeted for Earned Awards are TRS assets until properly disbursed in accordance with this Plan and applicable law, and no employee or third party shall have any property, security, expectancy, contractual right, lien, security interest, encumbrance, or other interest in any TRS assets by reason of the Plan.

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

7.3 Tax and Other Deductions

All payments under the Plan shall be subject to any deductions at the time of payment (x) for tax and withholding required by federal (or other foreign jurisdiction), state, or local law and (y) for any and all amounts owed by the employee to TRS. TRS is not obligated to advise an employee of the existence of any tax or the tax treatment, reporting requirements, or required withholding in connection with the Plan.

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

Except as expressly provided in this Plan, 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

Asset Allocation or **AA** comprises strategic asset allocation, tactical asset allocation, and quantitative equity investments.

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.

Classified employee means an employee whose position classification title, pay group and range, and pay administration practices are based on the State Position Classification Plan and related salary administration provisions.

Code means the United States Internal Revenue Code of 1986, as amended from time to time, or any successor U.S. federal income tax code.

Earned Award means a Potential Award that has become earned and payable because all of the terms, conditions, and requirements of this Plan have been satisfied. An Earned Award may be forfeited for misconduct, or suspended, canceled, or deferred as stated in this Plan. An Earned Award is not property.

Eligible Position means a title listed in Section 4.3(f) and, when the context refers to an Eligible Position with respect to a Participant's performance allocation and Potential Award calculation, the investment area or areas to which a Participant is assigned or interacts with during a Performance Period and the relevant excess return targets and portfolio benchmarks in Addendum A. A Participant who is reassigned from one investment area to another during a Performance Period also changes Eligible Positions, whether or not the Participant's title changes.

Exempt employee means an employee whose job title, pay, and pay administration practices are not based on the State Position Classification Plan. An exempt employee does not have a specified base salary range. For purposes of this Plan, the Chief Investment Officer and the Investment Fund Directors are exempt employees, and all other IMD employees are classified employees.

Investment areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and

Addendum B, and which are used to calculate Potential Awards for Participants in Eligible Positions. In this Plan, investment areas are synonymous with IMD employee teams or groups.

Maximum Potential Award is defined in Section 4.3(f) and is a limit on the gross Potential Award that can become an Earned Award in an Eligible Position title with respect to a Performance Period.

Participant is an employee in an Eligible Position on October 1 of the Performance Period, or who is first employed in an Eligible Position after the beginning of the Performance Period based on the proration schedules in Section 4.2, 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.

Portfolios, also referred to broadly as “profit centers” or by reference to an applicable benchmark, are listed in the first row of Addendum A and correspond in this Plan to their respective benchmarks and excess return targets in the applicable addendum.

Potential Award is defined in Section 4.3(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 contingent and no Earned Award may exceed the Maximum Potential Award, regardless of whether the Participant exceeds the stated excess return target.

Reduction in Force as used in this 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.

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

Total Fund means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested 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.

Administrative Policy

Current effective date: October 1, 201~~6~~⁷*
First issued: October 1, 2007
Last reviewed: September ~~22, 2016~~ , 2017
Next review due: September 2017
Date authorized: September ~~22, 2016~~ , 2017

Reviewers: Executive Director, Chief Investment Officer, Human Resources, Legal Services

Review Cycle: Annual

Authorized by: Board of Trustees

Approved:

By:
Brian K. Guthrie,
Executive Director

Approved as of: October 1, 201~~6~~⁷

*This version of the Plan is effective for Performance Periods beginning on or after October 1, 201~~6~~⁷. 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)

	<u>Total Fund</u>	<u>Active Public Markets</u>	<u>Private Equity</u>	<u>Real Assets</u>	<u>Energy Natural Resources Infrastructure</u>	<u>Total</u>
<u>Index</u>	<u>Total Fund Policy Composite Index</u>	<u>Daily Weighted Excess Return Based on Actual Portfolio Weights (1)</u>	<u>State Street Private Equity Index</u>	<u>NCREIF ODCE</u>	<u>40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI</u>	
<u>Excess Return Target</u>	<u>100 bps</u>	<u>100 bps</u>	<u>200 bps</u>	<u>125 bps</u>	<u>125 bps</u>	
<u>Executive</u>	<u>100.00%</u>					<u>100%</u>
<u>Risk Management</u>	<u>100.00%</u>					<u>100%</u>
<u>Public Markets</u>	<u>30.00%</u>	<u>70.00%</u>				<u>100%</u>
<u>Public and Private SPN (SPR)</u>	<u>70.00%</u>		<u>15.00%</u>	<u>10.00%</u>	<u>5.00%</u>	<u>100%</u>
<u>Private Equity</u>	<u>30.00%</u>		<u>70.00%</u>			<u>100%</u>
<u>Real Assets</u>	<u>30.00%</u>			<u>70.00%</u>		<u>100%</u>
<u>Energy Natural Resources & Infrastructure</u>	<u>30.00%</u>				<u>70.00%</u>	<u>100%</u>
<u>Trade Management</u>	<u>60.00%</u>	<u>40.00%</u>				<u>100%</u>
<u>Investment Operations</u>	<u>100.00%</u>					<u>100%</u>

(1) Active Public Markets includes all Global Equity investments, hedge funds, and ARP/Innovation portfolios managed by Public Markets. Performance inception 10/1/2017.

ADDENDUM A

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

	Total Fund	Internal Public	External Public	Private Equity	Risk (1)	Stable Value / SAA	Real Assets	Integrated TAA	Public Markets-SPN (2)	SPN Tactical Value	Energy-Natural Resources-Infrastructure	Emerging Managers	Quantitative Equity Strategies	Total
Index (4)	Total Fund- Policy- Composite- Index	Daily-Weighted- Excess-Return- Based-on-Actual- Portfolio- Weights	Daily-Weighted- Excess-Return- Based-on-Actual- Portfolio-Weights- (note-7)	State- Street- Private- Equity- Index	Daily- Excess- Return- Based-on- Actual- Portfolio Weights	Daily- Weighted- Excess- Return- Based-on- Actual Portfolio Weights- (note-7)	NCREIF- ODCE	Total Profit & Loss- for Incentive- Period/Total Trust- Average-Daily- Balance	Daily-Weighted- Excess-Return- Based-on-Actual- Portfolio- Weights	Note-7	40% Cambridge-Natural- Resources, 40%- Cambridge- Infrastructure, 20%- CPI- (lagged one-quarter)	Daily- Weighted- Excess- Return- Based-on- Actual- Portfolio- Weights	Daily-Weighted- Excess-Return- Based-on-Actual- Portfolio-Weights	
Excess-Return- Target	100 bps	50 bps (5)	100 bps	200 bps	25 bps (3)	35 bps	125 bps	25 bps	175 bps	Note-7	125 bps	100 bps	100 bps	
CIO / Deputy-CIO	70.00%					5.00%	5.00%		5.00%		5.00%	5.00%	5%	100%
Risk	50.00%	5.00%	5.00%	5.00%	20.00%	5.00%	5.00%	5.00%						100%
Internal Public-Markets	30.00%	60.00%	5.00%	5.00%										100%
External Public-Markets	30.00%	5.00%	60.00%	5.00%										100%
Private Equity	30.00%	5.00%		60.00%							5.00%			100%
Asset Allocation	40.00%					20.00%		20.00%					20%	100%
Real-Assets	30.00%			5.00%			60.00%				5.00%			100%
Public and- Private- SPN (SPR) (6)	30.00%			20.00%			5.00%	5.00%	30.00%	5.00%	5.00%			100%
Energy & Natural- Resources- Group	30.00%	5.00%		5.00%							60.00%			100%
Emerging- Managers	30.00%		10.00%	10.00%			10.00%					40.00%		100%
Trade- Management	30.00%	20.00%	5.00%	5.00%	10.00%			20.00%					10.00%	100%
Investment- Operations	50.00%	10.00%	10.00%	5.00%		10.00%	5.00%	10.00%						100%

(1) Risk fund allocation excludes Trust hedging activities

(2) Benchmark for Public SPN is the SPN Composite Index

(3) Excess return target is 12.5 bps for incentive year ending 9/30/2015 and 25 bps thereafter

(4) Benchmark for World Equity portfolios such as IPM GBI and EPU World Equity is MCSI ACWI (net) with MCSI USA (gross)

(5) The 60% component for Internal Public Markets will be allocated among IPM managers accordance with Addendum A-1

(6) SPN Private Markets includes Strategic Partner funds and principal investments

(7) Excess return targets and the index for Special Opportunities Absolute Return and Tactical Value are defined in Addendum A-2.

ADDENDUM A-1

Internal Public Individual Performance Calculation per Note 5, Addendum A

The 60% component of IPM performance on Addendum A (50% of Potential Awards) will be allocated and calculated as follows:

Allocations as percentage of 60% IPM performance allocation to Potential Award calculation	IPM Total Portfolio performance weight	Individual Component based on attribution analysis for GBI Core Portfolio performance
Portfolio Manager	-70%	30%
Sector Manager	-30%	70%
All Other IPM Employees	100%	-0%

Statement of Intent: Only IPM Sector and Portfolio managers with a positive excess performance attribution over one and three years as set forth in Section 4.6(a) will be eligible for the Individual Component for the Performance Period. All performance attribution calculations must be made using the same methodology, consistently applied, with respect to each quarter during the one and three year periods. All region groupings and sector (or subsector) groupings within regions used to perform the attribution analysis must align with the GBI Core Portfolio's components, construction, and overall performance to ensure accurate determination of excess returns that result from active decisions made by each individual manager. Two factor Brinson attribution will be used to determine quarterly, one-year, and three-year excess returns, relative to the manager's quarterly targets, produced by each manager's active selection decisions to determine eligibility for the Individual Component for the Performance Period. Quarterly targets for each manager will reflect actual quarterly portfolio weights. Region or sector (or subsector) coverage assignment changes will only be given effect as of the first day of a quarterly period. All changes to region and sector coverage assignments must be reported to the Executive Director before commencement of a quarter. All groupings and attribution calculations for the Individual Component must be maintained and performed by the head of Investment Operations and confirmed by an independent non-IMD third party.

1. **Portfolio Managers:** Active security selection effects for Portfolio Managers will be measured by reference to their respective assigned regions.
2. **Sector Managers:** Active security selection effects for Sector Managers will be measured by reference to the respective assigned industry sectors (or subsectors) within regions.

Phase in of Individual Component

For purposes of calculating Potential Awards, allocations of the Individual Component under this Addendum A-1 will be phased in as follows:

Year 1 of Assignment to Portfolio Manager or Sector Manager	One and Three Year Performance used for purposes of weights in Section 4.6(a)		1 and 3-year weights per Section 4.6(a)
1 Year performance weight	Individual Component (GBI Core)	= 1 Yr. individual performance	33%
	Team component	= 1 Yr. IPM Total Portfolio	
3 Year performance weight	Individual Component (GBI Core)	= 1/3 (1 Yr. individual performance + 2/3 (3 Yr. IPM Total Portfolio performance))	67%
	Team component	= 3 Yr. IPM Total Portfolio performance	
Year 2 of Assignment			
1 Year performance weight	Individual Component (GBI Core)	= 1 Yr. individual performance	33%
	Team component	= 1 Yr. IPM Total Portfolio performance	
3 Year performance weight	Individual Component (GBI Core)	= 2/3 (2 Yr. individual performance + 1/3 (3 Yr. IPM Total Portfolio performance))	67%
	Team component	= 3 Yr. IPM Total Portfolio performance	
Year 3 of Assignment			
1 Year performance weight	Individual Component (GBI Core)	= 1 Yr. individual performance	33%
	Team component	= 1 Yr. IPM Total Portfolio performance	
3 Year performance weight	Individual Component (GBI Core)	= 3 Yr. individual performance	67%
	Team component	= 3 Yr. IPM Total Portfolio performance	

Quarterly, one-year, and three-year individual performance attribution will be based on linked quarterly performance in a Portfolio or Sector Manager assignment. Negative performance will not be zeroed for the purpose of linking quarterly returns to determine quarterly, one-year, and three-year performance attribution. For avoidance of doubt, a Portfolio Manager or Sector Manager who would not otherwise be eligible for the Individual Component under this Addendum A-1 will be eligible only for the percentage of the IPM Total Portfolio Performance Potential Award provided for in the above table with respect to the Individual Component for the relevant Performance Periods, including any partial Performance Period.

ADDENDUM A-2

~~Excess return targets for Special Opportunities Absolute Return and SPN Tactical Value portfolios for purposes of note 7, Addendum A.~~

~~The IMD invests in Absolute Return portfolios which are tactical or opportunistic in nature and have a 0% target allocation in the Investment Policy Statement. For purposes of calculating Potential Awards under this Plan and Addendum A with respect to these portfolios only, these portfolios must achieve an excess return exceeding the sum of (a) the retirement system's long-term expected investment return (as adopted by the board in its actuarial assumptions) (the "Actuarial Return", currently 8% per annum) and (b) an excess return target defined as follows:~~

Expected Investment Horizon	Average Portfolio NAV < = 1% of Average Trust NAV	Average Portfolio NAV > 1% of Average Trust NAV
Less than or equal to 3 years	25 bps Excess Return Target	50 bps Excess Return Target
Greater than 3 years	50 bps Excess Return Target	100 bps Excess Return Target

~~For purposes of this Addendum A-2, the "Expected Investment Horizon" is defined as the likelihood that the portfolio investment will realize the expected return within the time period defined in the first column above. Expected Investment Horizon will be determined at the time of final authorization for each respective portfolio investment. Average portfolio and Trust NAVs will be determined at the end of each Performance Period. The investment return for each portfolio investment will be based on the TRS standard internal rate of return calculation, consistently applied.~~

~~Special Opportunities Absolute Return and SPN Tactical Value are subject to this Addendum for purposes of calculating Potential Awards under this Plan and Addendum A. Other Absolute Return portfolio investments subject to this Addendum will be identified at the time of investment approval.~~

~~In the case of the Special Opportunities Absolute Return portfolio, which is shared with (and allocated among) the External Public Markets (Absolute Return) and Stable Value / SAA investment areas, Potential Award calculations will be weighted based on average portfolio weights for each investment area during the applicable Performance Period.~~

~~If the board's Actuarial Return assumption changes during a Performance Period, the Excess Return Targets will be adjusted accordingly as of the effective date of the board's adoption of a new assumption.~~

ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison (30% of Potential Award)

<u>Fund Level</u>	<u>Total Fund</u>	<u>Trade Management</u>	<u>Private Equity</u>	<u>Real Assets</u>	<u>Risk Management</u>	<u>Total</u>
<u>Index</u>	<u>TUCS Public Funds > \$10 Billion Universe</u>	<u>ITG / Plexus</u>	<u>TUCS Private Equity > \$1 billion Universe</u>	<u>Real Estate vs. TUCS Real Estate > \$1 billion Universe</u>	<u>Risk Parity Benchmark</u>	
<u>Excess Return Target</u>	<u>100 bps</u>	<u>8 bps</u>	<u>200 bps</u>	<u>125 bps</u>	<u>25bps</u>	
<u>Executive</u>	<u>100.00%</u>					<u>100.00%</u>
<u>Risk Management</u>	<u>50.00%</u>				<u>50.00%</u>	<u>100.00%</u>
<u>Public Markets</u>	<u>90.00%</u>	<u>10.00%</u>				<u>100.00%</u>
<u>Public and Private SPN (SPR)</u>	<u>70.00%</u>		<u>20.00%</u>	<u>10.00%</u>		<u>100.00%</u>
<u>Private Equity</u>	<u>30.00%</u>		<u>70.00%</u>			<u>100.00%</u>
<u>Real Assets</u>	<u>30.00%</u>			<u>70.00%</u>		<u>100.00%</u>
<u>Energy Natural Resources & Infrastructure</u>	<u>100.00%</u>					<u>100.00%</u>
<u>Trade Management</u>	<u>30.00%</u>	<u>70.00%</u>				<u>100.00%</u>
<u>Investment Operations</u>	<u>90.00%</u>	<u>10.00%</u>				<u>100.00%</u>

ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison (30% of Potential Award)

Fund Level	Total Fund	Trade- Management- Group	Private-Equity	Real-Assets	Total
Index	TUCS Public Funds > \$10 Billion- Universe	ITG / Plexus	TUCS Private- Equity > \$1- billion Universe	Real Estate vs. TUCS Real- Estate > \$1- billion Universe	
Excess Return Target	100 bps	8 bps	200 bps	125 bps	
CIO / Deputy CIO	90.00%	0.00%	5.00%	5.00%	100.00%
Risk	90.00%	0.00%	5.00%	5.00%	100.00%
Internal Public Markets	95.00%	0.00%	5.00%	0.00%	100.00%
External Public Markets	95.00%	0.00%	5.00%	0.00%	100.00%
Private Equity	40.00%	0.00%	60.00%	0.00%	100.00%
Asset Allocation	70.00%	30.00%	0.00%	0.00%	100.00%
Real Assets	40.00%	0.00%	0.00%	60.00%	100.00%
Public and Private SPN / Opportunistic	90.00%	10.00%	0.00%	0.00%	100.00%
Energy & Natural Resources	90.00%	0.00%	0.00%	10.00%	100.00%
Emerging Managers	80.00%	0.00%	10.00%	10.00%	100.00%
Trade Management- Group	50.00%	50.00%	0.00%	0.00%	100.00%
Investment Operations	50.00%	40.00%	5.00%	5.00%	100.00%



Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

Effective October 1, 2017

This version of the Plan is effective for Performance Periods beginning on or after October 1, 2017. Any Potential Awards for performance in prior Performance Periods can become Earned Awards 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 PAY PLAN PURPOSE AND AUTHORIZATION

To remain competitive in its efforts to attract and retain high caliber Investment Management Division (IMD) employees, TRS strives to offer a competitive compensation package. Awards of performance 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 pay, 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 principles.” The Board of Trustees (the “Board”) has determined that establishing, and expending funds for, this Performance 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 demonstrate outstanding ability;
- To reinforce employees’ strong commitment to the long-term investment performance of the assets for which TRS is responsible; and
- To motivate investment professionals to focus on maximizing real, long-term returns for funds invested and managed by TRS while assuming appropriate levels of risk.

2.2 Plan Strategy

Implementation of the Plan strategy includes:

- Base salaries targeted to be competitive as determined by the Executive Director and the Board, with individual base salaries based on an employee’s experience, education, knowledge, skills, and overall job performance in an Eligible Position.
- Performance pay award opportunities, calculated as a percentage of an employee’s base salary, based on performance above pre-determined standards, and earned contingent upon continued employment in an Eligible Position through specified dates subject to deferral as set forth in Section 4.7(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 and, the Board’s Bylaws, the Board authorizes the Executive Director, as part of the annual budget process, to determine and propose base salary rates generally based on the salary schedules, position classifications, and salary administration practices of the biennial General Appropriations Act, Chapter 659 of the Texas Government Code, and other relevant legislation to the extent that the Executive Director determines that a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.
- (b) Classified employees are assigned to a classification title that is consistent with their TRS responsibilities. Initial base salary for each classified employee is set within the salary range of the assigned pay group, considering the employee’s experience, education, knowledge and skills, and external competitiveness and internal equity.

- (c) As part of the annual TRS budgeting process, the Board authorizes the Executive Director to determine base salaries for exempt employees up to a not-to-exceed rate specified in 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 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 TRS Budget's not-to-exceed rate or decrease) at the discretion of the Executive Director.
- (b) Notwithstanding Section 3.2(a), all base salary changes will be implemented in accordance with TRS salary administration procedures.

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIODS

4.1. *Purpose of the Plan; Effective Date; Performance Periods; Board Continuation*

- (a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The first Performance Period for this Plan begins on October 1, 2017 and ends September 30, 2018. 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) Potential Awards may become Earned Awards 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. *Participation in the Plan; Proration*

- (a) Subject to Sections 4.2(c) and (d), an IMD employee who holds an Eligible Position as defined in Section 8 on the first day of a Performance Period is eligible to participate in the Plan as a Participant during that Performance Period. Secondees, non-TRS or contract workers, and other temporary workers are not TRS employees and are not eligible to participate in the Plan. An Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period or successor or superseding performance pay plan.
- (b) Within thirty (30) days after the end of each Performance Period, the Director of Human Resources will certify to the Executive Director in writing the master "Participants List" setting forth all relevant information that is required for calculating each Participant's Potential Awards and any proration required under this Section 4.2.
- (c) Notwithstanding Section 4.2(a), an employee who 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 employee begins employment in an Eligible Position after October 1 but on or before January 1, the employee will become a Participant on January 1 and the Participant's Potential Award will be prorated to 75% of the Potential Award calculated for the entire Performance Period.

- (ii) If an employee begins employment in an Eligible Position after January 1 but on or before April 1, the employee will become a Participant on April 1 and the Participant's Potential Award will be prorated to 50% of the Potential Award calculated for the entire Performance Period.
 - (iii) If an employee begins employment in an Eligible Position after April 1 but on or before July 1, the employee will become a Participant on July 1 and the Participant's Potential Award will be prorated to 25% of the Potential Award calculated for the entire Performance Period.
 - (iv) If an employee begins employment in an Eligible Position after July 1 of a Performance Period, the employee will become a Participant on the first day of the next Performance Period, provided that such employee is employed by TRS in an Eligible Position on such date.
 - (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 complete calendar quarters worked in Eligible Positions during that Performance Period. For the avoidance of doubt, a Participant will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position for all of such quarter.
- (d) If, during a Performance Period, a Participant moves from one Eligible Position to another Eligible Position, the Participant's Potential Award and performance measurements for that Performance Period will be prorated between the Potential Award calculated for the vacated Eligible Positions and the Potential Award calculated for the new Eligible Position as follows:
- (i) If a Participant moves to a new Eligible Position after October 1 but on or before January 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position for the period October 1 through December 31, and on the new Eligible Position beginning as of January 1.
 - (ii) If a Participant moves to a new Eligible Position after January 1 but on or before April 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through March 31, and on the new Eligible Position beginning as of April 1.
 - (iii) If a Participant moves to the new Eligible Position after April 1 but on or before July 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through June 30, and on the new Eligible Position beginning as of July 1.
 - (iv) If a Participant moves to a new Eligible Position after July 1 of a Performance Period, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through September 30.
- (e) 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. 2(c)(v) with respect to continued TRS employment, the date the employee is no longer employed in an Eligible Position;
 - (ii) In this Plan, the employment termination date is deemed to be the employee's last day worked, not including any leave the employee is allowed for payroll purposes; or
 - (iii) The date the Plan terminates.

4.3. Performance Components; Potential Awards

- (a) Participants' Potential Awards will be based on a combination of investment performance and qualitative performance measurement and rating components.
- (b) The investment performance components comprise two 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 a Performance Period is October 1 through September 30, due to the delay in availability of final performance data for private markets assets, performance measurements for these investment areas will experience a one quarter time lag, such that all calculations requiring private markets 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 other investment benchmarks based on investment area performance as shown in Addendums A and B. Addendum A correlates benchmarks and excess return targets to investment areas listed in the first column, and allocates performance weights for each area to the relevant excess return targets and benchmarks (50% of Potential Award). Addendum B correlates investment areas in the first column to peer group performance and relevant benchmarks and allocates performance weights among the excess return targets relative to the listed benchmarks (30% of Potential Award).
 - (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 each investment area's benchmarks and excess return targets 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's peer group performance weighting allocation is added to the Total Fund peer group performance weighting allocation.
- (e) The qualitative performance rating component will be measured systematically as part of each Participant's annual performance appraisal process aimed at evaluating, using pre-determined, standard criteria, each Participant's adherence to the core concepts and values of the IMD culture, and may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success that are not directly measured or measurable in the investment performance component, such as interpersonal relationship skills, accountability, effective teamwork, etc.
 - (i) Regardless of a Participant's qualitative performance rating, a Potential Award will include the qualitative performance component only if the Participant has attained at least the required threshold level for the investment performance component.
 - (ii) To encourage appropriate organizational behaviors, the qualitative performance rating 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 final performance results for the relevant Performance Period, weighted as set forth in Addendums A and B. The Maximum Potential Award that can become an Earned Award with respect to a Performance Period may not exceed the percentage of a Participant’s Base Salary in an Eligible Position (subject to proration under Section 4.2) that is listed opposite the applicable Eligible Position Title in the table below. The Maximum Potential Award applies to limit a Participant’s maximum Earned Award regardless of (x) the amount by which a Participant’s performance has exceeded the excess return targets or (y) the calculated value of the Potential Award.

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Chief Investment Officer	125%
Deputy CIO	125%
Senior Managing Director	125%
Managing Director	125%
Senior Director	110%
Director	110%
Senior Investment Manager	90%
Investment Manager	85%
Senior Associate	65%
Associate	50%
Senior Analyst	35%
Analyst	25%
Junior Analyst	15%
Administrative Assistants	5%

- (g) Notwithstanding the Maximum Potential Award listed in Section 4.3(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 4.2(d).
- (h) For each investment area, the portfolio 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 performance rating component, intermediate levels of the Potential Award will be based on a system of annual performance evaluation approved by the Executive Director.

4.4. *Compliance with TRS Policies*

- (a) IMD employees exercise fiduciary investment responsibilities assigned by the Board under applicable law and policies. Investment professionals manage the portfolio according to the Board's policies, advise and inform the Executive Director and the Board about investment management and performance, and recommend modifications to the Board's investment policies. All IMD employees are responsible for complying with TRS policies. The Executive Director or the Board may suspend earning and payment of Potential Awards and Earned Awards (including deferred payments) until the conclusion of an investigation under this Section 4.4.
- (b) Excess performance by a Participant or Participants resulting from a failure to invest and manage TRS pension assets prudently and in compliance with investment and ethics policies and applicable law will result in disqualification of the Participant or Participants and forfeiture of any award for the relevant Performance Period. The Executive Director will make this determination on a case-by-case basis. The Executive Director's determination under this subsection is final and non-appealable.
- (c) If the Executive Director determines after investigation that a Participant's violation of law or policy is sufficiently serious, the Participant will be disqualified and forfeit all Potential Awards and Earned Awards for the Performance Periods in which the violation(s) occurred, including awards and payments deferred under Section 4.7(b). If the Executive Director determines that no serious violation has occurred, a suspended Earned Award shall be paid to the Participant within 30 days after such determination (or such later date on which the award would have been payable absent the suspension), provided that the Participant has been continuously employed in an Eligible Position through such payment date. The Executive Director's determination under this subsection is final and non-appealable.

4.5. *Performance Standards and Measurements*

- (a) For the purposes of this Plan, investment performance (for both benchmarks and peer group categories) is measured on one year and three year historical performance data, weighted at 33% for one-year performance (i.e., the Performance Period just ended) and 67% for the historical three-year performance that includes the Performance Period just ended. Investment performance is measured relative to appropriate pre-defined benchmarks in the asset allocation and benchmarks table, including applicable footnotes, in the Board's Investment Policy Statement ("IPS"). 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 4.5(a), the investment performance of any new portfolio will be calculated for purposes of the Plan as follows:
 - (i) The investment performance measurement of any new portfolio (for both benchmark and peer group categories) created during a Performance Period will commence only on the next following October 1.
 - (ii) For a new portfolio's first full Performance Period, the investment performance measurement will be based 100% on the portfolio's performance data for the first full Performance Period;
 - (iii) For a new portfolio's second full Performance Period, the investment performance measurement will be weighted (x) 50% on the portfolio's performance during the second

full Performance Period, and (y) 50% on the portfolio'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 portfolio will be weighted (x) 33% on the portfolio's performance measurement during the one-year Performance Period just ended, and (y) 67% on the portfolio's three-year performance measurement during the three full Performance Periods just ended.
- (v) For the purposes of this Plan, no investment performance measurement will be calculated for a new portfolio unless it existed on October 1 of that Performance Period.
- (c) The qualitative performance component is measured annually as part of each Participant's annual performance appraisal process using criteria established before the beginning of each Performance Period.

4.6. *Potential Award Calculations*

- (a) Following the end of each Performance Period, the Executive Director will review the reported performance of each Participant relative to the applicable investment and qualitative 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.

4.7. *Earning Performance Payments*

- (a) Notwithstanding the Executive Director's approval of Potential Award calculations, and except as provided in this Section 4.7, Potential Awards will only become Earned Awards as stated below:
 - (i) Subject to Section 4.7(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 Award will become an Earned Award. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.
 - (ii) Subject to Section 4.7(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 Award will become an Earned Award. Payment of this award will usually be processed with that January's payroll, for delivery on or about February 1 but in no event later than February 15 of that calendar year.

Except as provided in Section 4.7(e), the payment dates of Earned Awards in respect of a Performance Period shall be the same for all Participants.

- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards 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 Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until January 1 following the next Performance Period in which the Total Fund has a

return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.

- (c) If an employee ceases to be a Participant during a Performance Period due to termination of TRS employment for any reason *other than* involuntary termination of employment due to a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during a Performance Period due to involuntary termination of TRS employment because of a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Notwithstanding Sections 4.7(a) and (b), Potential Awards from earlier Performance Periods will immediately become Earned Awards. Payments under this subsection will be made to the terminated employee, the estate of the deceased employee, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not 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 retirement, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards for the two most recent preceding Performance Periods may become Earned Awards if the employee retires on or after January 1 following the end of the most recent preceding Performance Period in accordance with this Section 4.7(e). To establish an employee's eligibility for payment of awards for preceding Performance Periods as of the effective date of retirement, an employee who wishes to retire must (i) notify the Executive Director of the employee's intent to retire on a specified proposed retirement date at least forty-five (45) days before such date; (ii) obtain written approval of the Executive Director to (x) retire as of the proposed retirement date and (y) be eligible for payment of Earned Awards for the two most recent preceding Performance Periods; (iii) establish eligibility, apply for and submit the required documentation for retirement benefits under the TRS pension plan; and (iv) retire as of the proposed effective retirement date. Payments under this subsection for all earlier Performance Periods will be made to the retired employee as soon as administratively practicable after retirement, but not later than 2½ months after the end of the calendar year in which the employee retires. If a retired employee dies before the date on which TRS makes payment to the retired employee, TRS will pay any Earned Awards to the retiree's estate or as otherwise provided by law as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the deceased employee retired or, if payment within such period is administratively impracticable, and such impracticability was unforeseeable on the first day of the Performance Period, as soon as administratively practicable thereafter.
- (f) If an employee ceases to be a Participant before the end of a Performance Period due to Plan termination, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards, can become Earned Awards and be paid according to this Section 4.7 if the Board determines that such payments would 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, including payments of awards, entirely or any portion thereof at any time. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of this Plan or any performance criteria relating to this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

5.2 Plan Administration

The Executive Director has the sole discretion to administer and interpret the Plan in accordance with its terms and conditions. The Executive Director may adopt such procedures and practices as he considers advisable to carry out the purposes of the Plan in accordance with the Code.

5.3 Record Keeping and Reporting

A record of the master "Participants List" including the data forming the basis for all Plan calculations shall be maintained by the Director of Human Resources.

5.4 Compliance with State and Federal Law

If the Executive Director or a court having 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 this Plan or the payment of Earned Awards 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-transferability of Awards

Potential Awards and Earned Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, pledge, lien, security interest, 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 or the calculation of Potential Awards or Earned 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 and applicable law. Any amounts budgeted for Earned Awards are TRS assets until properly disbursed in accordance with this Plan and applicable law, and no employee or third party shall have any property, security, expectancy, contractual right, lien, security interest, encumbrance, or other interest in any TRS assets by reason of the Plan.

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

7.3 Tax and Other Deductions

All payments under the Plan shall be subject to any deductions at the time of payment (x) for tax and withholding required by federal (or other foreign jurisdiction), state, or local law and (y) for any and all amounts owed by the employee to TRS. TRS is not obligated to advise an employee of the existence of any tax or the tax treatment, reporting requirements, or required withholding in connection with the Plan.

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

Except as expressly provided in this Plan, 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

Asset Allocation or **AA** comprises strategic asset allocation, tactical asset allocation, and quantitative equity investments.

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.

Classified employee means an employee whose position classification title, pay group and range, and pay administration practices are based on the State Position Classification Plan and related salary administration provisions.

Code means the United States Internal Revenue Code of 1986, as amended from time to time, or any successor U.S. federal income tax code.

Earned Award means a Potential Award that has become earned and payable because all of the terms, conditions, and requirements of this Plan have been satisfied. An Earned Award may be forfeited for misconduct, or suspended, canceled, or deferred as stated in this Plan. An Earned Award is not property.

Eligible Position means a title listed in Section 4.3(f) and, when the context refers to an Eligible Position with respect to a Participant's performance allocation and Potential Award calculation, the investment area or areas to which a Participant is assigned or interacts with during a Performance Period and the relevant excess return targets and portfolio benchmarks in Addendum A. A Participant who is reassigned from one investment area to another during a Performance Period also changes Eligible Positions, whether or not the Participant's title changes.

Exempt employee means an employee whose job title, pay, and pay administration practices are not based on the State Position Classification Plan. An exempt employee does not have a specified base salary range. For purposes of this Plan, the Chief Investment Officer and the Investment Fund Directors are exempt employees, and all other IMD employees are classified employees.

Investment areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and

Addendum B, and which are used to calculate Potential Awards for Participants in Eligible Positions. In this Plan, investment areas are synonymous with IMD employee teams or groups.

Maximum Potential Award is defined in Section 4.3(f) and is a limit on the gross Potential Award that can become an Earned Award in an Eligible Position title with respect to a Performance Period.

Participant is an employee in an Eligible Position on October 1 of the Performance Period, or who is first employed in an Eligible Position after the beginning of the Performance Period based on the proration schedules in Section 4.2, 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.

Portfolios, also referred to broadly as “profit centers” or by reference to an applicable benchmark, are listed in the first row of Addendum A and correspond in this Plan to their respective benchmarks and excess return targets in the applicable addendum.

Potential Award is defined in Section 4.3(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 contingent and no Earned Award may exceed the Maximum Potential Award, regardless of whether the Participant exceeds the stated excess return target.

Reduction in Force as used in this 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.

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

Total Fund means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested 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.

Administrative Policy

Current effective date: October 1, 2017*

First issued: October 1, 2007

Reviewers: Executive Director, Chief
Investment Officer,
Human Resources, Legal
Services

Last reviewed September ____, 2017

Review Cycle: Annual

Next review due: September 2017

Authorized by: Board of Trustees

Date authorized: September ____, 2017

Approved:

By:

Approved as of:

October 1, 2017

Brian K. Guthrie,
Executive Director

*This version of the Plan is effective for Performance Periods beginning on or after October 1, 2017. 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)

	Total Fund	Active Public Markets	Private Equity	Real Assets	Energy Natural Resources Infrastructure	Total
Index	Total Fund Policy Composite Index	Daily Weighted Excess Return Based on Actual Portfolio Weights (1)	State Street Private Equity Index	NCREIF ODCE	40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI	
Excess Return Target	100 bps	100 bps	200 bps	125 bps	125 bps	
Executive	100.00%					100%
Risk Management	100.00%					100%
Public Markets	30.00%	70.00%				100%
Public and Private SPN (SPR)	70.00%		15.00%	10.00%	5.00%	100%
Private Equity	30.00%		70.00%			100%
Real Assets	30.00%			70.00%		100%
Energy Natural Resources & Infrastructure	30.00%				70.00%	100%
Trade Management	60.00%	40.00%				100%
Investment Operations	100.00%					100%

(1) Active Public Markets includes all Global Equity investments, hedge funds, and ARP/Innovation portfolios managed by Public Markets. Performance inception 10/1/2017.

ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison (30% of Potential Award)

Fund Level	Total Fund	Trade Management	Private Equity	Real Assets	Risk Management	Total
Index	TUCS Public Funds > \$10 Billion Universe	ITG / Plexus	TUCS Private Equity > \$1 billion Universe	Real Estate vs. TUCS Real Estate > \$1 billion Universe	Risk Parity Benchmark	
Excess Return Target	100 bps	8 bps	200 bps	125 bps	25bps	
Executive	100.00%					100.00%
Risk Management	50.00%				50.00%	100.00%
Public Markets	90.00%	10.00%				100.00%
Public and Private SPN (SPR)	70.00%		20.00%	10.00%		100.00%
Private Equity	30.00%		70.00%			100.00%
Real Assets	30.00%			70.00%		100.00%
Energy Natural Resources & Infrastructure	100.00%					100.00%
Trade Management	30.00%	70.00%				100.00%
Investment Operations	90.00%	10.00%				100.00%

