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

(Mr. Barth, Chairman; Ms. Clifton; Mr. Colonnetta; Mr. Kelly; & Mr. McDonald, Committee Members)

AGENDA

April 19, 2012 – 9:00 a.m.
TRS East Building – Room E 345

1. Consider the approval of the proposed minutes of the December 8, 2011 committee meeting – Todd Barth.

2. Discuss and consider recommending to the Board proposed amendments to the following – Brian Guthrie, Conni Brennan and Tim Wei:

   A. Key Employee Determinations adopted under Government Code Section 825.212 and related financial disclosures.

   B. Employee Ethics Policy.

   C. Code of Ethics for Contractors.

3. Receive an overview of the Soft Dollar / Commission Sharing Arrangement program and discuss and consider recommending to the Board revisions to the Soft Dollar Policy – Sylvia Bell, Don Green, and Angela Vogeli.

4. Receive an overview of and discuss the Investment Policy Statement – Steve Voss and Brady O'Connell, Hewitt EnnisKnupp.

5. Receive a presentation on and discuss IMD process approval and authority – Jase Auby.

6. Receive an overview of and discuss the Investment Authority Resolution (TRS 477) – Dennis Gold.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because 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 Policy Committee
December 8, 2011

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on December 8, 2011, in Room E 345 on the Third Floor of the East Building of TRS offices located at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Committee members present:

Todd Barth, Chair
Charlotte Clifton
Joe Colonnetta
Eric McDonald
David Kelly

Other board members present:

Karen Charleston
Chris Moss
Anita Palmer
Nanette Sissney

TRS executives and other staff present:

Brian Guthrie, Executive Director
Ronnie Jung, Executive Liaison to the Board of Trustees
Ken Welch, Deputy Director
Amy Barrett, Chief Audit Executive
Conni Brennan, General Counsel
T. Britton Harris IV, Chief Investment Officer
Howard Goldman, Director of Communications
Betsey Jones, Director of Health Care Policy and Administration
Marianne Woods Wiley, Chief Benefit Officer
Ashley Baum, Chief of Staff, Investment Management Division
Dennis Gold, Assistant General Counsel
Tom Guerin, Manager – Benefit Counseling
Wm. Clarke Howard, Assistant General Counsel
Cindy Haley, Team Leader of Financial Reporting
Margie Horton, Manager – Benefit Accounting
Bob Jordan, Director of Health and Insurance Benefits
Dan Junell, Assistant General Counsel and Secretary to the Board
Lynn Lau, Program Specialist and Assistant Secretary to the Board
Jay LeBlanc, Director of Risk Management & Strategic Planning
Scott Leith, Manager – Investment Accounting
Rebecca Merrill, Special Advisor to Executive Director and Manager of Special Projects
Hugh Ohn, Director of Investment Audit and Compliance
Michelle Pagan, ERM Specialist

Charmaine Skillman, Assistant General Counsel
Rebecca Smith, Assistant General Counsel
Sharon Toalson, Assistant to the Chief Investment Officer
Angela Vogeli, Assistant General Counsel
Tim Wei, Assistant General Counsel
Yimei Zhao, Team Leader for Health Benefit Finance and Special Projects

Outside counsel, consultants, contractors, representatives of associations and organizations, and members of the public present:

Steven Huff, Reinhart Boerner Van Deuren, s.c., Fiduciary Counsel
Steve Voss, Hewitt EnnisKnupp
Brady O'Connell, Hewitt EnnisKnupp
Dr. Keith Brown, Investment Advisor
Ann Fickel, Texas Classroom Teachers Association
Josh Sanderson, Association of Texas Professional Educators

With a quorum of the committee present, the meeting convened at 11:35 a.m.

1. Consider the approval of the proposed minutes of the November 4, 2011 committee meeting – Todd Barth.

On a motion by Mr. McDonald, seconded by Ms. Clifton, the committee unanimously adopted the minutes of the November 4, 2011 meeting.

2. **Discuss and consider authorizing for public comment publication proposed amendments to TRS Rule 41.4, relating to the employer health benefit surcharge under the Texas Public School Retired Employees Group Benefits Act (TRS-Care) of Title 34 of the Texas Administrative Code – Clarke Howard.**

Mr. Howard said that staff was asking the committee to authorize public comment publication of proposed amendments to TRS-ActiveCare rule section 41.4 in the *Texas Register*. He explained the current rule and presented the proposed changes to it. He said that section 41.4 concerned the statutory health benefit surcharge owed by a TRS-covered employer for each month the employer hires a retiree who is enrolled in TRS-Care. He stated that the existing rule directs retirees to provide information about their enrollment in TRS-Care to their employer for determining the surcharge. He stated that the proposed changes would provide TRS the flexibility to directly provide the employer the amount of the surcharge associated with the employment of a given retiree enrolled in TRS-Care. In addition, he said, proposed clean-up amendments would delete obsolete provisions of the rule. He said that, if the committee authorized publication of the proposed amendments, staff would bring the rule back after the close of the comment period and present it. Responding to the questions from Mr. Colonnetta and Mr. Barth, Mr. Howard clarified that the health benefit surcharge had been effective since 2005.

Upon a motion by Mr. McDonald, seconded by Ms. Clifton, the committee unanimously voted to authorize staff to publish in the *Texas Register* proposed amendments to rule section 41.4.

3. Consider recommending to the Board a TRS vision statement and proposed amendments to the TRS mission and goal statements – Brian Guthrie.

Mr. Guthrie presented the current mission statement and strategic goals and the proposed vision, mission, and goal statements. He highlighted the changes made based on the discussion at the last Policy Committee meeting. Concerning the revised vision statement, "Earning your trust every day," he stated that using the word "your" extended its reference to everybody with whom TRS interacts and conducts business. He noted that the reference of "your" is clearly stated in the mission and goal statements.

Mr. Guthrie stated that the revised mission statement had incorporated the changes suggested by the trustees at the last meeting. The proposed changes, he said, included the following: changing "enhancing" to "prudently investing and managing trust assets"; changing "providing" to "delivering"; and specifying the positive nature of the difference TRS makes to members' lives. With those changes, the proposed mission statement would read as follows:

> Improving the retirement security of Texas educators by prudently investing and managing trust assets and delivering benefits that make a positive difference in members' lives.

Concerning the strategic goals statement, Mr. Guthrie stated that staff had incorporated the trustees' suggestions from the last meeting by adding "Sustain a financially sound trust fund" as a separate goal. He stated that staff also replaced the goal "Be recognized by top talent as a premier employer" with the following one taken from the current statement:

> Develop and retain a high-performing customer-focused staff that conducts business in an effective and ethical manner.

Responding to a question from Ms. Sissney concerning the review cycle of the statements, Mr. Guthrie stated that it was every two years. Ms. Sissney said that the following item seemed to be too specific for a general statement of the system's goals:

> Promote purchasing and emerging manager selection practices that foster meaningful and substantive inclusion of historically underutilized businesses.

Mr. Guthrie replied that that goal statement was required by statute. He explained that after the committee and board approved the wording of the statements on TRS' vision, mission, and strategic goals, staff would work on the details of the strategic plan for presentation at a future meeting.

Upon a motion by Mr. McDonald, seconded by Mr. Colonnetta, the committee unanimously voted to recommend to the board the adoption of the proposed vision, mission, and goal statements as presented by staff.

4. Consider recommending to the Board a proposed trustee position description and proposed revisions to the TRS trustee ethics policy – Conni Brennan and Tim Wei.

Ms. Brennan presented the proposed Trustee Ethics Policy and Trustee Position Description along with information provided by TRS legal staff and the board's fiduciary counsel, Steven Huff of Reinhart Boerner Van Deuren s.c. She noted that, at the February 2012 meeting, trustees would receive ethics training, which would include the ethics policy and position description. Ms. Brennan stated that the proposed Trustee Ethics Policy incorporated suggested changes raised at the November 2011 Policy Committee meeting. She stated that the proposed changes would allow representatives of an existing investment to provide trustees ground transportation; and if the value of the transportation exceeds $50, the donor furnishing that ground transportation only needs to be present at the function that the trustee is attending—present at the destination—and would not need to travel with the trustee to make it permissible.

Ms. Brennan presented two alternatives (1 and 2) to the gifts section for trustees' consideration. She stated that alternative 2 reflected the discussion at the last committee indicating a desire to broaden the exceptions on gifts to avoid inadvertent violations. The primary difference between alternative 1 and 2, she said, is that alternative 1 allows gifts valued at less than $50 while alternative 2 does not include this allowance. She stated that to avoid an inadvertent violation, the phrase "at meetings" would be added to both alternatives to allow trustees to receive tokens of nominal value at meetings, in addition to conferences, seminars and receptions. She noted that Nancy Williams of Hewitt EnnisKnupp, Inc. had recommended the foregoing proposed change at the committee's last meeting. Ms. Brennan said that both proposed alternatives assumed that the trustee would neither be influenced by the gift nor have knowledge that it was offered with intent to influence the trustee in the discharge of the trustee's official duties to TRS. She stated that, if a trustee believed a donor offered a gift with the intent to influence his or her decision or the gift might influence the trustee's decision, the trustee should not accept the gift. Mr. Colonnetta stated that he was given a gift at a dinner presentation by an investment fund and was later asked to document that he had received a gift as a TRS trustee, even though he did not go to the event as a TRS trustee. Mr. Wei responded that Mr. Colonnetta could accept such a gift under either proposed alternative because he did not attend the dinner or presentation in his TRS capacity and he received the gift as a result a personal, professional or business relationship independent of his official status as a trustee. Ms. Brennan stated that five of the trustees are appointed for their investment expertise and they may have business relationships that are independent of their status as a TRS trustee. Therefore, she said, the proposed policy includes a legal exception for gifts offered because of a personal, professional or business relationship independent of a trustee's official status as a trustee.

Concerning blackout periods, Ms. Brennan stated that the proposed policy would allow the Executive Director to develop and modify related procedures. She described additional proposed language stating that the Executive Director would notify trustees about blackout periods. She also noted changing "making" to "considering" and adding "or meet" in the sentence in section 6 as follows:

> Similarly, if the board is <u>considering</u> [~~making~~] an investment in a private investment fund, Trustees shall not privately communicate

or meet with representatives of the investment opportunity on the subject of the investment during the decision-making period.

Ms. Brennan stated that the only proposed change to the trustee position description would add a summary statement in the opening paragraph to describe the board's authority per a suggestion from the last meeting.

Mr. Barth invited trustees to express their preference on the two alternatives relating to gifts. Mr. Barth stated that he did not favor one alternative over the other. Mr. McDonald asked Mr. Huff for his rationale for supporting alternative 1. Mr. Huff explained that the state law concerning gifts is very complex and he believed that a policy that closely mirrors the state law may help prevent inadvertent violations and reduce the possibility of violations of either the policy or the law. Responding to a question from Mr. McDonald, Ms. Brennan stated that the consensus from the last committee meeting was to select alternative 2 to narrow the exceptions. She stated that Ms. Williams also supported alternative 2. She noted that both alternatives were stricter than the law. Mr. Kelly stated that he preferred alternative 2. Ms. Brennan further clarified that alternative 1 would allow a gift from anyone as long as its value was less than $50, it was not in the form of cash, negotiable instrument, or a cash equivalent, and it did not influence the trustee. She stated that alternative 2 prohibited any gift regardless of amount unless it came under one of the itemized exceptions, such as a gift conferred on account of a business relationship independent of the official status of the recipient as a TRS trustee. Mr. McDonald stated that he preferred alternative 1.

Hearing no further comment, Mr. Barth called for a motion. Upon a motion by Ms. Clifton, seconded by Mr. McDonald, the committee unanimously voted to recommend that the board adopt the proposed Trustee Position Description as presented by staff and the proposed Trustee Ethics Policy with alternative 1 and with other revisions, as presented by staff during the meeting or in the written materials provided to the committee.

The meeting adjourned at 12:09 p.m.

MEMORANDUM

TO: Policy Committee of the Board of Trustees

FROM: Brian Guthrie, Executive Director
Timothy Wei, Assistant General Counsel

COPIES: Board of Trustees
Steven Huff, Fiduciary Counsel

DATE: March 29, 2012

RE: Determination of TRS Key Employees and Clarification of Reporting Requirements under the Financial Statement Disclosures

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I. Background and Statutory Requirements

Section 825.212 of the Government Code requires the Board to determine TRS employees who exercise "significant decisionmaking or fiduciary authority." The law requires these "key employees" to file personal financial statements with TRS. In addition, TRS policy imposes certain other requirements on key employees, such as the Executive Director's pre-approval for any outside employment and disclosure of certain business interests.

The term "significant decisionmaking … authority" is relatively self-explanatory. The term "fiduciary authority" bears explanation, and ERISA provides guidance on the meaning of this term:

> a person is a fiduciary with respect to a [pension] plan to the extent … he exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management or disposition of its assets … .

29 U.S.C. § 1002(21)(A). Accordingly, a person may be viewed as exercising significant fiduciary authority if the person exercises significant discretionary control of the management of TRS or significant authority or control of the management or disposition of TRS' assets.

The Board of Trustees has previously approved a list of TRS positions designated as "key employees." Under the current designation system, holders of certain TRS titles are key employees. Additionally, in the Investment Management Division ("IMD"), employees with certain state classifications are key employees. As discussed below, the staff recommends certain changes to the determinations of IMD and certain other key employees to more effectively implement the statutory mandate of determining employees who exercise "significant decisionmaking or fiduciary authority."

II. Determinations of Key Employees

A. Recommended Senior Staff Key Employee Determinations

The staff recommends that the Board determine that the holders of the following TRS working titles are key employees:

Title	Current Incumbent
Executive Director	Brian Guthrie
Deputy Director	Ken Welch
Chief Investment Officer	Britt Harris
Deputy Chief Investment Officer	Jerry Albright
Chief Benefit Officer	Marianne Woods Wiley
Chief Financial Officer	Donald Green
General Counsel	Conni Brennan
Chief Audit Executive	Amy Barrett
Chief Information Officer	Amy Morgan
Deputy Chief Information Officer	T.A. Miller
Director of Health Care Policy and Administration	Betsey Jones
Manager of General Accounting	Jamie Michels
Manager of Investment Accounting	Scot Leith

All of these employees exercise significant decisionmaking or fiduciary authority. With two exceptions, the Board previously determined all are key employees. The staff recommends adding the titles Director of Health Care Policy and Administration, currently held by Betsey Jones, and Deputy Chief Information Officer, currently held by T.A. Miller. Staff recommends that these titles be added to the list of key employees because of the positions' authority over significant TRS contracts and management functions.

B. Additional Recommended IMD Employees Determinations

Staff also recommends that the Board make additional determinations of key employees among IMD staff. In the IMD, key employees presently are determined by the state classification they hold. All positions that are filled with employees whose state classification title is Investment Fund Director, Chief Trader I or II, Trader I or II, or Portfolio Manager I, II, III, or IV are key employee positions. This determination method casts an overbroad net and captures as key employees some employees that do not exercise "significant decisionmaking or fiduciary authority." For example, under the current system, employees who make investment recommendations are designated as key employees, even though they do not make the actual investment decision. Neither do those same employees exercise significant discretionary authority over the disposition of TRS assets. Thus, these employees do not exercise significant decisionmaking or fiduciary authority. Accordingly, staff recommends changes to the determinations of key employees in the IMD.

The staff recommends a functional approach for IMD key employee determinations. The Board may implement this functional approach by determining four groups of IMD employees as key:

- Internal Investment Committee ("IIC") members;
- IMD employees with the TRS working title of Director and higher;

- Employees with authority to approve or execute TRS' trades; and

1. Members of the IIC

The staff recommends that the Board determine any employee who is or was a voting member of the IIC at any time during a reporting year to be a key employee subject to applicable requirements. IIC members vote to approve or disapprove potential investments in private funds for TRS, among other duties. Accordingly, IIC members exercise both significant decisionmaking and fiduciary authority and should be deemed key employees.

Through the current Investment Policy Statement ("IPS"), the Board appointed certain persons to the IIC. The IPS also authorizes the Chief Investment Officer to appoint and remove persons who are IMD Directors as non-permanent voting members of the IIC. The current IIC voting members are:

Title	Current Incumbent
Chief Investment Officer	Britt Harris
Deputy Chief Investment Officer	Jerry Albright
Chief Risk Officer	Jase Auby
Director – Investment Operations*	Sylvia Bell
Senior Managing Director – Internal Public Markets	Chi Kit Chai
Senior Managing Director – External Private Markets	Steve LeBlanc
Managing Director – Strategic Research & Quantitative Analysis*	Nigel Lewis
Managing Director – External Public Markets*	Dale West

* Appointed by the CIO as a non-permanent voting member.

2. IMD Employees with the Title of Director or Higher

The staff recommends that the Board determine any IMD employee who holds the title of Director or higher during a reporting period to be a key employee. Such employees are expected to be taking a leadership role in managing the IMD and in making investment decisions on behalf of TRS and accordingly are exercising significant decisionmaking and fiduciary authority.

The chart attached as Exhibit 1 shows the titles held by all IMD employees.

3. IMD Employees with Authority to Execute or Approve Trades

The staff recommends that the Board determine any employee with authority to approve or execute trades in the TRS order management system during a reporting period to be a key employee. Those employees with authority to approve trades are exercising significant decisionmaking and fiduciary authority and are accordingly key employees. Those employees with authority to execute trades are disposing of TRS assets and accordingly are exercising significant fiduciary authority. This designation will include the senior employees in the Internal Public Markets group, a few senior employees from the External Public Markets group, and employees from the Trading group.

C. Employees with Authority Delegated Under The Board's Authority Resolution (TRS Form 477) and Voucher Authority Resolution

For the same reasons, the staff recommends that the Board determine any person designated as an authorized signatory under the Board's Authority Resolution (TRS Form 477) or Voucher Authority Resolution to be a key employee. This group of employees is authorized, directly or indirectly,[1] by the Board to enter or exit investment transactions on behalf of TRS or to authorize transfer of payments from TRS' accounts at the Comptroller's office. Under this authority, they are exercising significant fiduciary authority. This group of employees is primarily composed of IMD employees but also includes a few employees from TRS' executive and financial staff.

D. Any Employee Designated Key by the Executive Director or Chief Audit Executive

Finally, the staff recommends that the Board authorize the Executive Director to designate any employee as a supplemental key employee upon notice to the General Counsel. If the Executive Director concludes that an employee who does not meet the above criteria but for whom it would be prudent because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another reason to require compliance with the key employee obligations, he or she may designate such an employee as a supplemental key employee.

III. Recommended Changes to Required Personal Financial Statement Disclosures

As noted above, TRS' statute requires key employees to file personal financial statements with TRS. The statute further provides that the "content of a financial disclosure statement must comply substantially with the requirements of" the personal financial statement required by Subchapter B of Chapter 572 of the Texas Government Code. The Texas Ethics Commission has promulgated a form personal financial statement that meets the requirements of Subchapter B. (Trustees are also required to fill out the same form and file it with the Texas Ethics Commission and TRS.) Historically, TRS has required key employees to use the Ethics Commission form, although it has authority to develop its own form that substantially complies with Subchapter B's requirements.

Among other things, Subchapter B requires disclosure of certain information regarding the investments and personal trading of key employees. Specifically, Subchapter B requires disclosure of the name of any stock held, the number of shares (within specified ranges), and any net gain or loss (within specified ranges) if shares were sold. Similar information is required for bonds.

Under the procedures in TRS Trading Policy for Employees and Certain Contractors, key employees already disclose most if not all the information required by Subchapter B for publicly traded stocks and bonds. Further, TRS receives and reviews the information in real time or with a relatively short delay. Under the Trading Policy, key employees must also disclose all broker accounts (as defined in the Policy), pre-clear certain trades, and supply trading confirmations directly from their broker for most trades. Additionally, key employees must direct their brokers to permit TRS to obtain copies of their account statements at TRS' request. Accordingly, TRS receives a great deal of information regarding key employees' personal investments and trading and reviews it on a timely basis.

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[1] In the current Authority Resolution, the Board authorized the Executive Director to designate IMD employees from within a specified group of working titles to have signature authority for TRS in investment matters.

Because of these robust procedures under the Trading Policy, the staff recommends that key employees who have fully complied with the Trading Policy for a given reporting period be permitted to supply a statement of compliance with the Trading Policy and annual account statements for the beginning and end of the reporting period in lieu of resupplying all the information for publicly traded stocks and bonds that is required by the Ethics Commission form personal financial statement. Key employees would still have to disclose all other information required by the personal financial statement and disclose information for any securities not covered by the Trading Policy. For instance, employees do not need to pre-clear or disclose mutual fund trades or many exchange-traded funds ("ETFs") trades, and so, key employees would still have to provide the information required by the personal financial statement for such investments.

IV. Effective Date

Finally, to capture the efficiencies that the proposals above offer, the staff recommends that these changes be applied to the calendar year 2011 reporting period. For the two employees who are newly determined to be key employees, the requirements will be applied as of the date the Board determines the employee to be key. The annual compliance periods are approaching, and the Board has given the Executive Director sufficient authority to extend any reporting requirement deadlines necessary to implement these changes.

Exhibit 1

Britt Harris, CIO							
Jerry Albright, Deputy CIO							
Senior Managing Directors							
			Chi Kit Chai	Steve LeBlanc			
Managing Directors							
David DeStefano	Rich Hall	Janis Hydak	Eric Lang	Nigel Lewis	Shayne McGuire	Dale West	
Senior Directors							
Mark Albert	Bernie Bozzelli		Ralph Linn				
Directors							
Jase Auby	M. Balachandran	Sylvia Bell Patrick Cosgrove	Susanne Gealy Katy Hoffman	Neil Randall	John Ritter	Curt Rogers	
Senior Investment Managers							
Tom Cammack Mark Cassens	Kay Cuclis Brad Gilbert Tim Jones	Michael Lazorik Kevin Lincoln Jaime Llano	Allen MacDonell Scott Moore James Nield	Steve Peterson Michael Pia Demetrius Pope	Matt Robertson Corina Scoggins	Wayne Speer Joe Tannehill KJ Van Ackeren	Courtney Villalta John Watkins Grant Walker
Investment Managers							
Phillip Auth Ashley Baum	Stuart Bernstein Grant Birdwell	Rich Campbell Todd Centurino John DeMichelle	William Guinn Amet Kumar	Craig McCullough Stacey Peot	Marshall Reid Craig Rochette	Tayyib Shah Daniel Steinberg Brad Thawley	Nathan Zinn Jennifer Wenzel
Senior Associate							
Jeremy Aston Brian Baumhover	Patricia Cantu Kendall Courtney	David Cox Karoline Freeman	Jingshan Fu Jon Hook	Kelly Newhall	Scott Ramsower Komson Silapachai	Matt Talbert Mark Telschow	Susan Wade
Associate							
JB Daumerie	Ranu Dutta	Barbara Forssell	Roy Kurian	Terri Krumnow	Lourdes Llano	Barbara Woodard	Tony Yiu
Senior Analyst							
Pat Barker		Rachel Clark	Jelena Melenseko	Jared Simpson	Kristi Vorce	Ross Willman	Irma Z-Castillo
Analyst							
Andy Cronin	Chase Hill	Felicia Jones	Jon Klekman	Melissa Kleihege	Steve Lambert	Lilly Rodgers Maribel Nesuda	Molly Rose
Assistants							
	Gracie Marsh	Monica Larson	Cynthia Mendoza	Hugo Rangel Babette Ruiz	Marina Salazar Sharon Toalson	Susan K. White	

April 19 - 20, 2012

Teacher Retirement System of Texas

Policy Committee of the Board of Trustees

Resolution Recommending that the Board Approve a Resolution Adopting Revised TRS Key Employee Determinations and Clarifying Reporting Requirements under the Financial Disclosure Statement Required by Government Code Section 825.212(b)

Whereas, In accordance with Government Code Section 825.212 and the Employee Ethics Policy, as revised from time to time, The Board of Trustees of the Teacher Retirement System of Texas (the "Board") has previously determined employees who exercise significant decisonmaking or fiduciary authority ("key employees"); and now, therefore be it

Resolved, That the Policy Committee of the Board hereby recommends that the Board adopt the Resolution Adopting Revised TRS Key Employee Determinations and Clarifying Reporting Requirements under the Financial Disclosure Statement Required by Government Code Section 825.212(b), as presented to the Policy Committee. [, with the following changes, if any, to the recommended version of that Resolution:

- _____

- _____]

[optional language bracketed]

LEGAL SERVICES MEMORANDUM

TO: Policy Committee of the Board of Trustees

FROM: Conni Brennan, General Counsel
Timothy Wei, Assistant General Counsel

COPIES: Board of Trustees
Steven Huff, Fiduciary Counsel

DATE: March 29, 2012

RE: Revisions to the Employee Ethics Policy

In 2009, the Board adopted the Trustee Governance and Ethics Policy and the Employee Ethics Policy, which had interrelated provisions and references. In December 2011, the Board replaced the Trustee Governance and Ethics Policy with a new Trustee Ethics Policy. Accordingly, the Employee Ethics Policy now needs certain revisions to make it consistent with the new Trustee Ethics Policy. The bulk of those changes fall in the section on Trustee-Staff relations and communications, which was greatly simplified by the new Trustee Ethics Policy. Further, references to the superseded Trustee Governance and Ethics Policy need to be replaced with references to the Trustee Ethics Policy. The proposed revisions to the Trustee-Staff relations section are attached as Exhibit 1.

Additionally, the staff recommends revisions to the Benefits (*i.e.*, gifts) section of the Employee Ethics Policy to allow, with the Executive Director's approval, third parties to pay for food, lodging, entertainment, and transportation in connection with business conferences that benefit TRS, provided other conditions also outlined in the Policy are also met. The proposed modification inserts a requirement for staff to obtain Executive Director approval, as already noted, and the requirement is extended not only with regard to business conferences but also to business meetings, business meals, and receptions. The staff also recommends that the Benefits section be revised so that Employees are not permitted to "solicit" even permissible gifts from Restricted Donors (*i.e.*, persons or entities doing business with or seeking to do business with TRS). The proposed revisions to the Benefits section are attached as Exhibit 2.

Finally, the staff recommends revisions to certain limitations on outside employment restrictions. The Policy prohibits Investment Management Division employees and other employees who have access to current information regarding TRS' investment recommendation or decisions from acting as an investment adviser outside of TRS. The staff believes that this flat prohibition is unduly restrictive and recommends that this flat prohibition be revised to permit the Executive Director to allow such outside investment adviser activities on a case-by-case basis. The staff also recommends that the prohibition be clarified that it also applies to investment advice provided to individuals. The proposed revisions to the Outside Employment section are attached as Exhibit 3.

Exhibit 1

XI. Trustee-Staff Relations and Communications

The Board has articulated the role and responsibility of Trustees and staff[1] by developing and implementing policies that clearly separate the policy-making responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS[2]. Significantly, the Board has delegated certain responsibilities to the Executive Director in Article 4.1 of the Bylaws. Additionally, the Board has delineated significant authority of staff in TRS rules and in policies adopted by the Board, including the Investment Policy Statement, the Proxy Voting Policy, and the Securities Lending Policy.

It is important that the Trustees and staff have an open and productive working relationship to accomplish the goals of TRS for members, beneficiaries and retirees.

The following will assist staff with its interactions with Trustees.

A. The Board and staff recognize the distinctively separate policymaking and implementation roles that each plays in fund governance[3].

B. Providing Direction to TRS Staff, Consultants and Agents:

The Board collectively is empowered to direct TRS's management, staff, and consultants on policy matters of TRS operations. Conversely, no individual Trustee speaks for or binds the Board or TRS. Staff, Consultants and agents should not interpret communications from individual Trustees as direction.

C. Staff shall keep the Executive Director and the Deputy Director informed of contacts from a Trustee related to a TRS Matter.

D. Referrals of Potential Investments or Third-Party Service Providers:

If a Trustee makes a referral, the Trustee will make a referral and any follow-up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concern.

With regard to all referrals, including those from a Trustee, the staff will evaluate the referred party or opportunity under then existing operating standards and procedures, without regard to the source of the referral.

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[1] Stanford, Best Practices, supra note 2 at 8

[2] Texas Government Code, Chapter 825.113; Colorado, Governance Manual, supra note 10 at 3-1; Maryland, Governance Policies, supra note 11 at ii; Virginia, Code of Ethics, supra note 5 at 5.

[3] Stanford, Best Practices, supra note 2 at 18.

XI. Trustee-Staff Relations and~~,~~ Communications~~, and Disclosures~~

The Board has articulated the role and responsibility of Trustees and staff[1] by developing and implementing policies that clearly separate the policy-making responsibilities of the Board and the management responsibilities of the Executive Director and the staff of TRS[2]. Significantly, the Board has delegated certain responsibilities to the Executive Director in Article 4.1 of the Bylaws. Additionally, the Board has delineated significant authority of staff in TRS rules and in policies adopted by the Board, including the Investment Policy Statement, the Proxy Voting Policy, and the Securities Lending Policy.

It is important that the Trustees and staff have an open and productive working relationship to accomplish the goals of TRS for members, beneficiaries and retirees.

The following will assist staff with its interactions with Trustees.

A. The Board and staff ~~should~~ recognize the distinctively separate policymaking and implementation roles that each plays in fund governance[3].

~~B. The Board, and individual Trustees may visit TRS to observe the management and operations of staff.~~

~~C~~B. Providing Direction to TRS Staff, Consultants and Agents:

The Board collectively is empowered to direct TRS's management, staff, and consultants on policy matters of TRS operations. Conversely, no individual Trustee speaks for or binds the Board or TRS. Staff, Consultants and agents should not interpret communications from individual Trustees as direction.

~~To the extent practicable, a Trustee will direct his communications to the Executive Director [or the Deputy Director] or, if designated by the Executive Director with regard to a specific TRS Matter or with regard to a general category of matters, to the Executive Director's designee. The Executive Director is deemed to have designated the Chief Investment Officer or the Deputy Chief Investment Officer as his designee with regard to investment matters. However, a Trustee is not prohibited from communicating with any TRS Executive Council staff member, Consultant, or agent. If a staff member who is not on the Executive Council and is not a designee of the Executive Director, as provided above, is contacted by a Trustee, that staff member shall refer the contact to the Executive Director, Deputy Director, or the Employee's departmental Executive Council member, or one of their designees.~~

~~D~~C. Staff~~, including Executive Council staff members and designees,~~ shall ~~notify~~ keep the Executive Director and the Deputy Director informed of ~~all~~ contacts from a Trustee

[1] Stanford, Best Practices, supra note 2 at 8
[2] Texas Government Code, Chapter 825.113; Colorado, Governance Manual, supra note 10 at 3-1; Maryland, Governance Policies, supra note 11 at ii; Virginia, Code of Ethics, supra note 5 at 5.
[3] Stanford, Best Practices, supra note 2 at 18.

related to a TRS Matter~~, in accordance with procedures developed by the Executive Director~~.

~~E. Trustee Requests for Specific Information from Staff:~~

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~~Trustees will direct questions regarding any aspect of TRS's operations to the Executive Director or the person(s) designated by the Executive Director for that purpose. The Executive Director is deemed to have designated the Chief Investment Officer or the Deputy Chief Investment Officer as his designees with regard to investment matters. As soon as practicable after receiving a request for information directly from the Trustee, or after receiving notice from the designee of the request, the Executive Director will ensure that information that has been requested by the Board or by an individual Trustee is made available to all Trustees, as appropriate.[4] The Executive Director shall develop procedures for this purpose and to ensure that Trustees are advised that the information is to be used for a TRS purpose and is not to be used for personal gain or the gain of any third party.~~

~~F~~D. Referrals of Potential Investments or Third-Party Service Providers:

If a Trustee makes a referral, the Trustee will make a referral and any follow-up inquiries to the Executive Director or, for investment matters, to the Chief Investment Officer. The Executive Director shall inform the other Trustees of any follow-up communications made by a referring Board member if they are repetitive or otherwise create concern. ~~Individual Trustees may refer fund managers, vendors, consultants or others for staff consideration regarding an investment opportunity or other opportunity for doing business with TRS. Any referrals by individual Trustees for consideration for investment or for doing business in any way with TRS, including dealings with agents of TRS or entities in which TRS has an interest, shall be directed to the Executive Director or his designee. The Executive Director is deemed to have designated the Chief Investment Officer or the Deputy Chief Investment Officer as his designees with regard to investment matters. As soon as practicable, the Executive Director's designee(s) shall, in accordance with procedures developed by the Executive Director, notify the Executive Director and Deputy Director of any received referral. The Executive Director or his designee may forward referrals that are not related to investment matters to the appropriate director for evaluation. The Executive Director or his designee shall forward referrals that are related to investment matters to the Chief Investment Officer or the Deputy Chief Investment Officer.~~

With regard to all referrals, including those from a Trustee, the staff will evaluate the referred party or opportunity under then existing operating standards and procedures, without regard to the source of the referral.

~~In accordance with procedures developed by the Executive Director, notice of any subsequent communications initiated by a referring Trustee to any Employee regarding the status, review, due diligence, or decision making regarding the referral shall be given~~

[4] ~~Virginia, Code of Ethics, supra note 5 at 4.~~

~~to the Executive Director and Deputy Director as soon as practicable. Such subsequent communications will be communicated to the other Trustees by the Executive Director or his designee.~~

~~G. Maintenance of Disclosures by a Trustee:~~

~~The Executive Director shall make all written disclosures by the Trustees available to any Trustee upon request. A notebook with disclosures sorted by the month of receipt will be available before each Board meeting for perusal by Trustees. The Executive Director, in his discretion, may share a particular disclosure with another TRS Employee or Consultant.~~

Exhibit 2

VII. Benefits

A. An Employee shall not solicit, accept, or agree to accept from any donor:

1. a Benefit that the Employee knows or should know is consideration for the Employee's decision, opinion, recommendation, vote, or other exercise of discretion as an Employee, or for having exercised the Employee's official powers or performed the Employee's official duties in favor of another[1];

2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee[2];

3. a Benefit that might reasonably tend to influence the Employee in the discharge of official duties or that the Employee knows or should know is offered with the intent to influence the Employee's official conduct[3];

4. a Benefit if the source of the Benefit is not identified or if the Employee knows or has reason to know that the Benefit is being offered through an intermediary; or

5. a Benefit that creates a reasonably foreseeable conflict of interest or an actual conflict of interest as defined in subsection IV. A. or that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.

B. Except as provided in this subsection VII. B., in subsection VII. C., or in subsection VII. D., an Employee shall not solicit, accept or agree to accept (or offer, give, or agree to give) any Benefit from (to) a Restricted Donor.

C. As long as the prohibitions in subsection VII. A. are not violated, an Employee may accept, or agree to accept from a Restricted Donor:

1. gifts given on special occasions between Trustees and/or Employees;

2. an item with a value of less than $50, received from the same donor or employees of the same donor on infrequent occasions, excluding cash or a negotiable instrument as described by Section 3.104, Business & Commerce Code;

3. a fee prescribed by law to be received by the Employee or any other Benefit to which the Employee is lawfully entitled or for which he gives legitimate consideration in a capacity other than as an Employee of TRS[4]; or

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[1] Section 36.02(a)(1) of the Texas Penal Code and Section 572.051(a)(5) of the Texas Government Code.
[2] Section 36.02(a)(3) of the Texas Penal Code.
[3] Section 572.051(a)(1) of the Texas Government Code.
[4] Section 36.10(a)(1) of the Texas Penal Code.

4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee[5].

D. Food, Lodging, Transportation and Entertainment. The following apply to items of food, lodging, transportation and entertainment offered by or accepted from a Restricted Donor:

1. No standard set forth in subsection VII. A. may be violated when acting under subsections VII. D. 2. through 5. immediately below.

2. Modest items of food (with a value less than $50 per person) are permissible only if given or accepted on infrequent occasions.[6]

3. Food items (with a value of $50 or more per person) are permissible only if
   - provided in connection with a business meeting, business meal, business conference or reception; and
   - the donor or a representative of the donor is present[7].

4. Lodging, transportation, or entertainment are permissible only if (i) approved by the Executive director; (ii) in connection with receptions, business meals, business meetings, or business conferences that serve a TRS purpose; and (iii) the donor or a representative of the donor will be present at the reception, business meal, business meeting, business conference, or entertainment[8].

5. If the Employee is required by law to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee[9].

E. If otherwise permitted by this Policy, lodging and transportation may not be accepted from a person registered as a lobbyist in Texas unless in connection with a fact-finding trip or to a seminar or conference at which the Employee will provide services, such as speaking, and the services are more than merely perfunctory[10]. Entertainment provided by a lobbyist may not exceed the cumulative value of $500 in a calendar year. Benefits provided by a lobbyist, other than food, lodging, transportation and entertainment, may not exceed the cumulative value of $500 in a calendar year.

F. If an unsolicited Benefit that violates any provision of this section VII. is received by an Employee, he or she should attempt to return the Benefit to its source. If that is not possible or feasible, the Benefit should be donated to charity.

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[5] Section 36.02(a)(2) of the Texas Penal Code.
[6] This is a departure from the current Ethics Policy by allowing acceptance of food items that could be entirely social in nature, not "tied" to a business function.
[7] Section 36.10(b) of the Texas Penal Code.
[8] Section 36.10(b) of the Texas Penal Code. The current Ethics Policy does not allow for the acceptance of lodging and air transportation.
[9] Section 36.10(b) of the Texas Penal Code. Section 572.021 et seq., Government Code, requires state officers to file verified financial statements.
[10] Section 305.025 of the Texas Government Code.

VII. Benefits

A. An Employee shall not solicit, accept, or agree to accept from any donor:

1. a Benefit that the Employee knows or should know is consideration for the Employee's decision, opinion, recommendation, vote, or other exercise of discretion as an Employee, or for having exercised the Employee's official powers or performed the Employee's official duties in favor of another[1];

2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee[2];

3. a Benefit that might reasonably tend to influence the Employee in the discharge of official duties or that the Employee knows or should know is offered with the intent to influence the Employee's official conduct[3];

4. a Benefit if the source of the Benefit is not identified or if the Employee knows or has reason to know that the Benefit is being offered through an intermediary; or

5. a Benefit that creates a reasonably foreseeable conflict of interest or an actual conflict of interest as defined in subsection IV. A. or that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties.

B. Except as provided in this subsection VII. B., in subsection VII. C., or in subsection VII. D., an Employee shall not solicit, accept or agree to accept (or offer, give, or agree to give) any Benefit from (to) a Restricted Donor.

C. As long as the prohibitions in subsection VII. A. are not violated, an Employee may ~~solicit,~~ accept, or agree to accept from a Restricted Donor:

1. gifts given on special occasions between Trustees and/or Employees;

2. an item with a value of less than $50, received from the same donor or employees of the same donor on infrequent occasions, excluding cash or a negotiable instrument as described by Section 3.104, Business & Commerce Code;

3. a fee prescribed by law to be received by the Employee or any other Benefit to which the Employee is lawfully entitled or for which he gives legitimate consideration in a capacity other than as an Employee of TRS[4]; or

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5. If the Employee is required by law to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee[9].

E. If otherwise permitted by this Policy, lodging and transportation may not be accepted from a person registered as a lobbyist in Texas unless in connection with a fact-finding trip or to a seminar or conference at which the Employee will provide services, such as speaking, and the services are more than merely perfunctory[10]. Entertainment provided by a lobbyist may not exceed the cumulative value of $500 in a calendar year. Benefits provided by a lobbyist, other than food, lodging, transportation and entertainment, may not exceed the cumulative value of $500 in a calendar year.

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[9] Section 36.10(b) of the Texas Penal Code. Section 572.021 et seq., Government Code, requires state officers to file verified financial statements.
[10] Section 305.025 of the Texas Government Code.

Exhibit 3

VIII. Outside Employment

A. Employees may not engage in outside employment, business, or other activities that detract from the ability to fulfill their full-time responsibilities to TRS.

B. Employees who work in the TRS Investment Management Division or who in the course of their regular duties for TRS have access to current information concerning investment recommendations or decisions of TRS, may not, without advance approval from the Executive Director, advise, manage, or oversee an investment function for any entity, whether profit or nonprofit, or person even if such activity would not detract from the ability to fulfill their full-time responsibilities to TRS. An investment function means management of or investment advice with respect to a portfolio of investments. This prohibition does not extend to advice or management relating to individual transactions for family members or to functions normally viewed as those of a treasurer such as investing in certificates of deposit or other money market instruments.

C. Key Employees must obtain advance written approval from the Executive Director for any outside employment or business.

D. Any outside employment or business undertaken by the Executive Director must be approved in advance by the Board.

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C. Key Employees must obtain advance written approval from the Executive Director for any outside employment or business.

D. Any outside employment or business undertaken by the Executive Director must be approved in advance by the Board.

April 19 - 20, 2012

Teacher Retirement System of Texas

Policy Committee of the Board of Trustees

Resolution Recommending that the Board Approve Certain Changes to the Employee Ethics Policy

Whereas, In October 2009, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Employee Ethics Policy; and

Whereas, It is now necessary and prudent to adopt certain changes to the Employee Ethics Policy to conform it to the related and newly adopted Trustee Ethics Policy and to make certain other changes; and now, therefore be it

Resolved, That the Policy Committee of the Board hereby recommends that the Board (1) authorize the staff to make any technical changes to the Employee Ethics Policy necessitated by the adoption of the Trustee Ethics Policy and (2) adopt the substantive revisions to the Employee Ethics Policy, as presented by the staff to the Policy Committee. [with the following changes, if any, to the recommended revisions:

- _____
- _____]

[optional language bracketed]

LEGAL SERVICES MEMORANDUM

TO: Policy Committee of the Board of Trustees

FROM: Conni Brennan, General Counsel
Timothy Wei, Assistant General Counsel

COPIES: Board of Trustees
Steven Huff, Fiduciary Counsel

DATE: March 30, 2012

RE: Revisions to the Contractor Code of Ethics Policy

In 2010, the Board revised the Code of Ethics for Contractors ("Code"). The staff recommends limited changes to two sections of the Code: the definition of conflict of interest and procedures to cure conflicts.

As provided in the Investment Policy Statement, the Investment Management Division ("IMD") uses investment consultants to provide "prudence letters" to TRS. These letters advise TRS whether an investment under consideration is a prudent investment for TRS. The investment consultants who provide the prudence letters are sometimes large, sophisticated financial institutions that provide a range of services to a variety of clients. For some of TRS' investment consultants, such services include managing investment funds. From time to time, a TRS investment consultant may not only be providing a prudence letter to TRS on the prudence of a given investment but also be considering investing its own money or causing a fund that it manages to invest in the same investment. Such a situation can be an alignment of interests between TRS and the investment consultant: both parties benefit if the investment does well, and neither party is on both sides of the transaction.

Such a situation, nonetheless, may technically fall within a definition of conflict of interest under the Code that is targeted at preventing undisclosed self-dealing. That provision states it is a conflict of interest if an investment consultant has:

> A direct or indirect pecuniary interest in any party to a transaction with TRS and the Transaction is connected with any financial advice or service the [investment consultant] provides to TRS … concerning TRS matters.

Even though TRS' and the investment consultant's interests likely are in alignment, a technical conflict could arise under this definition of conflict where the investment consultant is both providing TRS with a prudence letter and also considering the investment for itself or one of the funds it manages.

Staff is recommending changes to the Code that will allow staff to resolve these situations in a timely and efficient manner while still ensuring that TRS' interests are fully protected. First, the proposed changes would make clear that this limited situation is not necessarily a conflict of interest as long as there is both adequate and timely disclosure from the consultant and a true alignment of interests

between TRS and the consultant. The proposed changes authorize the General Counsel to evaluate whether a true alignment of interests exists.

Second, to the extent that upon full examination of the facts, the General Counsel determines that there may be potential conflicts, she may approve preventive, curative, or mitigating efforts by a Contractor, including an investment consultant. Presently, the General Counsel may approve curative measures for actual conflicts of interest, but she is not authorized to approve prospective curative measures for potential conflicts. Clarifying and expressly stating the General Counsel's authority to approve prospective curative measures for potential conflicts provides additional flexibility to manage prospective cures for potential conflicts in fluid and fast-paced situations, and assist in ensuring that the advice TRS receives is both objective and provided by the most skilled and experienced investment consultants available.

Clean and marked-up copies of the relevant Code Section showing the proposed revisions are attached as Exhibits 1 and 2 respectively.

Exhibit 1

I. Conflicts of Interest

A. Conflicts of Interest Defined.

(1) Conflict of Interest for Contractors (excluding Brokers). A conflict of interest exists for a Contractor (excluding a Broker) when the Contractor has a personal, commercial (including private commercial), or business relationship or interest, unrelated to the services that the Contractor performs for TRS, that could reasonably be expected to diminish the Contractor's independence of judgment in the performance of the Contractor's responsibilities to TRS.

For example, a person's independence of judgment reasonably could be diminished when he or she is in a position to take action or not take action with respect to TRS or its business and a reasonable person could expect that such act or failure to act on behalf of TRS is influenced by considerations of gain or benefit to the Contractor, a Trustee, an Employee or a third party, rather than motivated by the interests of TRS, its members, and beneficiaries. A conflict of interest shall not be deemed to exist solely because a Contractor is or has a relative who is a member, retiree, annuitant or beneficiary of TRS, provided the relative is not also an Employee.

For example, a Contractor may not participate in or advise or consult on a specific matter before TRS that involves a business, contract, property or investment in which the Contractor has a pecuniary interest if it is reasonably foreseeable that action or inaction by or on behalf of TRS on that matter would be likely to, directly or indirectly, confer a benefit on the Contractor by reason of the Contractor’s interest in such business, contract, property or investment. The foregoing prohibition does not apply if

- The benefit is merely incidental to the Contractor’s membership in a large class sharing a common class interest, such as the class of TRS members.
- The benefit is merely an increase in fees or the awarding of another contract to the Contractor for other business with TRS.

(2) Additional Conflicts of Interest for Brokers, Financial Advisors and Financial Services Providers. A conflict of interest exists for a Broker, Financial Advisor or a Financial Services Provider when the Broker, Financial Advisor or Financial Services Provider has one of the following:

- A direct or indirect pecuniary interest in any party to a transaction with TRS and the transaction is connected with any financial advice or service the Broker, such Financial Advisor, or Financial Services Provider provides to TRS or to a Trustee concerning TRS matters.
- A relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) with one of the following:

- Any party to a transaction with TRS, other than a relationship necessary to provide the Broker, Financial Advisor or such Financial Services Provider services to TRS;
- An Employee; or
- A Trustee

if a reasonable person could expect the relationship to diminish the Broker, Financial Advisor, or Financial Services Provider independence of judgment in the performance of the Broker, Financial Advisor or Financial Services Provider responsibilities to TRS.

Notwithstanding the definition of a conflict in this subsection I.A.2, if a TRS Financial Advisor is asked to advise TRS in a transaction and the Financial Advisor or the Financial Advisor's affiliate holds or intends to hold or acquire a direct or indirect pecuniary interest in a limited partnership (or similar vehicle, including a co-investment or alternate or parallel investment vehicle) in which TRS is considering investing, the Financial Advisor will not be deemed, in future or past applications of this subsection, to have a disqualifying conflict of interest under this Code solely because of that pecuniary interest. The Financial Advisor must disclose such a pecuniary interest in writing to TRS as soon as practicable, but to the extent possible before performing any services for TRS related to the particular transaction. The General Counsel may review any such disclosures to analyze whether the Financial Advisor's exercise of judgment on behalf of TRS in performing advisory or consulting services is, or is likely to be, affected by the Financial Advisor's interest under the circumstances. The General Counsel may consider whether the disclosed interest aligns the Financial Advisor's interests with TRS' interest (or is at least not harmful or opposed to TRS' interests) in the transaction. If the General Counsel determines that no conflict of interest exists based on the Financial Advisor's disclosures, then, to the extent applicable, the Financial Advisor shall further disclose the interest in any written advice, prudence letter, or recommendation provided to TRS for the transaction.

B. Determination of a Potential Conflict of Interest. If a Contractor, Trustee, or Employee (to the extent a Trustee or an Employee is or reasonably should be aware of the circumstances) is uncertain whether a Contractor has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur, the Contractor, Trustee, or Employee should promptly inform the General Counsel, who shall determine whether a conflict of interest exists under the circumstances presented. If the General Counsel determines that a conflict does not now exist but would exist upon the occurrence of the anticipated circumstances and they later do occur, the Contractor must file a disclosure statement on the occurrence of such events.

C. Disclosure. Contractors must promptly disclose conflicts in writing to the General Counsel by submitting a completed Conflict of Interest Disclosure Statement. A Contractor who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about any matters affected by the conflict of interest until the Contractor cures the conflict under Section I.D or obtains a waiver under Section I.E.

The General Counsel shall send a copy of all Conflict of Interest Disclosure Statements received to the Ethics Committee of the Board. If a person or entity with a duty to disclose conflicts reasonably believes that disclosure to the General Counsel would be ineffective, the person or entity shall disclose the conflict to the Ethics Committee of the Board by submitting a Conflict of Interest Disclosure Statement to the Chair of such committee, addressed to:

Chair of the Ethics Committee of the Board
c/o Executive Director of TRS
1000 Red River Street
Austin, Texas 78701-2698

Whether disclosure is made to the General Counsel or to the Ethics Committee of the Board, a Contractor shall provide a copy of the Conflict of Interest Disclosure Statement to the Employee assigned to monitor or manage the performance of the Contractor.

Brokers, Financial Advisors and Financial Services Providers must additionally file a Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers as provided in Section III.B. This Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers is not the same form as the Conflict of Interest Disclosure Statement referenced above.

D. Cure, Prevention, and Mitigation. A Contractor with a conflict of interest must disclose that conflict and cure (eliminate) it. A Contractor who cannot or does not want to eliminate the conflict of interest must terminate his or its relationship with TRS as promptly as responsibly and legally possible, or seek a waiver of the conflict under Section I.E.

Alternatively, if a Contractor or a Contractor's employee may prudently refrain or withdraw from taking action on a particular TRS matter in which a conflict or potential conflict exists, he or it may cure the conflict or prevent or mitigate the potential conflict in that manner provided that

- The person, persons, or entity may be and is or are effectively separated from influencing the action taken.
- The action may properly and prudently be taken by others without undue risk to the interests of TRS.
- The nature of the conflict is not such that the person, persons, or entity must regularly and consistently withdraw from decisions that are normally his, their, or its responsibility with respect to the services provided to TRS.

The General Counsel shall determine whether or not the Contractor’s proposed cure of an existing conflict or a preventive or mitigating measure for a potential conflict is appropriate and sufficient under this Section. The General Counsel shall inform the Executive Director and the Chief Audit Executive of any such determination.

E. Waiver. The Chief Investment Officer or Executive Director may determine that a Broker, or Financial Services Provider does not need to take further actions to cure a conflict provided the disclosures by the Broker or Financial Services Provider are deemed sufficient under the circumstances to inform TRS of the nature and extent of any bias, and to form a judgment about the credibility or value of the analysis, research, recommendations or other services provided by the Broker or such Financial Services Provider. The Chief Investment Officer or Executive Director shall notify the Chief Audit Executive and the General Counsel of the relevant facts and determination. In such an event, the Broker or Financial Services Provider may continue to provide analysis or research or recommendations and perform services without taking further action to cure the disclosed conflict of interest.

For all other conflicts where a Contractor seeks a waiver, the Board, after consultation with the General Counsel, may expressly waive a conflict. The Board will decide whether to waive the prohibition against involvement in any matter affected by a disclosed conflict of interest at a meeting held in compliance with the Texas laws governing open meetings of the Board. To assist the Board in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships or interests that do not constitute material conflicts of interest. Any waiver granted by the Board, including the reasons supporting the waiver, must be included in the minutes of the meeting. Records of all waivers granted, including reasons supporting the Board's decision in each case, will be maintained by the Office of the General Counsel.

Exhibit 2

I. Conflicts of Interest

A. Conflicts of Interest Defined.

(1) Conflict of Interest for Contractors (excluding Brokers). A conflict of interest exists for a Contractor (excluding a Broker) when the Contractor has a personal, commercial (including private commercial), or business relationship or interest, unrelated to the services that the Contractor performs for TRS, that could reasonably be expected to diminish the Contractor's independence of judgment in the performance of the Contractor's responsibilities to TRS.

For example, a person's independence of judgment reasonably could be diminished when he or she is in a position to take action or not take action with respect to TRS or its business and a reasonable person could expect that such act or failure to act on behalf of TRS is influenced by considerations of gain or benefit to the Contractor, a Trustee, an Employee or a third party, rather than motivated by the interests of TRS, its members, and beneficiaries. A conflict of interest shall not be deemed to exist solely because a Contractor is or has a relative who is a member, retiree, annuitant or beneficiary of TRS, provided the relative is not also an Employee.

For example, a Contractor may not participate in or advise or consult on a specific matter before TRS that involves a business, contract, property or investment in which the Contractor has a pecuniary interest if it is reasonably foreseeable that action or inaction by or on behalf of TRS on that matter would be likely to, directly or indirectly, confer a benefit on the Contractor by reason of the Contractor’s interest in such business, contract, property or investment. The foregoing prohibition does not apply if

- The benefit is merely incidental to the Contractor’s membership in a large class sharing a common class interest, such as the class of TRS members.
- The benefit is merely an increase in fees or the awarding of another contract to the Contractor for other business with TRS.

(2) Additional Conflicts of Interest for Brokers, Financial Advisors and Financial Services Providers. A conflict of interest exists for a Broker, Financial Advisor or a Financial Services Provider when the Broker, Financial Advisor or Financial Services Provider has one of the following:

- A direct or indirect pecuniary interest in any party to a transaction with TRS and the transaction is connected with any financial advice or service the Broker, such Financial Advisor, or Financial Services Provider provides to TRS or to a Trustee concerning TRS matters.
- A relationship (without regard to whether the relationship is direct, indirect, personal, private, commercial, or business) with one of the following:

- Any party to a transaction with TRS, other than a relationship necessary to provide the Broker, Financial Advisor or such Financial Services Provider services to TRS;
- An Employee; or
- A Trustee

if a reasonable person could expect the relationship to diminish the Broker, Financial Advisor, or Financial Services Provider independence of judgment in the performance of the Broker, Financial Advisor or Financial Services Provider responsibilities to TRS.

Notwithstanding the definition of a conflict in this subsection I.A.2, if a TRS Financial Advisor is asked to advise TRS in a transaction and the Financial Advisor or the Financial Advisor's affiliate holds or intends to hold or acquire a direct or indirect pecuniary interest in a limited partnership (or similar vehicle, including a co-investment or alternate or parallel investment vehicle) in which TRS is considering investing, the Financial Advisor will not be deemed, in future or past applications of this subsection, to have a disqualifying conflict of interest under this Code solely because of that pecuniary interest. The Financial Advisor must disclose such a pecuniary interest in writing to TRS as soon as practicable, but to the extent possible before performing any services for TRS related to the particular transaction. The General Counsel may review any such disclosures to analyze whether the Financial Advisor's exercise of judgment on behalf of TRS in performing advisory or consulting services is, or is likely to be, affected by the Financial Advisor's interest under the circumstances. The General Counsel may consider whether the disclosed interest aligns the Financial Advisor's interests with TRS' interest (or is at least not harmful or opposed to TRS' interests) in the transaction. If the General Counsel determines that no conflict of interest exists based on the Financial Advisor's disclosures, then, to the extent applicable, the Financial Advisor shall further disclose the interest in any written advice, prudence letter, or recommendation provided to TRS for the transaction.

B. Determination of a Potential Conflict of Interest. If a Contractor, Trustee, or Employee (to the extent a Trustee or an Employee is or reasonably should be aware of the circumstances) is uncertain whether a Contractor has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to occur, the Contractor, Trustee, or Employee should promptly inform the General Counsel, who shall determine whether a conflict of interest exists under the circumstances presented. If the General Counsel determines that a conflict does not now exist but would exist upon the occurrence of the anticipated circumstances and they later do occur, the Contractor must file a disclosure statement on the occurrence of such events.

C. Disclosure. Contractors must promptly disclose conflicts in writing to the General Counsel by submitting a completed Conflict of Interest Disclosure Statement. A Contractor who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about any matters affected by the conflict of interest until the Contractor cures the conflict under Section I.D or obtains a waiver under Section I.E.

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Whether disclosure is made to the General Counsel or to the Ethics Committee of the Board, a Contractor shall provide a copy of the Conflict of Interest Disclosure Statement to the Employee assigned to monitor or manage the performance of the Contractor.

Brokers, Financial Advisors and Financial Services Providers must additionally file a Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers as provided in Section III.B. This Disclosure Statement for Brokers, Financial Advisors and Financial Services Providers is not the same form as the Conflict of Interest Disclosure Statement referenced above.

D. Cure, Prevention, and Mitigation. A Contractor with a conflict of interest must disclose that conflict and cure (eliminate) it. A Contractor who cannot or does not want to eliminate the conflict of interest must terminate his or its relationship with TRS as promptly as responsibly and legally possible, or seek a waiver of the conflict under Section I.E.

Alternatively, if a Contractor or a Contractor's employee may prudently refrain or withdraw from taking action on a particular TRS matter in which a conflict or potential conflict exists, he or it may cure the conflict or prevent or mitigate the potential conflict in that manner provided that

- The person, persons, or entity may be and is or are effectively separated from influencing the action taken.
- The action may properly and prudently be taken by others without undue risk to the interests of TRS.
- The nature of the conflict is not such that the person, persons, or entity must regularly and consistently withdraw from decisions ~~which~~ that are normally his, their, or its responsibility with respect to the services provided to TRS.

The General Counsel shall determine whether or not the Contractor's proposed cure of an existing conflict or a preventive or mitigating measure for a potential conflict is appropriate and sufficient under this Section. The General Counsel shall inform the Executive Director and the Chief Audit Executive of ~~its~~ any such determination.

E. Waiver. The Chief Investment Officer or Executive Director may determine that a Broker, or Financial Services Provider does not need to take further actions to cure a conflict provided the disclosures by the Broker or Financial Services Provider are deemed sufficient under the circumstances to inform TRS of the nature and extent of any bias, and to form a judgment about the credibility or value of the analysis, research, recommendations or other services provided by the Broker or such Financial Services Provider. The Chief Investment Officer or Executive Director shall notify the Chief Audit Executive and the General Counsel of the relevant facts and determination. In such an event, the Broker or Financial Services Provider may continue to provide analysis or research or recommendations and perform services without taking further action to cure the disclosed conflict of interest.

For all other conflicts where a Contractor seeks a waiver, the Board, after consultation with the General Counsel, may expressly waive a conflict. The Board will decide whether to waive the prohibition against involvement in any matter affected by a disclosed conflict of interest at a meeting held in compliance with the Texas laws governing open meetings of the Board. To assist the Board in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships or interests that do not constitute material conflicts of interest. Any waiver granted by the Board, including the reasons supporting the waiver, must be included in the minutes of the meeting. Records of all waivers granted, including reasons supporting the Board's decision in each case, will be maintained by the Office of the General Counsel.

April 19 - 20, 2012

Teacher Retirement System of Texas

Policy Committee of the Board of Trustees

Resolution Recommending that the Board Approve Certain Changes to the Code of Ethics for Contractors

Whereas, In September 1994, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Code of Ethics for Contractors ("Code") and last revised it in September 2010; and

Whereas, It is now necessary and prudent to adopt certain changes to the Code; and now, therefore be it

Resolved, That the Policy Committee of the Board hereby recommends that the Board adopt the substantive revisions to the Code, as presented by the staff to the Policy Committee. [with the following changes, if any, to the recommended revisions:

- _____

- _____]

[optional language bracketed]

Proposed Soft Dollar Policy Revisions

Sylvia Bell
Director of Investment Operations

April 2012

Summary of Requested Policy Changes

- Add ability to incorporate commissions from futures trades into existing Commission Sharing Arrangements (CSA)
- Clarify language to add “futures transactions” in addition to “securities transactions” references and note any applicable differences
- Clarify that applicable guidance from Section 28(e) of the Securities and Exchange Act of 1934 will be followed for commissions generated from futures trades

IMD Funding Sources

- TRS expenditures necessary to perform fiduciary functions:
  - Soft Dollar Program- where commission credits earned are held by Broker
  - Commission Sharing Arrangement (CSA) – where commission credits generated are aggregated and administered by State Street
  - State Street Bank (SSB) Account –
    - Amounts paid by SSB for benefit of TRS
    - Dollars are earned from Securities Lending Rebate

Expenditures ($ in thousands)	Operating Budget	State Street	CSA	Soft Dollars	Total
Contract Services		3,000			3,000
Furniture & Supplies	7				7
Insurance Premiums	208				208
Professional Fees	5,714	3,000			8,714
Rent-Building & Equipment	1,932				1,932
Research	54		20,000		20,054
Salaries & Benefits	26,583				26,583
Systems & Software	215			6,972	7,187
Travel	574				574
Total	**$ 35,287**	**$ 6,000**	**$ 20,000**	**$ 6,972**	**$ 68,259**

Historical Soft Dollar/CSA Commissions

- Soft Dollar/CSA Commissions have declined due to:
  - Lower turnover in internal equity portfolio (from 100% in 2008 to current rate of 50%)
  - Lower amount of equity assets managed internally (from high of $72 billion in 2008 to current of $23.4 billion)

- These investment management changes reduced the number of TRS transactions generating Soft Dollars and CSA commissions

- Soft dollars and CSA commissions are the primary resource for research and other investment decision-making services

- CSA commissions for futures can replace lost commission credits on internal equities and will be managed in accordance with existing TRS policies and laws applicable to Soft Dollars and CSA credits related to securities

Program Descriptions

	Operating Budget	State Street	Client Commission Arrangements	
			CSA	Soft Dollars
Budget Process	Budget Committee, Board and Legislative Budget Board	Budget Committee and Board	Budget Committee and Board	Budget Committee and Board
Primary Uses	Travel and Salaries	Contract workers	Third party research	Research, Systems and Software
Limitations	State budget constraints and state contracting requirements	Contractural limit of $6 million; Eligible expenses defined in SSB/TRS side letter agreement	Generated by trading commissions	Generated by trading commissions
Credit Rates	N/A	N/A	Dollar for dollar credit	1.25:1 Ratio (e.g., for every $10,000 expenditure broker will charge $12,500)
Other Factors	State Budget constraints	Expenses require SSB approval	No contracts required; client establishes value of research based on an evaluation process	Tri-party contracts (obligations) provide flexibility to TRS

Soft Dollar (SD) and CSA Payment Process

Budget

- Recommendation provided by IMD based on research needs and commission flow
- Budget recommendation presented to the Board for approval with the annual fiscal operating budget
- Board approves

Payments

- For SD, tri-party contracts negotiated. For CSA, research allocation amounts set based on IMD staff's evaluation
- IMD and CFO approve payments and processes
- Approved amounts routed to broker or SSB for payment
- Broker or SSB issues payment to provider

Disclosure

- SSB provides monthly reports and IMD reconciles commissions and expenditures
- Disclose expenditures to Board quarterly in CFO Report
- Disclose expenditures annually in Comprehensive Annual Financial Report (CAFR)

SOFT DOLLAR POLICY

(rev. ~~*December 9, 2010*~~April __, 2012)

1. Introduction

The Board hereby approves the expenditure of soft dollars (including cash held in a commission sharing account pursuant to commission sharing arrangements) based on this Policy.

In this Policy, (a) "soft dollars" refers to the use of a credited portion of brokerage commissions incurred for securities or futures trade execution to obtain goods, services, or research through a securities or futures broker~~,~~ or futures commission merchant (each, a "broker"), and (b~~)"~~) "commission sharing arrangements" ("~~CSA's~~CSAs") refers to the use of a cash account managed by a TRS custodian ~~and~~or broker which is funded by ~~partial cash rebates~~an executing securities or futures broker sharing a portion of ~~brokerage~~securities and/or futures trading commissions ~~to~~with such custodian or broker so that such custodian or broker may obtain, at TRS' instruction, investment research services from such broker or custodian, an executing broker and/or other third parties.

Fiduciary prudence requires that TRS investment staff, when deciding whether to use soft dollars or ~~CSA's~~CSAs, must determine in good faith that the commissions that will be incurred are reasonable in light of the value of the goods, services, and research (as applicable) that will be received under the arrangement and that TRS will realize its benefits. The generation of any soft dollars or CSA credits shall be incidential to the securities and futures transactions originating such amounts

2. General Principles

~~2.1.~~ 2.1. **Background.** Section 28(e) of the Securities and Exchange Act of 1934 ~~("~~("Section 28(e~~)")~~)") provides a ~~"~~"safe harbor~~"~~" for fiduciary investment advisers who incur higher commissions for discretionary client accounts they manage in order to receive brokerage and research services that may or may not benefit those clients. Since Section 28(e) is a safe harbor, it cannot be violated. Although TRS is not an investment adviser having clients and does not manage accounts for others, it must still take care to receive best value and execution when trading securities and futures. Thus, Section 28(e) and SEC releases and publications under Section 28(e) can provide useful guidance for TRS soft dollar arrangements and CSAs~~.~~ (see also Section 3.1(b)).

~~2.2.~~ 2.2. **General Principles.** Research, goods and services acquired using soft dollars and CSA credits must support the investment decision-making function of TRS. Research, goods and services may be provided by the soft dollar broker, another broker or by a third party compensated by the soft dollar broker. If the research, goods and services are provided by a third party, ~~the~~a TRS broker must be the primary payment obligor. Section 28(e) guidance refers to ~~"~~"brokerage and research~~"~~ services" as qualifying for the safe harbor. Under Section 28(e)(3), brokerage and research services generally includes (see also Section ~~3.2):~~3.2):

a. Analysis and advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in or purchasing or selling securities, or the availability of securities or purchasers or sellers of securities;

b. Analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; or

~~c.~~ ~~Effecting~~c. Services affecting securities transactions and performing functions pertaining to securities transactions (such as clearance, settlement and custody) or required in connection with securities transactions by rules of the SEC or a self-regulatory organization such as a stock exchange.

3. SOFT DOLLAR & CSA GUIDELINES

~~3.1.~~ 3.1. Requirements

a. Soft dollar and CSA acquisitions must be budgeted in separate items in an addendum to the TRS annual budget or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution.

b. In determining what goods and services or research should be acquired by TRS using soft dollars or CSA arrangements, the investment staff shall be mindful of SEC releases and guidelines issued by the SEC under Section 28(e). TRS Legal Services will assist the investment staff in analyzing specific questions regarding industry practices and SEC guidelines. Departures from the SEC guidelines with respect to soft dollars and CSAs from securities transactions are permitted only when they are consistent with TRS fiduciary requirements, applicable law, and TRS policies and procedures.~~–~~ In addition, TRS will use the SEC releases and guidelines relating to Section 28(e) with respect to expenditures of soft dollars and CSAs from securities transactions as if such guidance applied to soft dollars and CSAs from futures transactions, with any appropriate adjustments.

c. Trades may not be created solely to generate soft dollar credits or CSA rebates.

d. Best trade execution must not be sacrificed. Investment staff must use its best efforts to ensure that all TRS ~~securities~~ transactions are executed in such a manner that the total cost or proceeds (including market impact costs and the value of any research to be acquired) in each transaction is the most favorable under the circumstances and benefits TRS exclusively. In placing trades with brokers, investment staff shall match the trade to the broker, taking into account trade characteristics, the full range and quality of the broker's services, including but not limited to the ~~broker's~~broker's execution capabilities, the value of the research, services or goods to be acquired (if any), commission rate, financial responsibility, and responsiveness to TRS.

e. Soft dollar arrangements will be documented and approved in accordance with policies, guidelines and procedures approved by the Executive Director or his designee. CSA allocations and disbursements for research shall be made in accordance with internal guidelines and procedures approved by the Chief Financial Officer (or, in the absence of the CFO, the Executive Director or his designee). The investment staff shall provide copies of the internal guidelines and procedures for soft dollars and CSAs to the Board as part of TRS's annual budget process.

f. To the extent feasible and not inconsistent with the status of a soft dollar broker as the provider of the research, goods, or services, any acquisition using soft dollar credits for which TRS normally employs competitive procedures will be handled using the procedures that will ensure that TRS will obtain best value, taking all factors into account, including trade execution. The investment staff shall use reasonable procedures when acquiring research using CSA balance disbursements to ensure that TRS obtains best value, taking all factors into account, including trade execution.

~~g.~~ g. Except as required or permitted by other TRS policies, guidelines or procedures, all soft dollar and CSA contracts shall be established in writing and reviewed by TRS Legal Services prior to execution

~~3.2.~~ 3.2. Examples of Eligible Research, Goods and Services

Notwithstanding any other provision of this Policy, CSA cash balances ~~may only be expended for research qualifying for the Section 28(e) safe harbor under subsection a. below.~~ and Soft dollar credits may be expended for any eligible research, goods, or services under this Policy.

a. **Investment Research:** furnished either directly by a ~~broker's~~broker's investment research department, through subscription-based publications, or by an independent research or advisory firm; includes advice as to the value of securities or futures; the advisability of investing in, purchasing or selling securities or futures; the availability of securities or futures or purchasers or sellers of securities or futures; and analyses and reports concerning issuers, industries, securities, futures, economic factors and trends, portfolio strategy, and portfolio performance.

b. **Data Services, Magazines, Journals, Reference Materials:** subscriptions to electronic data feeds, exchanges, data services, databases, magazines (including popular magazines relevant to securities analysis), professional journals and reference materials.

c. **Seminars/Conferences:** fee-paid attendance at investment seminars or conferences and other fees or study materials for investment staff, provided, that soft dollars may not be used for travel and lodging.

d. **Portfolio Management Assistance, Professional Services, and Institutional Memberships:** third-party services or institutional memberships that support TRS investment processes and portfolio management by providing TRS with direct advice, assistance or support, including without limitation pricing or valuation services and performance measurement services.

e. **Information Systems:** communications equipment or access (including high bandwidth services) that supports the investment decision-making process or portfolio management, including trading and investment accounting systems.

f. Any other items useful in aiding in the investment decision-making process.

~~3.3.~~ 3.3. Annual Soft Dollar and CSA Budget

a. **Annual Budget:** An annual soft dollar and CSA budget will be developed and presented to the Board for approval with the TRS annual fiscal operating budget. The budget will include all anticipated uses of commissions to acquire research, goods and services during the following fiscal year. Soft dollar uses shall be stated separately from CSA

uses in the annual budget. The CSA budget line item may aggregate the total estimated amount to be expended for research during the applicable fiscal year.

b. **Value Comparisons:** Whenever feasible and appropriate, the soft dollar budget will include a comparison of the soft dollar price relative to a non-soft dollar price for all goods and services.

c. **Soft Dollar and CSA Credit and Debit Balances:** Soft dollar credit and debit balances may be maintained with each soft dollar broker with whom TRS has an on-going relationship to allow the TRS trading desk to operate without unnecessary constraints. Credit balances may be used as needed in accordance with the annual soft dollar budget. Only one CSA account may be established to hold cash rebates received pursuant to a commission sharing arrangement and to expend funds for investment research authorized in accordance with this Policy. No other funds may be commingled with the CSA funds in the CSA account, nor may such funds be used for any other purpose.

d. **Soft Dollar Internal Accounting & Control:** Soft dollar expenditures will be made under the same general internal controls as operating budget expenditures. A Soft Dollar Approval form, and Purchase and Expenditure Authorization (form TRS 146), signed by the Chief Investment Officer, or his designee and the appropriate Managing Director in the Investment Division, will be forwarded to the TRS General Accounting Department. The appropriate person in the General Accounting Department will issue a purchase order that will be the broker's authorization to provide and pay for the goods and services for the benefit of TRS. The soft dollar broker will forward copies of invoices for the goods and services acquired and a monthly statement of account including commissions received, expenditures made for the benefit of TRS and the commission allocations balance to the Investment Division.

e. **Reporting and Disclosure:** The custodian of the CSA account or an authorized TRS broker shall deliver monthly and annual statements to the Investment Division and the Investment Accounting group indicating the account balance, deposits and disbursements since the last statement, and an aging report of past-due deposits ~~from CSA brokers.~~. A report of expenditures for goods and services will be included with all financial and budget information presented to the Board. The Comprehensive Annual Financial Report will ~~contain~~disclose fiscal year soft dollar and CSA expenditures.

SOFT DOLLAR POLICY

(rev. April __, 2012)

1. Introduction

The Board hereby approves the expenditure of soft dollars (including cash held in a commission sharing account pursuant to commission sharing arrangements) based on this Policy.

In this Policy, (a) "soft dollars" refers to the use of a credited portion of brokerage commissions incurred for securities or futures trade execution to obtain goods, services, or research through a securities or futures broker or futures commission merchant (each, a "broker"), and (b) "commission sharing arrangements" ("CSAs") refers to the use of a cash account managed by a TRS custodian or broker which is funded by an executing securities or futures broker sharing a portion of securities and/or futures trading commissions with such custodian or broker so that such custodian or broker may obtain, at TRS' instruction, investment research services from such broker or custodian, an executing broker and/or other third parties.

Fiduciary prudence requires that TRS investment staff, when deciding whether to use soft dollars or CSAs, must determine in good faith that the commissions that will be incurred are reasonable in light of the value of the goods, services, and research (as applicable) that will be received under the arrangement and that TRS will realize its benefits. The generation of any soft dollars or CSA credits shall be incidential to the securities and futures transactions originating such amounts

2. General Principles

2.1. Background. Section 28(e) of the Securities and Exchange Act of 1934 ("Section 28(e)") provides a "safe harbor" for fiduciary investment advisers who incur higher commissions for discretionary client accounts they manage in order to receive brokerage and research services that may or may not benefit those clients. Since Section 28(e) is a safe harbor, it cannot be violated. Although TRS is not an investment adviser having clients and does not manage accounts for others, it must still take care to receive best value and execution when trading securities and futures. Thus, Section 28(e) and SEC releases and publications under Section 28(e) can provide useful guidance for TRS soft dollar arrangements and CSAs (see also Section 3.1(b)).

2.2. General Principles. Research, goods and services acquired using soft dollars and CSA credits must support the investment decision-making function of TRS. Research, goods and services may be provided by the soft dollar broker, another broker or by a third party compensated by the soft dollar broker. If the research, goods and services are provided by a third party, a TRS broker must be the primary payment obligor. Section 28(e) guidance refers to "brokerage and research services" as qualifying for the safe harbor. Under Section 28(e)(3), brokerage and research services generally includes (see also Section 3.2):

a. Analysis and advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in or purchasing or selling securities, or the availability of securities or purchasers or sellers of securities;

b. Analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; or

c. Services affecting securities transactions and performing functions pertaining to securities transactions (such as clearance, settlement and custody) or required in connection with securities transactions by rules of the SEC or a self-regulatory organization such as a stock exchange.

3. SOFT DOLLAR & CSA GUIDELINES

3.1. Requirements

a. Soft dollar and CSA acquisitions must be budgeted in separate items in an addendum to the TRS annual budget or in a budget amendment adopted by the Board of Trustees, unless the Board provides otherwise by resolution.

b. In determining what goods and services or research should be acquired by TRS using soft dollars or CSA arrangements, the investment staff shall be mindful of SEC releases and guidelines issued by the SEC under Section 28(e). TRS Legal Services will assist the investment staff in analyzing specific questions regarding industry practices and SEC guidelines. Departures from the SEC guidelines with respect to soft dollars and CSAs from securities transactions are permitted only when they are consistent with TRS fiduciary requirements, applicable law, and TRS policies and procedures. In addition, TRS will use the SEC releases and guidelines relating to Section 28(e) with respect to expenditures of soft dollars and CSAs from securities transactions as if such guidance applied to soft dollars and CSAs from futures transactions, with any appropriate adjustments.

c. Trades may not be created solely to generate soft dollar credits or CSA rebates.

d. Best trade execution must not be sacrificed. Investment staff must use its best efforts to ensure that all TRS transactions are executed in such a manner that the total cost or proceeds (including market impact costs and the value of any research to be acquired) in each transaction is the most favorable under the circumstances and benefits TRS exclusively. In placing trades with brokers, investment staff shall match the trade to the broker, taking into account trade characteristics, the full range and quality of the broker's services, including but not limited to the broker's execution capabilities, the value of the research, services or goods to be acquired (if any), commission rate, financial responsibility, and responsiveness to TRS.

e. Soft dollar arrangements will be documented and approved in accordance with policies, guidelines and procedures approved by the Executive Director or his designee. CSA allocations and disbursements for research shall be made in accordance with internal guidelines and procedures approved by the Chief Financial Officer (or, in the absence of the CFO, the Executive Director or his designee). The investment staff shall provide copies of the internal guidelines and procedures for soft dollars and CSAs to the Board as part of TRS's annual budget process.

f. To the extent feasible and not inconsistent with the status of a soft dollar broker as the provider of the research, goods, or services, any acquisition using soft dollar credits for which TRS normally employs competitive procedures will be handled using the procedures that will ensure that TRS will obtain best value, taking all factors into account, including trade execution. The investment staff shall use reasonable procedures when acquiring research using CSA balance disbursements to ensure that TRS obtains best value, taking all factors into account, including trade execution.

g. Except as required or permitted by other TRS policies, guidelines or procedures, all soft dollar and CSA contracts shall be established in writing and reviewed by TRS Legal Services prior to execution

3.2. Examples of Eligible Research, Goods and Services

Notwithstanding any other provision of this Policy, CSA cash balances and Soft dollar credits may be expended for any eligible research, goods, or services under this Policy.

a. **Investment Research:** furnished either directly by a broker's investment research department, through subscription-based publications, or by an independent research or advisory firm; includes advice as to the value of securities or futures; the advisability of investing in, purchasing or selling securities or futures; the availability of securities or futures or purchasers or sellers of securities or futures; and analyses and reports concerning issuers, industries, securities, futures, economic factors and trends, portfolio strategy, and portfolio performance.

b. **Data Services, Magazines, Journals, Reference Materials:** subscriptions to electronic data feeds, exchanges, data services, databases, magazines (including popular magazines relevant to securities analysis), professional journals and reference materials.

c. **Seminars/Conferences:** fee-paid attendance at investment seminars or conferences and other fees or study materials for investment staff, provided, that soft dollars may not be used for travel and lodging.

d. **Portfolio Management Assistance, Professional Services, and Institutional Memberships:** third-party services or institutional memberships that support TRS investment processes and portfolio management by providing TRS with direct advice, assistance or support, including without limitation pricing or valuation services and performance measurement services.

e. **Information Systems:** communications equipment or access (including high bandwidth services) that supports the investment decision-making process or portfolio management, including trading and investment accounting systems.

f. Any other items useful in aiding in the investment decision-making process.

3.3. Annual Soft Dollar and CSA Budget

a. **Annual Budget:** An annual soft dollar and CSA budget will be developed and presented to the Board for approval with the TRS annual fiscal operating budget. The budget will include all anticipated uses of commissions to acquire research, goods and services during the following fiscal year. Soft dollar uses shall be stated separately from CSA uses in the annual budget. The CSA budget line item may aggregate the total estimated amount to be expended for research during the applicable fiscal year.

b. **Value Comparisons:** Whenever feasible and appropriate, the soft dollar budget will include a comparison of the soft dollar price relative to a non-soft dollar price for all goods and services.

c. **Soft Dollar and CSA Credit and Debit Balances:** Soft dollar credit and debit balances may be maintained with each soft dollar broker with whom TRS has an on-going relationship to allow the TRS trading desk to operate without unnecessary constraints. Credit balances may be used as needed in accordance with the annual soft dollar budget. Only one CSA account may be established to hold cash rebates received pursuant to a commission sharing arrangement and to expend funds for investment research authorized in accordance with this Policy. No other funds may be commingled with the CSA funds in the CSA account, nor may such funds be used for any other purpose.

d. **Soft Dollar Internal Accounting & Control:** Soft dollar expenditures will be made under the same general internal controls as operating budget expenditures. A Soft Dollar Approval form, and Purchase and Expenditure Authorization (form TRS 146), signed by the Chief Investment Officer, or his designee and the appropriate Managing Director in the Investment Division, will be forwarded to the TRS General Accounting Department. The appropriate person in the General Accounting Department will issue a purchase order that will be the broker's authorization to provide and pay for the goods and services for the benefit of TRS. The soft dollar broker will forward copies of invoices for the goods and services acquired and a monthly statement of account including commissions received, expenditures made for the benefit of TRS and the commission allocations balance to the Investment Division.

e. **Reporting and Disclosure:** The custodian of the CSA account or an authorized TRS broker shall deliver monthly and annual statements to the Investment Division and the Investment Accounting group indicating the account balance, deposits and disbursements since the last statement, and an aging report of past-due deposits. A report of expenditures for goods and services will be included with all financial and budget information presented to the Board. The Comprehensive Annual Financial Report will disclose fiscal year soft dollar and CSA expenditures.

April 19 - 20, 2012

POLICY COMMITTEE
BOARD OF TRUSTEES

Consider Recommending that the Board Amend the Soft Dollar Policy

Whereas, The Soft Dollar Policy adopted December 9, 2010 provided guidelines related to soft dollars and commission sharing credits from the execution of securities transactions;

Whereas, TRS staff seeks to manage commission sharing credits from the execution of futures transactions in a manner consistent with existing guidelines for credits generated from securities transactions; ***Now Therefore, Be It***

Resolved, That the Policy Committee of the Board hereby recommends that the Board adopt amendments to the Soft Dollar Policy, as presented to the Policy Committee. [, with the following changes, if any, to the recommended version of the Policy:

- _____
- _____]

[optional language bracketed]

Board Review of Investment Policy

April 2012

Hewitt ennisknupp

An Aon Company

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Hewitt ennisknupp
An Aon Company

Intro and Goal of Today's Discussion

- Preview the annual review of the TRS Investment Policy Statement (IPS)
- Ensure direct Board participation in early stages of the review
- Discuss some common risks embedded in investment policy issues
- Establish plan for engaging with Board in advance of the annual review of IPS in September

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Importance of Investment Policy and Asset Allocation

- The IPS is the most important guiding document for investment activities
- Asset allocation, market timing and security selection decisions influence total portfolio returns.
- Of these factors, **asset allocation is the most important** determinant of portfolio return and risk over long periods of time.
  - Prominent academic studies concluded over 90% of total portfolio return and risk is explained by asset allocation decisions across time.[1]
- When looking at performance relative to peers, asset allocation is less important in explaining performance but still accounts for 40% of the variance of returns across funds.[2]
  - Security selection, market timing, and other active management decisions have more importance when comparing returns among peer public plans.

[1]Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, 1986, Determinants of Portfolio Performance, *Financial Analysts Journal* 42(4): 39–48 (reprint, 1995, Financial Analysts Journal 51[1]: 133–38, 50th Anniversary Issue)

[2] Roger G. Ibbotson and Paul D. Kaplan, 2000, Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance? *Financial Analysts Journal* 56(1):26–33.

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Best Practices: Recommended Components of IPS

1) Introduction

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

2) Statement of Purpose

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

3) Investment Goals or Objectives

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

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Best Practices: Recommended Components of IPS (cont'd)

4) Identification of Roles and Responsibilities

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

5) Asset Allocation

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

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Best Practices: Recommended Components of IPS (cont'd)

6) Asset Class Guidelines and Benchmarks

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

7) Rebalancing Policy

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

8) Risk Management

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

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Best Practices: Recommended Components of IPS (cont'd)

9) Monitoring and Reporting

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

10) Shareholder Activity

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

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Best Practices: Recommended Components of IPS (cont'd)

11) Governance

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

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Most Critical Elements of Investment Policy

- Among the various elements of policy we just outlined, the 5 below strike us as most critical for the Board to review and be comfortable with as we move forward with the review.

1. Asset Allocation and Rebalancing
2. Benchmarks
3. Risk Management
4. Monitoring and Reporting
5. Governance/Delegation

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What Are Key General Risks Related to Investment Policy?

- **Delegation:**
  - Inadequate reporting or oversight
  - Roles not properly understood or delegated
  - Wrong people at wrong level making decisions

- **Asset Allocation:**
  - Failure to meet long term return target
  - Allocation outside of allowable ranges

- **Derivatives/Risk Management:**
  - Inappropriate or unintended derivative usage
  - Too much/too little risk

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How Are These Issues Addressed in TRS IPS?

- **According to Section 1.3 for the IPS, the Board:**
  1. Establishes investment objectives and policy
  2. Obtains expert advice and assistance
  3. Oversees the employment of a qualified and competent investment and legal staff
  4. Monitors action of staff and advisors to ensure compliance with policy

- **What does this mean, specifically?**
  1. Board sets target asset allocation, ranges, tracking error limits, and benchmarks:
     - Asset allocation target, ranges, benchmarks (Section 1.6)
     - List of authorized investments (Sections 2.2, 2.7, 4.2 and 5.2)
     - Authorized use of derivatives (Section 8)
     - Tracking error targets and maximums (Appendix A)
     - Manager approval authority caps (Appendix B)
  2. Hiring and firing of Board consultants and advisors
  3. Oversight of IMD
  4. Reviews investment activities at Board and Committee meetings; reviews voluminous amounts of reports and other materials

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Board Involvement

- HEK will have a discussion with individual Board members to ask questions such as:
  - What would you like to understand better about investment policy, and the specific duties from the previous page?
  - Is there anything that you are uncomfortable within the current policy?
  - Are there areas that you would like to change?

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Next Steps and Work Underway

- Conduct Board calls
- Application of rigorous internal and external review:

  1. IMD
  2. Legal
  3. Internal Audit
  4. External Advisors - Dr. Brown; HEK

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INVESTMENT POLICY STATEMENT
(Adopted September 15, 2011 to be effective October 1, 2011)

TABLE OF CONTENTS

ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN 3

1.1. Introduction 3
1.2. Purpose and Design 3
1.3. Roles of Board, Staff, and Advisors 3
1.4. Total Fund Objectives 4
1.5. Total Fund Investment Standard 4
1.6. Total Fund Asset Mix and Benchmarks 5
1.7. Total Fund Measurement and Reporting Criteria 7
1.8. Total Fund Portfolio Implementation And Design 8

ARTICLE 2 –PUBLIC MARKETS PORTFOLIOS 9

2.1. Public Markets Portfolios Objectives 9
2.2. Authorized Investments for Public Markets Portfolios 9
2.3. Public Markets Portfolio Restrictions 11
2.4. External Public Markets Portfolio 11
2.5. External Public Markets Portfolio Objectives 11
2.6. Hedge Fund Defined 12
2.7. Authorized Investments for External Public Markets Portfolio 14
2.8. External Public Markets Portfolio Restrictions 15
2.9. Conflicts of Interest 15

ARTICLE 3 - PRIVATE MARKETS PORTFOLIO 16

3.1. Private Markets Component Portfolios 16
3.2. Private Markets Portfolio Guidelines 16
3.3. Private Markets Investment Process 16
3.4. Authorization of Investments for Private Markets Portfolios 17

ARTICLE 4 - PRIVATE EQUITY PORTFOLIO 17

4.1. Private Equity Portfolio Objectives 17
4.2. Authorized Investments for Private Equity Portfolio 17
4.3. Private Equity Portfolio Restrictions 18

ARTICLE 5 - REAL ASSETS PORTFOLIO 18

5.1 Real Assets Portfolio Objectives 18
5.2 Authorized Investments for Real Assets Portfolio 18

5.3 Real Assets Investment Authority 19
5.4 Real Assets Diversification 19
5.5 Real Assets Portfolio Restrictions 19
ARTICLE 6 – EMERGING MANAGERS PROGRAM 20
ARTICLE 7 - OVERLAY PORTFOLIOS 20
7.1. Overlay Portfolios Objectives 20
7.2. Authorized Investments for Overlay Portfolios 20
7.3. Overlay Portfolios Restrictions 20
ARTICLE 8 - AUTHORIZED USES OF DERIVATIVES 21
8.1. Objective and Investment Standard Applicable to Derivatives 21
8.2. Scope of Derivatives Policy 21
8.3. Uses of Derivatives By External Managers and Commingled Funds (Hedge Funds) 21
8.4. Definition of Derivatives; Authorization 22
8.5. Permitted Derivatives Applications 22
8.6. Derivatives Applications Not Permitted 22
8.7. Derivatives Documentation and Controls 23
8.8. Limitations Applicable to Derivatives 23
8.9. Derivatives Risk Management and Compliance 24
ARTICLE 9 – RISK MANAGEMENT AND OVERSIGHT 24
9.1. Market Risk Management 24
9.2. Foreign-Exchange Risk Management Policy 25
9.3. Credit Risk Management 25
9.4. Liquidity Risk Management 26
9.5. Operations Risk Management 26
9.6. Settlement Risk Management 26
9.7. Legal Risk Management 26
9.8. Risk Management Compliance Cure Periods and Remedies 27
9.9. Permitted Uses of Leverage 27
ARTICLE 10 – HEALTH INSURANCE PROGRAM PORTFOLIO 27
10.1. Health Insurance Program Portfolio Objective 27
10.2. Health Insurance Program Portfolio Authorized Investments 27
APPENDIX A - TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS) 28
APPENDIX B - IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS 29
APPENDIX C – EMERGING MANAGER 30
APPENDIX D – POLICY HEDGE RATIOS 31
APPENDIX E – AUTHORITY RESOLUTION (TRS 477) 32
ADDENDUM – POLITICAL CONTRIBUTIONS; IMPROPER INFLUENCE; PLACEMENT AGENTS AND FINDERS 34

INVESTMENT POLICY STATEMENT
(Adopted September 15, 2011 to be effective October 1, 2011)

ARTICLE 1 – TOTAL FUND AND PORTFOLIO DESIGN

1.1. Introduction

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

1.2. Purpose and Design

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

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

The appendices to this Policy are incorporated into and form part of this Policy for all purposes. Capitalized terms not defined in this Policy have the meanings assigned to them in the "TRS Glossary of Investment Terms" ("Glossary"), which definitions are also incorporated into and form part of this Policy for all purposes. Modifications to the appendices or the Glossary that would have a substantive effect on this Policy require Board consideration and adoption.

1.3. Roles of Board, Staff, and Advisors

The Board has the primary fiduciary responsibility for investing TRS trust assets in accordance with Article XVI, Section 67 of the Texas Constitution and with applicable law. The Board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff ("Investment Division") and legal staff. The Board also monitors the actions of staff and advisors to ensure compliance with its policies. The Board has a Policy Committee of the Board ("Policy Committee"), an Investment Management Committee of the Board ("IMD Committee") and a Risk Management Committee of the Board ("Risk Management Committee"), each of which is a standing committee of the Board charged with those responsibilities set forth in the Bylaws of the Board. The Board and the Investment Division are assisted by outside investment consultants and internal and external legal counsel.

a. Investment Counsel ("Investment Counsel") selected by the Board provides education, advice, commentary, and discussion as requested at Board meetings, assists with development and review of investment policies and procedures, performs due diligence and recommends managers or investments, reports on the progress of the Fund in meeting its investment objectives, and compares the performance of the portfolio to established benchmarks. The Investment Division and Investment Counsel provide information as needed to assist the consulting actuary in performance of actuarial services.

b. The Investment Division has fiduciary responsibilities delegated by the Board under applicable law. Investment Division manages the Fund according to the Board's policies, advises and informs the Executive Director and the Board about investments, and recommends modifications to this Policy. The Investment Division executes all transactions, performs risk-management functions, and prepares investment reports.

c. The Internal Investment Committee ("IIC") is hereby established to review, consider, and authorize proposed external manager engagements and investments as required by this Policy for the External Public Markets Portfolio and the Private Markets Portfolio. Additionally, the IIC will manage the foreign exchange policy hedge ratios (set forth in Appendix D) and review as needed.

The permanent IIC membership comprises of the Chief Investment Officer ("CIO"), the Deputy CIO, the Chief Risk Officer ("CRO"), and the Investment Division Senior Managing Directors ("SMD's"). The CIO will establish procedures and guidelines for the operations of the IIC. The IIC procedures and guidelines may provide that the CIO may appoint and remove select Directors as non-permanent voting members to the IIC. The IIC procedures and guidelines will define a quorum and establish the vote required to authorize an investment or external manager engagement or, if required by this Policy, recommend an investment or external manager engagement to the Board, which vote may not be less than a majority of the then-incumbent IIC members present and voting at a meeting at which a quorum is present. The CIO shall have the power to veto any investment or delegation of investment discretion authorized or recommended by the IIC pursuant to a vote of its members. Termination of a member's TRS employment terminates IIC membership as of the date the employee or TRS gives notice of termination, as the case may be.

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

d. All proposed changes to this Policy will be reviewed by the legal staff for compliance with state and federal laws regarding fiduciary responsibility, investment prudence, ethics compliance, and other applicable standards or requirements before submission to the Policy Committee. Except as authorized by the Executive Director, proposed changes to this Policy will first be presented to the Policy Committee, which will consider recommending the proposed changes to the Board. The Board may consider and adopt proposed changes that have not been considered by the Policy Committee. This Policy shall be reviewed at least once every three years.

1.4. Total Fund Objectives

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

a. Control risk through proper diversification of asset classes and by establishing long-term risk and return expectations; and

b. As applicable to the pension plan, achieve a long-term rate of return that:

   i. Exceeds the assumed actuarial rate of return adopted by the Board;

   ii. Exceeds the long-term rate of inflation by an annualized 5%; and

   iii. Exceeds the return of a composite benchmark of the respective long-term normal asset mix weighting of the major asset classes.

1.5. Total Fund Investment Standard

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

All investments made by the Total Fund must be in "securities" as defined in Government Code Section 825.301(a) provided, however, that until September 1, 2019, TRS may buy and sell those instruments set forth in Section 825.301(a-1), Government Code, to efficiently manage and reduce the risk of the overall investment portfolio.

The Board and the Investment Division may obtain the assistance and advice of external investment experts, including external managers operating under Agency Agreements, and other investment counselors or consultants as needed.

1.6. Total Fund Asset Mix and Benchmarks

The Investment Division will assist the Board in engaging in an asset-liability study for the pension plan at least once every five (5) years to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. A key objective of the asset-liability study shall be the development through statistical modeling techniques of a diversified portfolio that specifies ranges of prudent portfolio exposures and a "long-term normal" position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's actuarial return objectives for the pension plan within the risk tolerances specified herein.

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

Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the table on the following page, and are referred to as the "Policy Benchmarks." The portfolio transition which started on October 1, 2007 for Real Assets is ongoing with a long term target for Real Assets of 15%. Adjustments to the benchmark to accommodate the transition for Real Assets are described in footnote 3 in the table below.

[Table appears on following page]

Asset Class	Benchmark	Bloomberg Ticker	Minimum Range[1]	Maximum Range[1]	Target
Global Equity:					
US Large Cap	MSCI USA Standard	GDDUUS	13%	23%	18%
US Small Cap	MSCI USA Small Cap	GCUDUS	0%	7%	2%
Non-US Developed	MSCI EAFE and Canada	NDDUEC	10%	20%	15%
Emerging Markets	MSCI EM	NDUEEGF	5%	15%	10%
Directional Hedge Funds	HFRI Fund of Funds Composite	HFRIFOF	0%	10%	5%
Total Public Equity	*Target-weighted Blend*		*45%*	*55%*	*50%*
Private Equity	State Street Private Equity Index – lagged one quarter		7%	17%	12%
Total Global Equity	***Target-weighted Blend***		**55%**	**69%**	**62%**
Stable Value:					
US Treasuries	Barclays Capital (BarCap) Long Treasury Index	LUTLTRUU	0%	20%	13%
Absolute Return (Including Credit Sensitive Investments)[2]	3 Month LIBOR + 2%	USC0TR03 (plus 2%)	0%	20%	0%
Stable Value Hedge Funds	HFRI Fund of Funds Conservative	HFRIFOFC	0%	10%	4%
Cash	Citigroup 90-day US Treasury	SBMMTB3	0%	5%	1%
Total Stable Value	***Target-weighted Blend***		***13%***	***23%***	***18%***
Real Return:					
Global Inflation Linked Bonds	BarCap US Treasury TIPS index	LBUTTRUU	0%	10%	5%[3]
Real Assets	NCREIF ODCE - lagged one quarter		5%	20%	15%[3]
Commodities[4]	Goldman Sachs Commodity Index	SPGCCITR	0%	5%	0%[3]
REITS	MSCI US REIT	RMS G	0%	5%	0%[3]
Total Real Return	***Target-weighted Blend***		*15%*	*25%*	*20%*
TOTAL PLAN	***Target-weighted Blend***				***100%***

[Notes to table appear on following page]

Notes to table on prior page

[1] With respect to the maximum range and minimum range, the CIO may increase any maximum range by 5% or decrease any minimum range by 5% (but may not decrease a minimum range below zero) if the CIO concludes in a writing delivered to the Executive Director and to the Board of Trustees stating the action taken and the reasons why the CIO believes that such increase or decrease would be in the best interests of TRS; provided, the maximum range for Total Global Equity may not be increased above 69%. Before taking action, the CIO must request comments from the Chairman of the appropriate Board Committee and TRS consultants and advisors. The Board, at the next succeeding Board meeting, must authorize the increase or decrease if the CIO proposes that the changes continue in effect after such Board meeting. The CIO will notify the Compliance Officer of any such change to a maximum or minimum range. If the Board does not authorize the continuation of the change to a maximum or minimum range after the next succeeding Board meeting, the Investment Division shall use best efforts to rebalance the portfolio to bring the asset classes within the ranges in the table above within 90 days.

[2] Absolute Return is a broad category that includes all assets that have a high probability of generating a positive absolute return regardless of market conditions over a one to three year period.

[3] On October 1 of each year, the Target for Real Assets for the succeeding twelve months will be reset by the CIO to the averaged funded level of Real Assets for such succeeding twelve months as projected by the Real Assets investment management team (rounded to the nearest whole percentage); provided, the Target for Real Assets may not be more than 15%. Any decrease to the Target for Real Assets below 15% will result in an equivalent amount of increase allocated to the Targets for first, REITS (until REITS is 2%), second, Commodities (until Commodities is 2%) and, third, Global Inflation Linked Bonds. Any increase or decrease to the target level for each asset class will also be applied to the minimum and maximum range level for that asset class; provided, the minimum range level may not be reduced below 0%.

[4] Except as specifically provided in Article 5.2, investments in commodities are limited to instruments that constitute a security or an authorized derivative that is either underlain by a financial instrument or, if underlain by a physical commodity, is cash settled. Direct investments in physical commodities are prohibited.

1.7. Total Fund Measurement and Reporting Criteria

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

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

a. **Investment Performance** – Investment performance for the Total Fund and each component portfolio, net of external management fees (if applicable); will be compared with their respective benchmark indices. Fund performance will be judged primarily by comparisons to long-term (3, 5 and 10 year) Policy Benchmark returns.

b. **Monitoring of compliance with Policy** - Portfolios will be reviewed for compliance with the requirements set forth in this Policy. The Investment Compliance Officer will have overall responsibility for compliance monitoring. However, if considered necessary, TRS will hire external parties to obtain assistance regarding compliance monitoring. To ensure independence in compliance monitoring the Investment Compliance Officer or external parties hired will not be given the authority to trade securities. To ensure ongoing compliance with this Policy and completeness of disclosures to the Board regarding compliance, the Investment Compliance Officer has authority to require certifications from applicable IIC members or a SMD disclosing known compliance violations. The Investment Compliance Officer reports all known compliance exceptions to the Board at the next meeting of the Board.

c. **Asset class exposures and weightings** – The exposure of cash and derivative instruments to each asset class will be aggregated and compared with their respective long-term and transition benchmarks and with the authorized ranges around those benchmarks. Hedge Fund exposure will be reported relative to its statutory limit, if applicable.

d. **External investments under consideration** – For any external investment under consideration by the Investment Division (including hedge funds, external managers, real asset and private equity investments), Investment Staff will provide the Board the following information prior to the date of the applicable IIC meeting:

   i. Name of the investment vehicle and investment manager;

   ii. Total fund or strategy size;

iii. TRS investment amount under consideration;

iv. Investment strategy;

v. Names of the external manager or fund principals;

vi. Projected TRS commitment or funding date;

vii. Placement agent or firm sponsoring the offering or engagement, if any;

viii. Prospective fees;

ix. Other TRS investments with the firm; and

x. Historical fund or manager performance.

e. **External investments activities** – Investment Staff will provide the Board with a list of all external investments, including any additions, withdrawals, transfers or terminations, on at least a semi-annual basis.

f. **Derivatives –** The Investment Division shall provide a comprehensive report of all outstanding derivative applications (including derivative types, counterparties, notional amounts, and fair values) used by internal managers and external managers under Agency Agreements on at least a semi-annual basis**.**

g. **Risk limit** – The Investment Division will report at least semi-annually the Total Fund and benchmark total estimated risk relative to the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.

h. **Liquidity** – The Investment Division will report at least semi-annually to the Board the use of external liquidity funding mechanisms.

i. **Leverage** – The Investment Division will report the Gross and Net Leverage derived from internal derivative use, internal short sales, external managers, Hedge Funds, and leverage resulting from use of external liquidity funding mechanisms as outlined in the Liquidity Policy on at least a semi-annual basis.

j. **Transparency report** – The Investment Division will provide a transparency report to the Board that may be used to disclose any of the required information mentioned above. This report may be delivered in electronic or physical formats.

k. **Private Markets Long-Term Strategy** – The Investment Division will review with the Board its long-term strategy for the Private Equity and the Real Asset portfolios at least every three years. This review will include information on target sub-strategy allocation, return, risk and liquidity expectations. Tactical deviations from this long-term strategy will be reviewed on an annual basis.

l. **Staffing** – The Investment Division will provide an update no less than annually reporting on the staffing of key employees in the division, including turnover, transfers and the creation of new positions.

m. **Other information** – Any other information or reports as the Board may request or require from time to time.

1.8. Total Fund Portfolio Implementation and Design

The Total Fund investment portfolio is characterized by the following functional areas that are charged with the implementation of day-to-day portfolio management activity:

a. Internal Public Markets Portfolios;

b. External Public Markets Portfolios;

c. Private Markets Portfolios;

d. Overlay Portfolios; and

e. Risk Management and Oversight.

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

ARTICLE 2 –PUBLIC MARKETS PORTFOLIOS

2.1. Internal Public Markets Portfolios Objectives

The primary objectives of the Internal Public Markets Portfolios (the "IPM Portfolios") are to manage publicly-traded, marketable securities and related instruments, in accordance with the risk parameters established by the permitted asset allocation ranges of this Policy, to meet or exceed the performance of the Policy Benchmark, as allocated to the IPM Portfolios. The IPM Portfolios will serve as the primary vehicle through which transition management will be performed and proxy portfolios will be managed vis-à-vis the unfunded Private Equity, Real Assets, and External Manager Portfolios, and Hedge Fund portions of the Fund.

2.2. Authorized Investments for Internal Public Markets Portfolios

The IPM Portfolios are authorized to invest in the securities described as follows:

a. Equity securities of all companies traded or listed on a national exchange in the U.S. or in countries in the MSCI ACWI ex-US benchmark, and any component security of a Policy Benchmark.

b. Common stocks, preferred stocks, convertible bonds, rights, warrants, units and depositary receipts ("DRs") that trade publicly or pursuant to Rule 144A of the Securities and Exchange Commission (the "SEC"), without regard to the issuer's principal place of business or jurisdiction of incorporation or organization (such securities are sometimes referred to in this Policy as "Authorized Equity Securities"), including common or preferred stock issued in initial public offerings ("IPOs").

c. Exchange-traded funds ("ETFs") and closed-end funds tracking an applicable benchmark (or a significant subset or sector of a benchmark) if listed on a U.S. stock exchange or market or on a stock exchange or market in a country in which TRS is authorized to buy and sell securities.

d. Exchange-listed or private placement equity-linked notes intended to track authorized international equity securities or indices, and registered index funds in any country index series intended to track its respective country index, provided that the country is in the Policy Benchmark.

e. Exchange-traded futures contracts, options contracts, and options on futures contracts in order to efficiently manage or reduce the risk of the overall investment portfolio, or both, in accordance with this Policy and applicable law.

f. Over-the-counter swap and option agreements, including but not limited to total return swaps, interest rate swaps, credit default swaps, and currency swaps, to efficiently manage or reduce the risk of the overall investment portfolio, or both. The Fund may also use forward agreements and any other instrument commonly used by institutional investors to manage institutional investment portfolios, in accordance with this Policy and applicable law.

g. Evidence of indebtedness and securities that evidence an ownership interest in debt obligations that are issued, insured, guaranteed by, supported by, or based on the credit of the following:

   i. The United States ("U.S.") or any U.S. agency, department, or government sponsored enterprise ("GSE");

   ii. The debt obligations of states, municipalities or any state agency of the United States of America;

   iii. Corporations chartered by the United States or any state thereof; and

   iv. Foreign governments, supranationals, subnationals, and corporations chartered by foreign governments.

h. Agency and non-agency mortgage-backed securities.

i. Collateralized mortgage obligations ("CMO").

j. Commercial mortgage-backed securities ("CMBS").

k. Asset-backed securities ("ABS").

l. All securities and all types of securities that are either included in the applicable benchmark or that will be added to the benchmark as of the announcement date of their future inclusion.

m. Mutual funds, closed-end funds, exchange traded funds, structured notes, limited partnerships, commingled funds, or any other security types that:

i. Are intended to track or replicate the returns of the Policy Benchmark or a portion thereof or that are intended to reduce the overall tracking error of the portfolio; or

ii. Invest in non-dollar fixed income instruments that are predominantly investment grade quality; or

iii. Invest in bank loans that are predominantly investment grade quality; or

iv. Actively invest in a dynamic portfolio of high yield securities.

n. Passive funds, structured credit basket transactions, or trusts containing high-yield fixed income securities selected according to defined parameters and, if the investment contract, offering documents, or prospectus requires distribution to TRS of securities held by fund or trust under specified circumstances, such securities.

o. Repurchase and triparty repurchase transactions.

p. Investments in State of Texas pooled investment funds.

q. Foreign currencies that may be required to settle security transactions denominated in those foreign currencies and any authorized instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments.

r. Short sales as authorized and limited by Article 2.7 for the Externally Managed Public Assets Portfolio.

s. Local Access Products, including equity-linked certificates, participation notes, and low-exercise price call warrants which replicate the performance of an underlying security, index, or market for which investment in the local market or in the ADRs or GDRs, or the total return swap market would be difficult or costly, or both.

In addition to the foregoing, the IPM Portfolios are authorized to engage in overlay strategies in accordance with the guidelines set forth in Article 7. Overlay strategies may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy.

2.3. Internal Public Markets Portfolio Restrictions

a. Not more than 20% of the outstanding equity securities of a single class of any company may be purchased. In calculating this 20% limit, any amounts that are held in the EPM Portfolios and which are also deemed to be beneficially held by TRS for purposes of Section 13 of the Securities Exchange Act of 1934, including equity securities held in a separate account (or a commingled account in which TRS is deemed to be the beneficial owner for purposes of Section 13 of such act), shall be included.

b. TRS will not invest in securities of any company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex through explicit depictions of sexual activity. These include, but are not limited to, sexually explicit films, videos, publications, and software; topless bars and strip clubs; and explicit sexually-oriented telephone and Internet services. The restriction does not apply to pooled investment vehicles, provided that the Investment Division shall engage with the managers of such vehicles and use commercially reasonable efforts during due diligence to determine whether such vehicles invest in any company that would not be eligible for direct investment by TRS.

c. Except as required by fiduciary duties created by the Texas Constitution or other applicable law, TRS will comply with Chapter 806, Government Code relating to prohibition on investments in Sudan, including reporting requirements on investments in listed companies and on decisions to cease divestment, remain invested, or reinvest in listed companies. Additionally, TRS will avail itself of the protection afforded by the U.S. Sudan Accountability and Divestment Act. To the fullest extent allowed by law and consistent with fiduciary duties, TRS will treat direct holdings in investments in companies with active business operations in Iran in a similar manner to investments in listed companies in Sudan. TRS will use the Iran scrutinized list of companies subject to the Iran Sanctions Act, or any successor legislation, as maintained by a governmental body or a reputable private organization and which is available in June of each year. If, in order to comply with the fiduciary duties created by the Texas Constitution, the IIC determines that divestment of or a ban on investments in companies on the Iran list would be imprudent under the circumstances because alternative investments to the listed companies do not offer commensurate return with no greater risk or commensurate risk with the same or greater return, the IIC may exempt companies from the Iran list and authorize investment in the securities of those companies.

d. The IPM Portfolio shall conform to the tracking error target prescribed in Appendix A.

2.4. External Public Markets Portfolio

The component portfolios of the External Public Markets Portfolio (the "EPM Portfolio") are:

a. The External Manager Portfolio, which consists of:
   i. Commingled or other private investment funds which are not determined to be Hedge Funds as defined by Section 2.6 of this Policy, and
   ii. Separate accounts managed or advised by external managers operating under an Agency Agreement with TRS.

b. The Hedge Fund Portfolio.

c. The Other Absolute Return Portfolio including Credit Sensitive Investments.

The CIO will determine the proper mix of assets allocated for internal management under the parameters of the IPM Portfolio and those to be allocated to the External Manager Portfolio component of the EPM Portfolio. In no event shall the aggregate allocation to external managers pursuant to Agency Agreements exceed 30 percent (or a different percentage of not more than 50 percent if a different percentage is specified in the Government Code) of the Total Fund at the time of investment, as specified in Section 825.301 (a-2), Government Code.

This preceding paragraph does not affect the target allocation and the range of allocation for the Hedge Fund Portfolio, which shall not exceed 10% of the Total Fund, or such lesser or greater percentage as allowed by applicable law and Section 2.7 of this Policy.

2.5. External Public Markets Portfolio Objectives

The primary objective of the EPM Portfolio is to invest in publicly-traded marketable securities, commingled funds, Hedge Funds, and related instruments, in accordance with the asset allocation parameters of this Policy, to meet or exceed the performance of the Policy Benchmark over a 5 to 10 year market cycle as allocated to the EPM Portfolio. The EPM Portfolio will employ a wide variety of investment and trading strategies with varying levels of liquidity and leverage. It is expected that

some strategies will involve more concentrated, shorter term investments as well as those that are longer term in nature and thus will generally have more tracking error than expected within the IPM Portfolio, while other investments will have less correlation, beta and volatility and thus will offset the overall volatility of the EPM Portfolio and the Total Fund.

2.6. Hedge Fund Defined

In this Policy, "Hedge Fund" means a private, commingled investment vehicle with the following general characteristics, as set forth in Section 825.3012, Government Code:

a. Is not registered as an investment company;

b. Issues securities only to accredited investors or qualified purchasers under an exemption from registration; and

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

"Hedge Fund" includes a private investment fund of funds or other commingled vehicle that itself invests in Hedge Funds. An investment in a Hedge Fund issuing securities to TRS does not involve a delegation of investment discretion to an external manager for the External Manager Portfolio, including for purposes of the statutory limit on delegation to external managers, and the assets of a Hedge Fund are not TRS assets.

For the purposes of complying with Section 825.3012, Government Code, the Investment Division shall use the following criteria to analyze and determine whether a private investment fund is "primarily engaged in strategic trading" and should be classified as a hedge fund:

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

In this Section 2.6:

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

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

value of all short cash market positions, and (ii) the absolute notional value of all short derivative positions divided by (C) the net market value of the fund. ***Gross Leverage*** is the total of (A) the sum of (i) the market value of all long cash market positions, (ii) the notional value of all long derivative positions, (iii) the absolute market value of all short cash market positions, and (iv) the absolute notional value of all short derivative positions divided by (B) the net market value of the fund. For option based instruments, notional value may be calculated using hedge ratios to derive a delta-equivalent exposure.

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

Prior to investment, the CIO will determine whether each Hedge Fund is a Stable Value Hedge Fund or a Directional Hedge Fund by reference to factors such as investment strategy, underlying investments, correlation, beta, leverage, expected return and expected risk.

2.7. Authorized Investments for External Public Markets Portfolio

a. **Approval Authority – Hedge Fund Portfolio, External Manager and Other Absolute Return Portfolios -** The IIC is hereby authorized to approve investments in the External Public Markets Portfolio in accordance with the guidelines set forth in Section 2.5. The limits are defined and set forth in Appendix B of this Policy apply to allocations and commitments by the External Public Markets Portfolio.

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

b. **Board Consideration -** If a Board member desires that any Hedge Fund investment or external manager strategy mandate on the list delivered to the Board under Section 1.7 be submitted for consideration by the Board, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board before the anticipated closing date.

c. **External Public Markets Advisors and Consultants -** The Investment Division is authorized to engage one or more qualified external advisors (each, an "Advisor") to assist and advise the Investment Division with respect to investment opportunities within the EPM Portfolio. Each Advisor engaged by the Investment Division must be approved by the CIO and the Board. The applicable advisor or consultant will provide a prudence letter or letter of recommendation for all opportunities presented to the IIC unless an exception has been made by the CIO. Notwithstanding the foregoing, IIC consideration and approval of a sub-manager of an external manager who manages sub-managers does not in any event require a separate, additional prudence letter or letter of recommendation from an Advisor; provided, further, that such external manager of sub-managers (i) is fully liable for any action or omission of the sub-manager as if the action or omission had been taken by such external manager and (ii) recommends the engagement of the sub-manager in writing to the IIC. For avoidance of doubt, this paragraph does not prohibit the CIO from requesting a separate prudence letter from an Advisor with respect to the IIC's consideration of a sub-manager to be recommended by a manager.

d. **Authority to Execute Documents and Agreements for the External Public Markets Portfolio -** The general authority resolution adopted by the Board on August 13, 2010 and designating those officers authorized to execute documents and attached as Appendix E is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix E as of the effective date of the superseding resolution.

e. **Allocation measurement** - Only the net long position of each external manager, fund vehicle, separate account, or Hedge Fund will be counted against the asset allocation policy; however, both long and short positions will be modeled (through proxies if necessary) to calculate Total Fund risk.

f. **Short positions limit** - In addition to investments authorized under Section 2.2, the External Public Markets Portfolio may hold short positions in securities listed on a national exchange or U.S. treasuries. The aggregate short positions exposure of the External Public Markets Portfolio may not exceed 25% of the market value of the External Public

Markets Portfolio without the prior written consent of the CIO. In no event may the aggregate short positions exposure of the External Public Markets Portfolio exceed 50% of the market value of the External Public Markets Portfolio, nor may any short sale or position violate the laws or rules of any jurisdiction or exchange in or on which the applicable Securities are traded or listed.

g. **Overlay strategies** – The External Public Markets Portfolio is authorized to engage in overlay strategies in accordance with the guidelines set forth in Article 7. Overlay strategies may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy.

h. **Rebalancing Authority –** Subject to the limits set forth in this Policy, the CIO, Deputy CIO or the head of External Public Markets may add funds to previously approved investments for the purposes of rebalancing or adjusting risks. Such additional investments or allocations shall not, on a monthly basis, exceed 2% of the Hedge Fund Portfolio, External Manager Portfolio, or Other Absolute Return Portfolio (as appropriate) per investment. This subsection does not affect or limit the authority of the Investment Division to withdraw funds from approved investments.

i. **Termination Authority -** The CIO, Deputy CIO or the head of External Public Markets may transfer, withdraw or terminate interests in the EPM Portfolio, provided that the action does not result in a material, unwaived breach of the terms and conditions of the applicable investment agreements.

2.8. External Public Markets Portfolio Restrictions

a. Agency Agreements, considered in the aggregate, may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy, including the provisions of Section 2.2.

b. The Investment Division may delegate management of not more than 30% (or a different percentage of not more than 50% if a different percentage is specified in the Government Code) of the market value of the assets of the Total Fund to external managers pursuant to Agency Agreements. For avoidance of doubt, this restriction does not apply to assets held by funds (including Hedge Funds) which limit the liability of TRS to the capital contributed and any distributions that TRS might be legally obligated to contribute or repay to the fund.

c. The Investment Division is authorized to invest up to 10% (unless extended by law, this authority reverts to 5% on September 1, 2019) of the Total Fund in Hedge Funds as defined in Section 2.6. Compliance with the statutory limit is to be determined at the time TRS executes subscription documents for each Hedge Fund investment or additional investment.

d. Each Agency Agreement with an external manager shall specify the applicable policies, risk controls, portfolio characteristics, reporting requirements, requirements or restrictions, including criteria for determining quality of investments or the use of standard debt rating services.

e. Each Agency Agreement with an external manager shall terminate on or before September 1, 2019; provided, however, that an Agency Agreement may include provisions for optional renewal or extension of the agreement by the Investment Division beyond September 1, 2019 that are contingent on amendment of TRS statutes to authorize such agreements after that date.

f. Each Agency Agreement shall require the external manager to comply with TRS restrictions and investments relating to direct holdings in companies having active business operations in Sudan or Iran, including divestment. TRS will comply with any requirements imposed by Section 806.057 of the Government Code relating to notification, requests, or action involving indirect holdings in funds containing listed companies.

2.9. Conflicts of Interest

Conflicts of interest, including the appearance of conflicts, in the selection and engagement of external investment managers will be avoided at all times. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under applicable ethics policies and statutory provisions, including without limitation Sections 825.211 and 825.212, Government Code, which do not apply to Hedge Fund managers in that capacity. The Investment Division will develop guidelines and procedures to identify actual or potential conflicts of interest affecting external managers to be engaged pursuant to Agency Agreements. The Investment Division shall employ reasonable diligence to identify conflicts of interest affecting TRS trustees, employees and advisors with respect to all private investments.

ARTICLE 3 - PRIVATE MARKETS PORTFOLIO

3.1. Private Markets Component Portfolios

The component portfolios of the Private Markets Portfolio are (1) the Private Equity Portfolio (the "PE Portfolio") and (2) the Real Assets Portfolio (the "RA Portfolio"). The Board shall approve the respective long-term normal allocation and the range of allocation for each component portfolio. The Private Markets Portfolio has the following investment objectives:

a. Provide a long-term rate of return in excess of the return of the Policy Benchmark for each authorized Private Markets investment strategy;

b. Provide diversification to the Total Fund; and

c. Provide for enhanced returns and diversification within the Private Markets Portfolio by allocating assets among the various Private Asset strategies.

3.2. Private Markets Portfolio Guidelines

The Private Markets Portfolio is authorized to invest in the asset classes specified in this Policy and may hold and exercise rights, options and warrants attached to securities relating to an investment by the Private Markets Portfolio.

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

3.3. Private Markets Investment Process

Private Markets External Advisors and Consultants

The Investment Division is authorized to engage one or more Advisors to assist and advise the Investment Division with respect to investment opportunities within the Private Markets Portfolio. Each Advisor engaged by the Investment Division to provide investment advice with respect to private equity, real estate, and other real assets investments must be approved by the CIO, the head of Private Markets and the Board. Subject to the direction of the Private Markets Investment Staff (the "Private Markets Team"), Advisor duties may include, but are not limited to, the following:

a. Performing due diligence on specific Private Markets investment opportunities assigned by the Private Markets Team;

b. Providing research related to private equity and real assets markets and opportunities, economic conditions, and performance expectations;

c. Assisting the Private Markets Team, upon request, in identifying potential Private Markets investment opportunities;

d. Providing, upon request, written recommendations to the Private Markets Team regarding investments for the Private Markets Portfolio; and

e. Assisting the Private Markets Team in the negotiation of required investment contracts and legal documentation.

f. Providing a prudence letter or letter of recommendation for all opportunities presented to the IIC unless an exception has been made by the CIO.

To the extent an Advisor is directed by the Private Markets Team to perform due diligence on an investment opportunity, such due diligence will be performed in accordance with prudent underwriting objectives established by the Private Markets Team for the TRS Private Equity and Real Assets programs. Each investment opportunity must meet these prudent underwriting standards in order to merit inclusion within the respective portfolios.

3.4. Authorization of Investments for Private Markets Portfolios

Private Equity Portfolio Commitment Authorization. Each private equity investment must be authorized as required by the provisions, guidelines, and limitations established in this Policy.

Real Assets Portfolio Commitment Authorization. Each real assets investment must be authorized as required by the provisions, guidelines, and limitations established in this Policy. The Real Assets Portfolio may invest in any legally permissible investment vehicle, including separate accounts, commingled funds, and other hybrid investment structures investing in real assets equity or debt, which may include joint ventures, co-investments, secondary market transactions, entity level investing or other off-market investments. Any structure in which TRS invests shall meet established legal requirements.

Limited Partner or Investor Advisory Committees. When approved by the CIO or the head of Private Markets, PE and RA Investment Staff members may serve as investor representatives on the advisory committee of any private equity or real assets investment vehicle to which TRS has committed capital.

Authority to Execute Documents and Agreements for the Private Markets Portfolio. The general authority resolution adopted by the Board on August 13, 2010 and designating those officers authorized to execute documents and attached as Appendix E is incorporated in this Investment Policy. Should the Board supersede such resolution, such superseding resolution shall be incorporated in this Investment Policy and replace the superseded resolution as Appendix E as of the effective date of the superseding resolution.

Rebalancing Authority. Subject to the limits set forth in this Policy, the CIO, Deputy CIO or the head of External Private Markets may add funds to previously approved investments for the purposes of rebalancing or adjusting risks. Such additional investments or allocations shall not exceed, on a monthly basis, 2% of each of the Private Equity Portfolio or the Real Assets Portfolio (respectively, as appropriate) per investment. This subsection does not affect or limit the authority of the Investment Division to withdraw funds from approved investments; provided, the withdrawal does not breach any agreement by which TRS is legally bound.

Overlay Authority. The Private Markets Portfolio is authorized to engage in overlay strategies in accordance with the guidelines set forth in Article 7. Overlay strategies may not be used to circumvent the asset allocation parameters, risk guidelines, or any other controls otherwise established by this Policy.

ARTICLE 4 - PRIVATE EQUITY PORTFOLIO

4.1. Private Equity Portfolio Objectives

Diversification

The primary long-term objective of the PE Portfolio is to develop a prudently diversified portfolio of investments that is expected to enhance the overall risk-return profile of the Total Fund and to reduce risk within the PE Portfolio.

The following attributes will be considered in constructing a diversified PE Portfolio: strategy, geography, industry sectors, size of investment, and vintage year.

4.2. Authorized Investments for Private Equity Portfolio

Private equity funds build portfolios of private investments in the equity or equity-rights securities of privately-owned operating companies. Private equity funds may acquire investments in debt obligations, common and preferred stocks, convertible securities, and any warrants, rights, or options attached to any of the foregoing that relate to equity ownership in an issuer. Privately-acquired securities usually have transfer restrictions and are not as liquid as publicly-traded securities. Private equity funds are often classified by strategy, including: venture capital; mezzanine; buyout - acquisition; international - emerging markets; and special situation (e.g., growth equity, turnarounds, distressed).

Investment Authority

The limits defined and set forth in Appendix B of this Policy apply to allocations and commitments by the Private Equity Portfolio.

If, after due diligence by either of the Advisor and the Investment Division, the Advisor and the Investment Division do not concur on whether a Private Equity investment within Investment Division's discretion should be submitted to the IIC, the Investment Division may elect to present the opportunity to the appropriate Board committee for consideration of a

recommendation to the Board to authorize the investment. Unless the Board authorizes an investment, a proposed investment may not be made without the concurrence of both the Investment Division and the Advisor.

Private equity opportunities that will be considered for investment include the following: primary investments in limited liability entities (usually limited partnerships), co-investments, secondary investments, new and emerging managers, and opportunistic investments (e.g., investments in the management entity of a private equity investment firm or sponsor, public-to-private transactions, and the acquisition of business development company or investment trust assets).

To the extent a Board member desires that any private equity investment opportunity submitted for consideration by the IIC be also submitted for consideration by the trustees, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board and the appropriate Board committee before the anticipated closing date.

The CIO, Deputy CIO or the head of Private Markets may transfer, withdraw or terminate interests in the Private Equity Portfolio in accordance with the investment documents, provided that the action does not breach any agreement to which TRS is legally bound.

4.3. Private Equity Portfolio Restrictions

a. As part of the Investment Division's due diligence, the Investment Division will seek to obtain assurance from prospective private equity fund managers or sponsors that they will use commercially reasonable best efforts, consistent with their duties to all investors, to avoid investing in companies or enterprises that derive a significant portion of their revenues from products or services intended exclusively to appeal to a prurient interest in sex. These would include, but not be limited to, sexually explicit films, videos, publications, and software; topless bars and strip clubs; and sexually oriented telephone and Internet services. Notwithstanding any other provision of this Policy, it is not a violation of this Policy if the Investment Division proceeds with a private equity investment based on oral or non-contractual written assurance.

b. TRS will comply with notification requests or action required by Section 806.057, Government Code relating to indirect holdings in listed companies through private equity funds. To the extent the Private Equity Portfolio contains direct investments in publicly-traded securities of listed scrutinized companies doing business in Sudan or Iran, the Investment Division will comply with TRS restrictions and reporting requirements for direct holdings. Co-investments shall comply with TRS restrictions relating to direct holdings in companies having active business operations in Sudan or Iran, including divestment.

ARTICLE 5 - REAL ASSETS PORTFOLIO

5.1 Real Assets Portfolio Objectives

The Real Assets ("RA") Portfolio will be structured to achieve the following investment objectives:

a. As the primary focus, contribute favorably to diversification of the Total Fund through exposure to real assets' low or negative correlation to the Public Markets portfolios.

b. Provide competitive returns through capital appreciation.

c. The following attributes will be considered in constructing a diversified RA Portfolio: strategy, geography, property types, size of investment, and vintage year.

5.2 Authorized Investments for Real Assets Portfolio

The RA Portfolio will focus on private or public real estate equity, private or public real estate debt, infrastructure, timber, agricultural real estate, oil and gas, real asset mezzanine debt or equity, mortgage-related investments, entity-level investments, real estate investment trusts ("REITs"), master limited partnerships ("MLPs"), non-fixed assets and other opportunistic investments in real assets. Real estate investments are often classified by strategy, including: core; core-plus; value-added; and opportunistic.

5.3 Real Assets Investment Authority

Investment Authority

The limits defined and set forth in Appendix B of this Policy apply to allocations and commitments by the Real Assets Portfolio. If, after due diligence by either of the Advisor and the Investment Division, the Advisor and the Investment Division do not concur on whether a Real Assets investment within the Investment Division's discretion should be made, the Investment Division may elect to present the opportunity to the appropriate Board committee for consideration of a recommendation to the Board to authorize the investment. Unless the Board authorizes an investment, a proposed investment may not be made without the concurrence of both the Investment Division and the Advisor

Real Assets strategies that will be considered for investment include the following: primary investments in limited liability entities (usually limited partnerships); co-investments; secondary investments; separate accounts, new and emerging managers; and opportunistic investments (e.g., investments in the management entity of an investment sponsor and public-to-private transactions).

To the extent a Board member desires that any real assets investment opportunity on the RA Opportunity Log be submitted for consideration by the trustees, the Board member should notify the Executive Director and the CIO sufficiently in advance to permit completion of due diligence and consideration by the Board and by the appropriate Board committee, as applicable, before the anticipated closing date.

The CIO, Deputy CIO or the head of Private Markets may transfer, withdraw or terminate interests in the Real Assets Portfolio accordance with the investment documents, provided that the action does not breach any agreement to which TRS is legally bound.

5.4 Real Assets Diversification

The primary long-term objective of the RA Portfolio is to develop a prudently-diversified portfolio of investments that is expected to enhance the overall risk - return profile of the Total Fund and reduce risk within the RA Portfolio. Therefore, the RA Portfolio will be prudently diversified by sub-asset class (benchmark type), property type, geographic location, and the number of funds or investment managers represented in the portfolio. No specific geographic diversification or leverage targets are required.

5.5 Real Assets Portfolio Restrictions

Aggregate annual commitments to real assets can be expected to vary with the market value of the Total Fund or the Real Assets Portfolio, and the overall economic and real assets environment. Therefore, during the early stages of the program and until the RA Portfolio approaches its investment allocation target, the following restrictions might be exceeded.

a. As part of the Investment Division's due diligence, the Investment Division will seek to obtain proper assurance from prospective investment managers or sponsors of RA funds that they will use commercially reasonable best efforts, consistent with their duties to all investors, to avoid investing in companies or enterprises that derive a significant portion of their revenues from products or services intended exclusively to appeal to a prurient interest in sex. These would include, but not be limited to, sexually explicit films, videos, publications, and software; topless bars and strip clubs; and sexually oriented telephone and Internet services. Notwithstanding any other provision of this Policy, it is not a violation of this Policy if the Investment Division proceeds with a RA fund investment based on oral or non-contractual written assurance.

b. To the extent the Real Assets Portfolio contains direct investments in publicly traded securities of listed Sudan or Iran companies, TRS will require compliance with TRS restrictions and reports involving direct holdings as well as notification requests for indirect holdings. Co investments will comply with TRS restrictions relating to direct holdings in companies having active business operations in Sudan or Iran, including divestment.

c. Not more than 5% of the Total Fund may be invested to certain real asset strategies. For the purposes of this calculation, these certain real assets include timber, agricultural real estate, oil and gas, master limited partnerships ("MLPs"), and non-fixed assets.

ARTICLE 6 – EMERGING MANAGERS PROGRAM

TRS shall make a good-faith effort to invest with qualified emerging managers for the External Managers Portfolio, Private Equity Portfolio, and the Real Assets Portfolio. The Investment Division is authorized to invest with qualified funds-of-funds managers skilled at identifying small and emerging managers in the private equity, real asset and public equity markets. The target dollar allocation is outlined for this program in Appendix C.

Emerging managers can include, but are not limited to, minority, women, and disabled veteran-owned or -controlled organizations. Conversely, not all minority, women, and disabled veteran-owned or -controlled organizations are necessarily considered emerging managers for the purposes of this program. Whether a management firm is an "emerging manager" depends on all of the facts and circumstances. In general, emerging managers are defined as newer, independent private investment management firms that manage less than $2 billion, or have a performance track record as a firm shorter than five years, or both.

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

ARTICLE 7 - OVERLAY PORTFOLIOS

7.1. Overlay Portfolios Objectives

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

7.2. Authorized Investments for Overlay Portfolios

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

a. Exchange-traded futures contracts;

b. Exchange-traded option contracts;

c. Options on exchange-traded futures contracts;

d. Over-the-counter or exchange-traded swap agreements;

e. Over-the-counter option agreements;

f. Forward agreements; and

g. Forward-settling securities transactions.

7.3. Overlay Portfolios Restrictions

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

Direct purchase of derivatives underlain by physical commodities is prohibited for any TRS portfolio unless such derivatives are cash-settled. This prohibition does not apply to private investment funds, including Hedge Funds.

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

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

The foregoing percentage limit restrictions do not apply to currency derivatives used (i) as part of the non-discretionary foreign exchange risk management policy described in Section 9.2, (ii) to settle security transactions denominated in those foreign currencies and any authorized instrument or contract intended to manage transaction or currency exchange risk in purchasing and selling investments and (iii) for hedging the characteristics of an individual investment to align it with the characteristics of such investment's benchmark.

ARTICLE 8 - AUTHORIZED USES OF DERIVATIVES

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

8.1. Objective and Investment Standard Applicable to Derivatives

The Board's objectives for using derivatives are to efficiently manage and reduce the risk of the overall investment portfolio. Through the use of derivatives, the complex risks that are bound together in traditional cash market investments can be separated and managed independently.

Derivatives authorized by this Policy may only be used to efficiently manage and reduce the risk of the overall investment portfolio in accordance with applicable law. In addition, all uses of derivatives must comply with the fiduciary standard of prudence set forth in Article XVI, Section 67(a)(3), Texas Constitution, which requires that all TRS investments must be made using the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income there from as well as the probable safety of their capital.

8.2. Scope of Derivatives Policy

Except where specifically noted, this Policy applies to all derivatives transactions executed by the Investment Division and by external managers operating under an Agency Agreement. This Policy does not apply to registered or private investment funds, including limited liability entities, issuing securities to TRS.

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

8.3. Uses of Derivatives by External Managers and Commingled Funds (Hedge Funds)

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

a. First, the Total Fund will invest as a passive investor in Hedge Funds organized as limited-liability entities, which limits potential losses to the capital contributed to the entity. TRS is not a party to the management agreement between the Hedge Fund and its investment manager. Hedge Fund and other commingled fund managers owe the same legal duties to all investors.

   i. The Investment Division must exercise thorough due diligence in assessing the scope of the Hedge Fund manager's uses of derivatives, their purpose, experience of the fund manager's staff in managing these positions, inherent leverage, and the manager's systems, controls and operations in determining suitability of these entities for TRS investment.

b. Second, TRS may delegate discretion, through Agency Agreements, to external managers who act as a TRS agent with respect to Total Fund assets and who are authorized to enter into specified contracts and commitments that will be legally binding on TRS. External managers are TRS fiduciaries.

   i. For external managers engaged pursuant to Agency Agreements, Investment Division must view the external manager as an extension of the internal Investment Division's investment management processes and must require external managers to comply with this Policy and applicable guidelines and law on the use of derivatives to the same extent as Investment Division. Guidelines for the scope and use of derivatives will be established on a case-by-case basis with each external manager in the applicable Agency Agreement. An external investment manager of publicly-traded investments engaged by TRS under an Agency Agreement

may engage in derivatives transactions only if expressly authorized by, and the transactions are consistent with, the overall investment objectives and restrictions established in the Agency Agreement, this Policy, and applicable law. Each Agency Agreement must be consistent with applicable law, this Policy, and other TRS policies. An Agency Agreement may only authorize such uses of derivative instruments when the Investment Division reasonably concludes after due diligence that the external manager possesses the experience, expertise, and qualifications to prudently use derivatives, and has appropriate operational, compliance, and risk management personnel, policies, and procedures to effectively monitor and control their use, including the use of leverage.

ii. Selection, engagement, and monitoring of external managers engaged through an Agency Agreement requires a clear understanding of the managers' uses of derivatives, particularly as it relates to various risk controls, compliance functions, and leverage. Investment Division will monitor risk exposures and leverage on both an individual entity and aggregate basis. The permitted uses of derivatives and leverage by each external manager must be fully documented in each Agency Agreement.

8.4. Definition of Derivatives; Authorization

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

Except as specifically provided in Article 5.2, this Policy does not apply to, or authorize, any use of derivatives underlain by physical commodities (unless such derivatives are cash-settled), single-asset real estate mortgages, or title to real estate or property affixed to real estate.

8.5. Permitted Derivatives Applications

Consistent with the objectives set out in Article 8.1, derivative applications may be used by Investment Division and external managers engaged through Agency Agreements to:

a. Implement investment strategies in a lower cost and efficient manner;

b. Efficiently manage the Total Fund portfolio by altering the portfolio's market (systematic) exposure in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;

c. Construct portfolios with risk and return characteristics that could not be efficiently created with cash market securities consistently with the objectives in this Policy and in compliance with applicable law;

d. Hedge and control risks so that the Total Fund's risk-return profile is more closely aligned with the Total Fund's targeted risk-return profile through purchases or short sales, or both, of appropriate derivatives; and

e. Facilitate transition trading when holdings must be rebalanced or reallocated among permissible investments as a result of changes to applicable benchmark indexes or policy changes.

The only authorized uses of derivative transactions are efficient portfolio management and reduction of risk in portfolios and to implement investment strategies authorized by this Policy more effectively and at a lower cost than would be possible in the cash market. External managers may not engage in derivative applications that are inconsistent with the applicable Agency Agreement, this Policy and applicable law, unless specifically authorized by the TRS Board and the Agency Agreement has been amended accordingly.

8.6. Derivatives Applications Not Permitted

Derivatives may not be used for any activity a primary purpose of which is speculation or to profit while materially increasing risk to TRS. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified

by this Policy or any related policies or resolutions of the Board, and their use is not reasonably and substantially intended to produce efficiency in portfolio management and reduce market, credit, or liquidity risks applicable to the portfolio. Derivatives may not be used for circumventing limitations or restrictions imposed by this Policy or applicable regulatory requirements.

The tenor of interest rate over-the-counter ("OTC") swaps may not exceed 30 years or shorter based on market liquidity.

The tenor of all other OTC derivative instruments may not exceed 5 years.

Derivative applications may only be used to invest in asset classes that are consistent with TRS's legally permissible policy asset categories (including currencies), implementation strategies, and risk-return characteristics.

Except as specifically provided in Article 5.2, investments in derivatives underlain by physical commodities are prohibited unless such derivatives are cash-settled.

8.7. Derivatives Documentation and Controls

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

8.8. Limitations Applicable to Derivatives

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

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

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

8.9. Derivatives Risk Management and Compliance

To ensure compliance with this Article 8, all internally- and externally-managed derivatives (other than derivatives held in Hedge Funds) must be marked to market on a daily basis by the Fund's external custodian(s), and such daily reports will be reviewed for accuracy by the TRS Risk Management staff and Investment Administration Center personnel. Compliance with the requirements of this Policy will be monitored by the TRS Investments Compliance Officer using information systems and data from internal and external sources. Any violations of this Article 8 will be reported immediately to the Executive Director and to the Chief Investment Officer, who will determine, if considered material as determined by Investments Compliance Officer, Chief Investment Officer, and Executive Director, the appropriate remedy and report promptly to the Board (and the appropriate Board committee, as applicable).

ARTICLE 9 – RISK MANAGEMENT AND OVERSIGHT

9.1. Market Risk Management

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

a. **Asset allocation limits** – In addition to the Total Fund Portfolio level risk limits, the portfolio will be constrained to the asset allocation percentages and ranges prescribed by this Policy. Accordingly, the total exposure to each asset class must be based on the individual exposures of each cash security and each outstanding derivative contract.

b. **Risk limit** – TRS staff will model and monitor the Total Fund Portfolio and benchmark to ensure that the total estimated risk for the Public Markets portion of the Portfolio is within the upper and lower bounds corresponding to the maximum and minimum downside risk measures that could be achieved through the asset allocation limits in this Policy.

c. **Proxy securities and indices** –If necessary and prudent, staff will employ proxies to approximate the economic characteristics of actual investments if the terms and conditions of the actual investments or the underlying holdings are not readily available or where the complexity of the underlying investment renders a deterministic model impractical.

d. **Transition portfolio** – During portfolio transitions from or to private market investments in real estate, other real assets, or private equity, a transition benchmark may be employed that either explicitly creates placeholders for unfunded private investments or that treats the allocations to private market assets separately from the allocations to public market assets based on the funded portion of the Private Markets Portfolio. In either case, the risk statistics and limits will be applied relative to this transition benchmark.

e. **Private market assets holdings** – Staff may include private investments in real estate, other real assets, and private equity in this analysis either by proxy or by actually modeling the terms and conditions of the underlying exposures; however, if the inclusion of these investments is deemed to distort the true risk characteristics of the portfolio, the Board may approve the use of an alternative methodology for analyzing the risk characteristics of those investments.

f. **Active risk limits** – In addition to the portfolio-level risk statistics described above, a target tracking error will be imposed on each asset class mandate whether implemented through internal or external managers or commingled funds. Additionally, a target tracking error will be imposed on the entire portfolio that takes into account both internally and externally managed portfolios and commingled funds as well as both asset allocation and security selection decisions. These limits are specified in Appendix A, attached hereto.

9.2. Foreign-Exchange Risk Management

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

F/X Policy Structure

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

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

9.3. Credit Risk Management

a. **Counterparty exposures** – The maximum allowable unsecured counterparty exposure for OTC derivative transactions is $500 million, based on the total net market value of all OTC positions held with each counterparty. The total counterparty exposure for each counterparty, including the collateralized portions of these agreements, may not exceed 5% of the market value of the Total Fund. The minimum credit rating, based on a nationally recognized statistical rating organization ("NRSRO"), must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level, subsequent to the inception of transaction, additional eligible collateral may be posted, or the transaction may be terminated.

b. All OTC derivatives must be governed by an ISDA Master Agreement and Credit Support Annex and must include both close-out netting provisions and collateralization provisions.

c. **Repurchase agreements** – The counterparty limits for repurchase transactions and tri-party repurchase transactions may not exceed 5% of the market value of the Total Fund unless those transactions are covered by a third-party indemnification agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. Each repurchase agreement will be entered into under the PSA/ISMA Global Master Repurchase Agreement.

   Each ISDA Master Agreement must also include a table that delineates the excess purchased securities margin (haircut) required, based on the collateral type, duration, and credit quality.

d. **Securities lending** – When securities lending activity is performed by an external, third party lending agent, Investment Division will examine the credit underwriting practices of the lending agent, including enforcement of collateral requirements, counterparty analysis, and surveillance. Additionally, Investment Division will periodically review the securities lending lines by counterparty. A securities lending agent must be an organization rated A- or better by a NRSRO. More detailed information about TRS securities lending activities is specified in the separate Securities Lending Policy.

9.4. Liquidity Risk Management

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

a. Disbursements of benefits and related obligations to plan participants, including retirement, death, health, and disability benefits payments.
b. TRS investment activities: These are mainly associated with risk management and funding of external managers. Some examples include:
   i. TRS engages in derivatives to efficiently manage and reduce risk of the overall investment portfolio. Use of these instruments requires liquidity for collateral, margin and payment obligations at the time of a reset, call or maturity;
   ii. TRS funds accounts managed by public markets external managers; and
   iii. TRS manages unfunded capital commitments that the Fund is legally obligated to fund when called by private equity or real asset general partners.

External Funding Authority

The Investment Division is authorized to establish external funding mechanisms (such as master repurchase agreements with one or more counterparties) and the flexibility to operate in all types of market liquidity environments to allow prudent management of these commitments while achieving a long-term rate of return and adhering to the asset allocation limits outlined in this Policy. In addition to these external funding mechanisms, TRS will maintain adequate funds in its custodial account to cover investment-related obligations. Finally, the Board authorizes the Investment Division to access the cash holdings backing the OTC swaps to manage its commitments.

Limitations Applicable to External Funding Authority

Liquidity provided from these external funding mechanisms may not exceed 2% of the market value of the Total Fund. The expectation is that the liquidity funded through external funding mechanisms will be short-term (less than 30 days). The Investment Division must seek approval from the CIO for extended use of external funding sources. The Investment Division shall report such approvals for extended use to the Board not later than the next regular quarterly meeting.

9.5. Operations Risk Management

a. **Overdrafts** – The Investment Division will monitor the frequency and costs associated with all overdraft activity.

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

9.6. Settlement Risk Management

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

9.7. Legal Risk Management

Legal documentation for all accounts, investment subscriptions, external managers, investments in private investment funds (private equity, real assets, and Hedge Funds), and derivatives will be reviewed, negotiated and approved for TRS execution by internal or external legal counsel, or both. The Investment Division, in consultation with Legal Services, will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. The Investment Division will seek the assistance, review, and advice of legal counsel whenever it is prudent to do so. The General Counsel and the Legal Services Department have primary responsibility for the engagement of outside legal counsel for investment matters, subject to applicable statutes and rules adopted by the Office of the Attorney General.

9.8. Risk Management Compliance Cure Periods and Remedies

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

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

9.9. Permitted Uses of Leverage

The Investment Division is authorized to use the following types of leverage:

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

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

ARTICLE 10 – HEALTH INSURANCE PROGRAM PORTFOLIO

10.1 Health Insurance Program Portfolio Objective

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

10.2 Authorized Investments for the Health Insurance Program Portfolio

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

APPENDIX A - TRACKING ERROR NEUTRAL (IN ANNUALIZED BASIS POINTS)[1]

Internal	Neutral
Equity (Global Best)	100
External	
Equity (US; Large-Cap)	300
Equity (US; Small-Cap)	500
Equity (International; Developed, EAFE)	300
Equity (International; Emerging Markets)	300
Equity (World Equity)	300
Stable Value Hedge Funds	400
Directional Hedge Funds	600

	Neutral	Maximum
Total Global Inflation Linked		200
Total Public Fund Tracking Error	100	300

[1] Tracking error will be measured on a realized basis over a three year period.

APPENDIX B - IIC APPROVAL AUTHORITY AND MANAGER ORGANIZATION ALLOCATION LIMITS

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

Article Affected	Portfolio	Initial Allocation or Commitment with Manager Organization, by Portfolio	Additional or Follow-On Allocation or Commitment with the same Manager Organization, by Portfolio	Total Manager Organization Limits, by Portfolio
2.7	External Public Markets Portfolio	0.5%	1%	3%
4.2	Private Equity Portfolio	0.5%	1%	3%
5.2	Real Assets Portfolio	0.5%	1%	3%
	Total IIC Approval Authority, each Manager Organization			6%

All allocation or commitment limits are expressed as a percentage of the Total Fund value and are to be calculated as of the date the applicable investment agreements are executed.

"Affiliate" means any person directly or indirectly controlling, controlled by, or under common control with, another person. A "manager organization" includes its Affiliates without regard to the names of the entities.

The percentage limit for additional or follow-on allocations or commitments applies to each additional or follow-on allocation or commitment by a listed portfolio to a manager organization and is in addition to, and not cumulative of, the limit specified for initial allocations or commitments. By way of example, if a portfolio initially allocates 0.2% of the Total Fund to a manager organization, the portfolio may thereafter allocate or commit up to 1.0% in a single additional or follow-on allocation or commitment to the same manager organization for a total of 1.2% allocated or committed to the same manager organization (0.2%+1.0%). If a portfolio initially allocates 0.2%, then makes an additional allocation or commitment of 0.8%, and desires to make a further additional or follow-on allocation to the same manager organization, the applicable limit for the further additional or follow-on allocation is 1.0% of the Total Fund, for a total of 2.0% allocated or committed to the manager organization (0.2%+0.8%+1.0%). In general, a follow-on investment, co-investment, or additional investment in the same fund or external manager mandate should follow the initial investment not earlier than three months after the initial allocation or commitment investment has been closed. A follow-on investment, co-investment, or additional investment that is anticipated to occur earlier than three months after the initial closing will be included in the calculations for purposes of this Appendix B.

In calculating the available limits, returned capital is excluded from the sum of existing total allocations or commitments. Committed capital is included during the applicable investment period of a fund without regard to whether the commitment amount is funded or unfunded or the fund is open-ended. After the investment period, committed but unfunded capital is not included in the calculation of outstanding commitments for the purposes of this Appendix B. Capital that has been returned but that is subject to recall by a private investment fund is considered to be committed or allocated for the purposes of the limits in this Appendix B.

Authority for Special Investment Opportunities. Notwithstanding the limits set forth in this Appendix B, the CIO may designate one or more investment opportunities as a "Special Investment Opportunity" if the circumstances indicate a reasonable probability that a rapid investment response will be required in order for TRS to acquire the investment in excess of the limits on staff authority set forth in this Appendix B and it is not practicable to present the opportunity for consideration by the Board. Circumstances requiring a rapid response may include, but are not limited to, distressed situations or market dislocations creating opportunities to acquire interests or assets at pricing that indicates a reasonable probability that the interests or assets are undervalued or will increase in value. The CIO shall notify the Executive Director of each Special Investment Opportunity. The CIO and the Executive Director shall request comments from the Chairman of the appropriate Board committee and TRS consultants and advisers. If the CIO and the Executive Director conclude that the investment would be in the best interests of TRS, the CIO and the Executive Director may authorize and conclude an investment up to $1 billion in that Special Investment Opportunity.

After investments totaling $1 billion in the aggregate in one or more Special Investment Opportunities have been made, no further investment in a Special Investment Opportunity will be made until the Board has reauthorized the CIO's authority to designate a Special Investment Opportunity. Such reauthorization shall renew the CIO's and the Executive Director's authority to invest up to $1 billion in Special Investment Opportunities under this provision.

APPENDIX C – EMERGING MANAGER

Articles Affected:	Portfolio	Target Allocation (in millions)	
2.7	External Manager Portfolio[1]	250	
4.2	Private Equity Portfolio[1,2]	950	
5.2	Real Assets Portfolio[1,2]	450	
	Total	1,650	

All investments with emerging managers will be subject to due diligence by an independent qualified external advisor. The advisor will present each investment recommendation to the IIC for its approval. In general, an emerging manager should be registered with the appropriate authorities if such registration would be consistent with industry practices. Each investment will have a minimum size of $5 million. With respect to the External Manager Portfolio, the total investment by TRS with each emerging manager may not exceed 40% of such emerging manager's assets under management. With respect to the Private Equity Portfolio and the Real Assets Portfolio, the total investment by TRS into each fund raised by an emerging manager may not exceed 40% of the size of such fund. This paragraph does not apply to investments executed as part of a fund-of-funds mandate.

[1] The CIO may increase or decrease each portfolio Target Allocation by $200 million; provided, the total Target Allocation must remain unchanged as a result of such increase or decrease.

[2] Target Allocation based on commitments.

APPENDIX D – POLICY HEDGE RATIOS

Portfolio	PHRs
Public Markets Portfolios	0%
Private Markets Portfolio	0%

APPENDIX E – AUTHORITY RESOLUTION (TRS 477)

Board of Trustees

Adopted August 13, 2010

A. Investment Group

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

Chief Investment Officer	**Deputy Chief Investment Officer**
Senior Managing Director	**Managing Director**
Senior Director	**Director**
Senior Investment Manager	**Investment Manager**

Further, That the Executive Director is authorized and directed to designate those individual employees who are members of the **Investment Group** authorized to take any one or more of the following actions listed below with respect to investment matters as specified in writing by the Executive Director, at least annually or as he deems necessary from time to time:

General Authority for Investment Matters

1. Acquire, modify, and sell investments and negotiate, fix, execute, amend, modify, renew, extend, terminate, certify, and endorse contracts and agreements for portfolio investment transactions, including without limitation trading authorizations, subscription agreements, tax forms, investment contracts, investment vehicle entity agreements, investment management agreements, license agreements, brokerage or margin account agreements, securities or commodities exchange documents, and agreements and documents relating to trading operations.

2. Give directions and instructions to external managers, and to amend, modify, fix, and execute investment guidelines in investment management agreements.

3. Negotiate, fix, execute, amend, modify, renew, extend, transfer, assign, terminate, certify, and endorse the following: amendments; notes; powers of attorney; indentures; deeds; conveyances; certificates; instruments of transfer or assignment; instruments or agreements evidencing, releasing, or creating liens, mortgages, or security interests; and all other instruments and agreements, sealed or unsealed, attested or unattested, relating to TRS investments.

4. Waive, modify, or amend specific provisions of an investment contract or management agreement, if the waiver, modification or amendment is deemed by the employee to be in the best interest of TRS.

Over-the-Counter Derivatives Contracts

5. Negotiate, fix, execute, amend, modify, renew, extend, transfer, assign, terminate, endorse, and terminate master agreements for over-the-counter derivatives transactions and any schedules or credit support annexes relating to such agreements, and any deliverables relating to such agreements, schedules, or annexes.

6. Waive, modify, or amend specific provisions of over-the-counter master agreements for derivatives transactions, and any transaction confirmations under such agreements, if the waiver, modification or amendment is deemed by the employee to be in the best interest of TRS.

7. Negotiate, fix, execute, amend, modify, renew, extend, transfer, assign, endorse, or terminate transactions entered into under master agreements for over-the-counter derivatives transactions, including without limitation confirmations of transactions.

Transfers of Funds or Assets; Fund or Account Redemptions and Withdrawals

8. Authorize and instruct TRS employees, brokers or custodians to transfer funds or assets in connection with TRS investment transactions or commitments of capital or to or from managed investment accounts, investment funds, and custodians of TRS assets.

9. Authorize and instruct TRS employees, brokers, and custodians to deliver cash, securities or other assets as collateral or margin in accordance with regulatory, account, or contractual requirements, including without limitation credit support annexes or agreements relating to over-the-counter derivatives transactions.

10. Execute redemption or withdrawal notices for private investment funds and managed investment accounts and, when required by applicable policies and procedures, not solely but jointly with a member of the Financial Group.

B. Financial Group

Further, That employees holding the following TRS working titles are members of the **"Financial Group"**:

Chief Financial Officer	**Manager of Investment Accounting**
Manager of General Accounting	**Team Leader of Investment Accounting**
Team Leader of Financial Reporting	**Team Leader of Budgeting**

Further, That each employee in the **Financial Group** is authorized and empowered on behalf of TRS to deliver or otherwise transfer cash, securities, collateral, or contracts, and to execute affidavits, certificates and powers of attorney required to transfer, redeem, or exchange securities, collateral, or contracts.

Further, That each employee in the **Financial Group** is authorized and empowered on behalf of TRS, not solely but jointly with an employee in the **Investment Group** or the **Executive Group**, to execute fund or account redemption and withdrawal notices and related documents.

Further, That each employee in the **Financial Group** is authorized and empowered on behalf of TRS to instruct TRS custodians to deliver securities, collateral, contracts, or cash to fund margin or collateral requirements, clear and settle securities trades, fund capital called or subscribed for investment under an investment contract, and to exchange securities, collateral, contracts, or cash for other securities, collateral, contracts, or cash, in accordance with internal procedures.

C. Executive Group

***Further*,** That the **Executive Group** is comprised of employees holding the TRS working titles of Executive Director and Deputy Director, and each employee in the **Executive Group** is authorized and empowered to perform, with respect to a particular transaction, any of the acts that employees in the **Investment Group** or the **Financial Group** are authorized to perform; *provided*, however, that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required by applicable policies and procedures, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

D. Trading Group

Further, That the **"Trading Group"** is comprised of the employees holding the following TRS working titles: Director – Trading Center, and Trader**,** and each employee in the **Trading Group** is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell securities, futures or forward contracts, options, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix, and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell securities, futures or forward contracts, options, or currency.

Further, That the TRS employee groups described in this resolution are identified as such only for the purposes of this resolution and not for any other purpose unless the Board or the Executive Director, as authorized, expressly so provides.

Addendum to the Teacher Retirement System of Texas

Investment Policy Statement

Political Contributions; Improper Influence; Placement Agents and Finders

Effective date: July 1, 2009

1. Scope.

This policy applies to all TRS investment transactions in which a placement agent or finder is or may be involved, including new agreements (including follow-on and co-investments), extension of existing agreements, increase in funding or capital commitment to an existing relationship or fund, or an amendment that increases management fees or compensation under an agreement.

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

If any provision of this policy conflicts with a provision of another policy adopted by the TRS board, the stricter provision shall apply.

2. Purpose.

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

3. Philosophy.

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

4. Required disclosures.

At a minimum, all external Fund or Manager Parties shall provide detailed written responses to the questionnaire attached hereto as Appendix A as early as reasonably possible in the due diligence process for a TRS investment transaction. The Executive Director is authorized to approve such revisions to Appendix A from time to time as he deems to be in the best interest of TRS and consistent with this policy.

In addition, all Fund or Manager Parties shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The investment staff shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The investment staff shall provide all prospective Fund or Manager Parties with a copy of this policy upon commencement of due diligence.

5. Contractual representations, warranties and covenants.

Each Fund or Manager Party shall represent and warrant to TRS in the executed closing documents for the transaction that its responses to Appendix A to this policy and any supplemental inquiries are true, correct, and complete in all material respects, and shall also covenant to update any such information within 10 business days of any change in the information in the responses.

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

Each final investment agreement shall provide TRS with the option to receive a reimbursement of management or advisory fees equal to the amount of Placement Fees to be paid to any and all Placement Agents, and, in addition and not in the alternative, the right to terminate the management agreement or withdraw without penalty from the fund investment vehicle or vehicles if any certificates or contractual representations, warranties or covenants relating to this policy have been breached.

6. Prohibitions.

Neither TRS nor any TRS investment shall be burdened with or liable for any Placement Fee. No TRS investment may be made if the transaction involves either (a) a Placement Agent who is not registered with either of the Securities and Exchange Commission or the Financial Industry Regulatory Authority ("FINRA"), or (b) the sharing of a Placement Fee with a non-registered person or entity. No TRS investment may be made if an authorized officer or the board, in consultation with legal counsel, determines that a disclosed contact with a TRS board member or Texas Elected Official, or a contribution to a Texas Elected Official, has created an unacceptable risk to the integrity and reputation of the TRS investment program or has been made in violation of a TRS policy or applicable law. A contact-based referral, without more, by a trustee of either an investment opportunity or a Manager or Fund Party contact to the Executive Director, Chief Investment Officer, or Deputy Chief Investment Officer does not constitute such a risk or a violation of this policy.

7. Reporting.

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

8. Definitions applicable to this Policy.

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

Fund or Manager Party – includes, (a) as to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm, (b) as to an external, separate account investment manager, the asset management entity and the parent of such asset management entity, and (c) as to (a) and (b), any Affiliate, principal, owner, officer, shareholder, director, managing member, or employee having authority to act on behalf of such fund or firm.

Placement Agent – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee in connection with a TRS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent's Placement Fee is deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, owner, officer, shareholder, director, managing member, or employee of a Placement Agent. A "finder" is a Placement Agent.

Placement Fee – includes any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent.

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

Texas Elected Official – includes any elected official of the State of Texas, including but not limited to the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, and also includes a campaign fund or political action committee, or PAC for an elected official, and any Relative of a Texas elected official.

TRS Person – means any person listed on Exhibit A attached to Appendix A to this Policy or to any other due diligence document, and includes without limitation any current or former TRS board member, Executive Director,

Deputy Director, Chief Financial Officer, Investment Division or Legal Services employee, any investment consultant or actuary, any outside counsel engaged by TRS, and any Relative of a TRS Person, whether or not listed on an Exhibit A, TRS Persons.

Appendix A – Questionnaire
to Addendum to the Teacher Retirement System of Texas
Investment Policy Statement

Political Contributions; Improper Influence; Placement Agents and Finders

Capitalized terms are defined in main text of policy.

A) Contacts with State Officials; Political Contributions. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Elected Official in connection with a prospective investment transaction with a Texas state investment entity, including TRS?

1) If the answer is "yes," please provide a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including TRS.

B) Contacts with TRS Board Members. Has any person lobbied or otherwise communicated on behalf of the Fund or Manager Party with a current or former member of the TRS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the TRS investment staff or a TRS advisor or consultant to recommend that TRS invest?

1) If the answer is "yes," please provide a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

C) Placement Agents and Placement Fees. Is or was the Fund or Manager Party a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent in connection with TRS's prospective investment in a fund or engagement of an external manager?

1) If the answer to C) is "yes," please provide a copy of the written agreement or agreements creating the obligation to pay a Placement Fee. If the agreement is not written, please provide a written summary of the agreement. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment.

2) If the answer is "yes," please list the name(s) of the person or entity. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.

3) If the answer is "yes," state whether the Placement Agent, or any of its Affiliates, is registered as a lobbyist with any state government or the federal government and identify the registrants and the applicable jurisdictions where registered.

4) Will or did any TRS Person or any Relative of a TRS Person receive, has any such person received, or might any such person receive, any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent (a "Placement Fee") in

connection with TRS's investment? If the answer is "yes," please list the name or names of the TRS Person or Relative of a TRS Person and provide details about the terms of the Placement Fee.

5) Will or did any Texas Elected Official or a Relative of a Texas Elected Official receive a Placement Fee in connection with TRS's investment? If the answer is "yes," please list the name or names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

6) Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former TRS Person, either (a) recommend the Placement Agent or (b) receive a share of a Placement fee or any other economic benefit in connection with TRS's investment, whether directly or indirectly through a Placement Agent engaged by you?

7) If the answer to 6) is "yes," please list the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment.

8) State whether the Placement Agent or any of its Affiliates is registered as an investment advisor with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States. Provide details about registration or explain why registration is not required.

The undersigned certifies, represents and warrants on behalf of the Fund or Manager Party that, to the best of its knowledge after due inquiry, (a) the foregoing responses to this questionnaire are true and correct and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (b) no prior statements or representations, if any, whether oral or written, made on behalf of the Fund or Manager Party relating to the subject matter of this questionnaire in connection with TRS's due diligence inquiries and a prospective investment management agreement or subscription to the fund, as the case may be, including any side letter agreements, was untrue or misleading in any material respect when they were made.

[signature block for Fund or Manager Party]

Attachment: Exhibit A, TRS Persons

IMD Process Approval and Authority

Jase Auby
Chief Risk Officer

April 2012

Agenda

Introduction — Introduction

Board Governance — Board Governance Structure

IIC Delegation — IIC Delegation

Risk Control — Risk Control

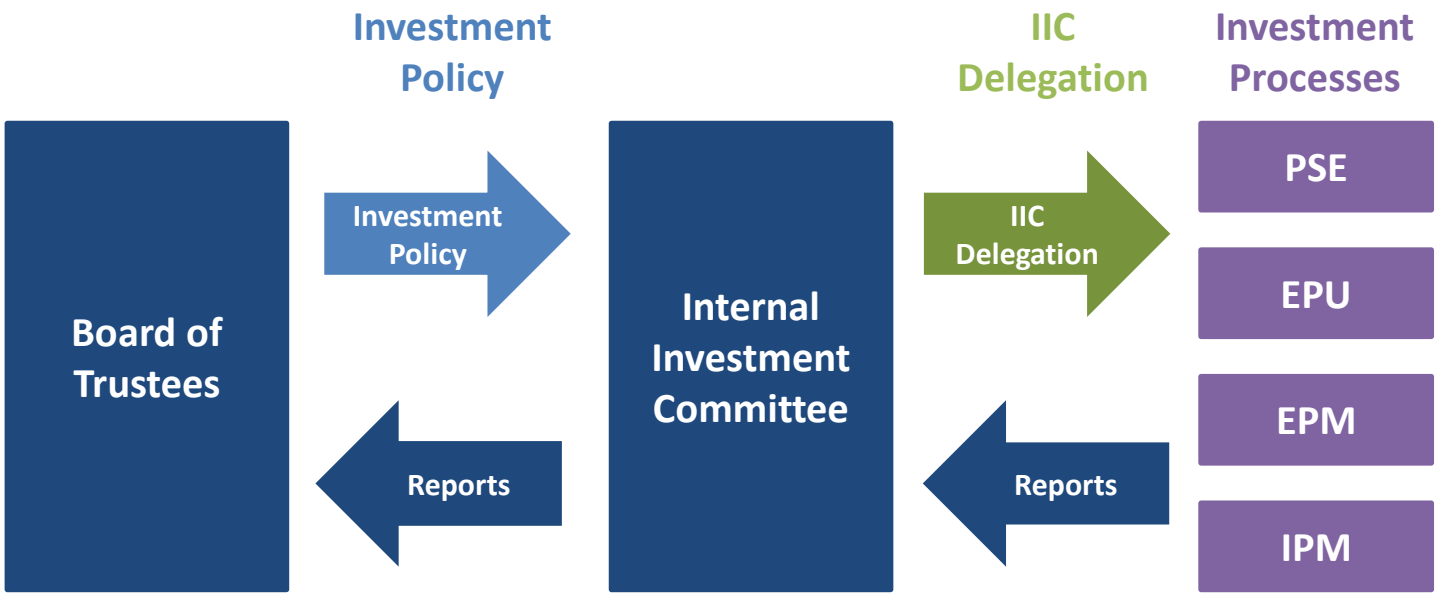
Investment Process — Investment Process

Appendix — Appendix

Introduction

- The **Investment Policy Statement** defines how Authority is delegated by the Board of Trustees to the Investment Management Division

- The focus of this presentation is:
  - The **IIC Delegation** of this authority to the Investment Centers and associated Risk Controls
  - The **Investment Processes** that the Investment Centers use to exercise this authority



Board Governance Structure

IMD Fit With the Board of Trustees

The Board establishes investment objectives and policy, obtains expert advice and assistance, and oversees the employment of a qualified and competent investment staff ("Investment Division") and legal staff. The Board also monitors the actions of staff and advisors to ensure compliance with its policies. The Board and the Investment Division are assisted by outside investment consultants and internal and external legal counsel.

Board of Trustees

Nine Members Appointed for Six-Year Terms

(five members are finance professionals; four members are educators)

- Risk Mgmt
- Investment Mgmt
- Policy
- Benefits
- Audit
- Ethics
- Compensation
- Budgets

Internal Investment Committee

Eight Senior Members of Investment Division + Executive Director

- Research
- Internal Mgmt
- External Public
- External Private
- Operations
- Risk Mgmt
- CIO (Chair)
- Deputy CIO
- Executive Director

Standardized "Certification Process" with Monthly "Transparency Reports"

Board Duties

- Establish long-term asset allocation policy
- Approve long-term return targets and risk parameters
- Provide appropriate resources, incentives and establish approved processes
- Establish appropriate reporting standards and metrics
- Comply with relevant laws
- Assure professional audit systems

IIC Duties

- Implement investment policy within approved guidelines
- Maximize effectiveness of resources provided
- Deliver transparent reporting
- Comply with relevant laws
- Collaborate with audit process
- Collaborate with Board

Board Governance Structure

Manager Concentration

- The Board has delegated the following investment authority to the Internal Investment Committee:

	Initial Allocation or Commitment with Manager Organization, by Portfolio	Additional or Follow-On Allocation or Commitment with the Same Manager Organization, by Portfolio	Total Management Organization Limits, by Portfolio
External Public Markets Portfolio	0.5%	1%	3%
Private Equity Portfolio	0.5%	1%	3%
Real Assets Portfolio	0.5%	1%	3%
		Total IIC Approval Authority, Each Manager	6%

- TRS Consultants (Hamilton Lane, Hewitt EnnisKnupp and Townsend) have indicated that industry norms for manager concentration limits are between 5.4% and 6.8% of the Trust[1].
  - TRS limitation is 6.0%
- Additional or Follow-On Investments should not occur earlier than three months subsequent to the Initial Investment

1: Based on 20-25% concentration in private markets provided by consultants extrapolated based on TRS allocation of 27% of the Trust .
All percentages are as a percent of the Total Fund Source: Investment Policy Statement, Appendix B.

Board Governance Structure

IMD Board Reporting

- Each Investment Center makes a presentation detailing its investment performance, investment process and use of delegated authority to the Investment Committee of the Board at least once per year:

Investment Center	Investment Committee Meeting
Internal Public Markets	April
Passive Portfolios	April
Trading	April
External Private Markets	June
External Public Markets	September
Portfolio Strategy and Execution	December
Strategic Research and Quantitative Analysis	December

Board Governance Structure

IMD Board Reporting

- In addition to regular Board presentations, the Investment Management Division reports monthly to the Board via the Transparency Report
  - IIC Agendas, Minutes and one page Investment Summaries
  - Risk Signals Report
  - Asset Allocation and Performance Summary
  - Contributions, Withdrawals, Terminations and Transfers (quarterly)
  - Placement Agent Report (quarterly)

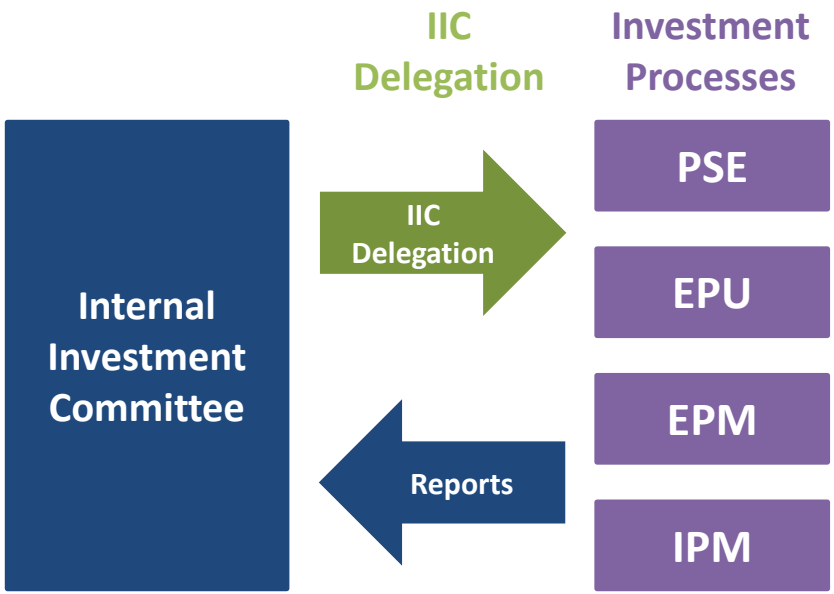
Monthly

BOARD TRANSPARENCY REPORT

March 2012

IIC Delegation

- The IIC delegates Authority to the Investment Centers subject to Risk Controls



IIC Delegation

- Each Investment Center has Security Selection and/or Asset Allocation Delegated Authority subject to appropriate Risk Controls and IIC Manager/Fund Approval

	Security Selection	Asset Allocation
Internal Public Markets	**Yes** – Chooses individual securities to generate alpha subject to portfolio tracking error targets	**Yes** – Overweights or underweights between US Large Cap, Non-US Developed and Emerging Markets
External Private Markets	**Yes** – Chooses funds appropriate to strategy to submit to the IIC for approval	**Yes** – Can overweight or underweight strategies with portfolio fit reported monthly to the IIC
External Public Markets	**Yes** – Chooses managers subject to portfolio tracking error targets to submit to the IIC for approval	**No** – Rebalances portfolios to neutral Allocations
PSE – Tactical Asset Allocation	**No** – Seeks to efficiently replicate Trust benchmarks	**Yes** – Actively overweights and underweights Trust asset classes subject to a Trust level tracking error target
PSE – Passive	**No** – Seeks to efficiently replicate Trust benchmarks	**No** – Adjusts size of Passive Portfolios so that the Trust is neutrally allocated

IIC Delegation

How the Trust Assets are Delegated

- Trust Assets delegated by the IIC and monitored by Portfolio Strategy and Execution

	Policy	PSE					
% of Trust Assets	Neutral	Passive	TAA	SPN [1]	EPU [1]	IPM	EPM
Neutral Allocations							
US Large Cap	18%	0.4%		1.3%	8.2%	8.1%	
Non-US Developed	15%	0.7%		1.0%	6.1%	7.2%	
Emerging Market	10%	0.4%		0.7%	6.7%	2.2%	
US Small Cap	2%	0.2%		0.3%	1.5%		
Directional HF	5%	1.0%			4.0%		
Private Equity	12%						12.0%
US Treasury	13%	12.0%		1.0%			
Absolute Return	0%						
Stable Value HF	4%				4.0%		
Cash	1%	1.0%					
Inflation Linked	5%	4.7%		0.3%			
Real Assets	13%						13.0%
Commodities	0%			0.1%			
REITS	2%			0.1%			1.9%
Total	**100%**	**20.3%**		**4.8%**	**30.5%**	**17.5%**	**26.9%**
Tactical Allocations							
Tactical Asset Allocation (PSE)			100.0%				
Dislocated Credit (EPU)					2.0%		
Precious Metals Fund (IPM)						0.7%	

[1] EPU and SPN allocations to external managers are subject to a 30% maximum and EPU allocations to hedge funds are subject to a 10% maximum. Hedge Funds are not considered to be external managers for purposes of calculating the 30% maximum.

Risk Control for Public Markets

Tracking Error Risk Budget

- Public Markets Investment Centers exercise their Authority using a Tracking Error (bp) target and, in the case of external managers, subject to manager approval by the IIC

		PSE[1]					
Tracking Error (bp)	**Total**	**Passive**	**TAA**	**SPN**	**EPU**	**IPM[2]**	**EPM**
Neutral Allocation							
US Large Cap		100	300		300	100	
Non-US Developed		100	300		300	100	
Emerging Market		100	300		300	100	
US Small Cap		100	500		500		
Directional HF		600			600		
Private Equity[3]							NA
US Treasury		50	50				
Absolute Return							
Stable Value HF					400		
Cash		50					
Inflation Linked		50	50				
Real Assets[3]							NA
Commodities			50				
REITS							100
Total	**100**			**250**			
Tactical Allocations							
PSE Tactical Asset Allocation[4]			50				
Dislocated Credit[3]					NA		
Precious Metals Fund[5]						300	

[1] PSE asset class tracking errors result from efficient, liquid replication rather than from explicit security selection and are not specified in Investment Policy

[2] IPM Tracking Error target of 100 bp is applied to total Global Best Ideas portfolio (US Large Cap + Non-US Developed + Emerging Markets)

[3] Private asset classes (PE, Dislocated Credit, Real Assets) are risk-controlled on a dollars allocated rather than tracking error basis

[4] PSE Tactical Asset Allocation blends replication tracking error with asset allocation overweight/underweight to contribute 50 bp of tracking error to the Trust over the long term

[5] Tracking error is versus the Precious Metals Fund custom benchmark (not the GSCI policy benchmark) and is not specified in Investment Policy

Risk Control for Private Markets

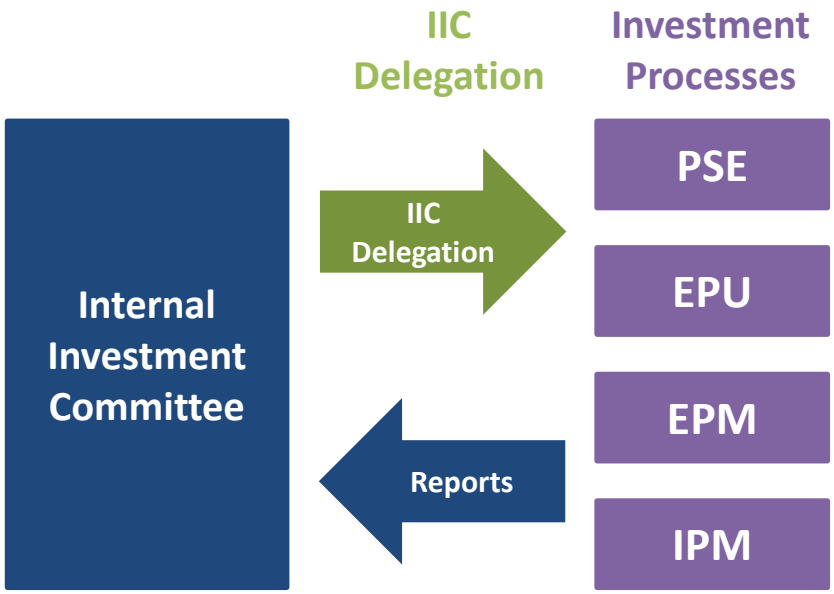
Allocation Targets

- Private Markets exercises its Authority within a targeted asset allocation which is reported monthly to the IIC and updated as new investments are approved by the IIC
  - Allocations are re-examined at the time of each IIC approval
  - In addition, Private Markets submits its capital plan annually to the IIC for approval and presents the capital plan to the Investment Committee of the Board each June

		International		
	Domestic	Developed	Emerging	Total
Private Equity (12% of Trust)				
Large Buyout	23.0%	15.0%	2.0%	40.0%
Mid/Small Buyout	20.0%	10.0%	5.0%	35.0%
Venture/Growth Equity	5.0%	2.0%	7.0%	14.0%
Credit/Special Situations	6.0%	4.0%	1.0%	11.0%
Total	**54.0%**	**31.0%**	**15.0%**	**100.0%**
Real Assets (13% of Trust)				
Core	25.0%	0.0%	0.0%	25.0%
Value-Add	8.0%	2.0%	0.0%	10.0%
Opportunistic	12.5%	8.1%	4.4%	25.0%
Special Situations	10.5%	2.3%	2.3%	15.0%
Other Real Assets	17.5%	6.3%	1.3%	25.0%
Total	**73.5%**	**18.6%**	**7.9%**	**100.0%**

Investment Process

- The IIC delegates Authority to the Investment Centers subject to Risk Controls
- The Investment Centers then develop their **Investment Processes**
  - Approved and monitored by the IIC
  - Reported to the Board



Investment Process

Consultants and Advisors

- The IIC and the Investment Centers interact with Consultants and Advisors to provide an independent assessment of:
  - The design and implementation of investment processes
  - External managers chosen by the Investment Centers and recommended for approval by the IIC (or the Board, as required by Policy)

Area	Consultant/Advisor
Board Advisors	Hewitt EnnisKnupp, Dr. Keith Brown
EPM Private Equity	Hamilton Lane
EPM Real Assets	Townsend
EPM Principal Investments	Blackrock, LaSalle
EPU Hedge Funds	Albourne
EPU Long-Oriented	Hewitt EnnisKnupp
Emerging Managers	Credit Suisse, Hewitt EnnisKnupp, Leading Edge, Rock Creek, Townsend

Investment Process

External Public Markets (Long-Oriented and Hedge Funds)

Strategic Planning
- Review asset allocation
- Evaluate Premier List needs

Premier List Development
- Initial manager proposal
- Perform minimum criteria analysis
- Collaborative review by TRS, Hewitt EnnisKnupp & Albourne
- Add/reject proposed portfolio

Alignment Analysis (Legal & Compensation)
- Preliminary review of legal terms
- Preliminary review of financial terms

Certification Process
- Onsite visit conducted
- Receive/review consultant report
- Evaluate 9 critical areas
- Prepare certification report

Risk Analysis
- Quantitative analysis
- Review of current portfolio (characteristics & valuations)
- Develop optimized asset class structure

Final Fit Analysis
- "Alpha Stacking" demonstrated
- Determine initial and optimal investment size

Pre-IIC Negotiations
- Manager fee negotiated
- Near-final terms negotiated

IIC Review & Approval
- Investments presented to IIC for approval
- External Consultant provides prudence letter
- Additional requirements met as needed

Final Legal Review
- Finalize terms
- Contracts signed

Funding execution
- Coordinate with Investment Operations, Asset Allocation & Legal

Portfolio Monitoring
- Monitor manager in key areas
- Investigate alarms with Asset Allocation

Portfolio Management
- Adjust portfolio to maintain optimal risk
- Implement portfolio decisions

Reporting
- Generate Board, IIC and policy reporting
- Generate ad hoc reporting as needed

Investment Process

External Private Markets (Real Estate and Private Equity)

Strategic Planning

- Global Sector Outlook
- Risk Return Analysis
- Portfolio Projection

Manager Premier List Development

- Attend conferences
- Accept introductory meetings
- Collaborative review by TRS, Hamilton Lane, and Townsend
- Present to Senior Managing Director of Private Markets for pre-approval
- Present to CIO and IIC for final approval

Investment Screen

- Is Investment Manager TRS certified?
- Is investment a portfolio fit?
- Does investment size "move the meter"?

Investment Alignment Analysis

- Preliminary review of legal terms
- Preliminary review of financial terms
- Initial strategy/team review

Investment Certification

- Evaluation of strategy competency
- Reference calls on "key men"
- In-depth track record review
- TRS strategy outlook
- Peer Comparison
- On-site visit

Investment Manager Rankings

- Assign ranking to Investment Managers passing certification
  - A+
  - A
  - A-

Review by Senior Managing Director

- Detailed review of the investment presentation
- Pre-approval prior to IIC

IIC Review and Approval

- IIC questions answered in advance
- Investment presented to IIC for approval
- Additional requirements met as needed

Post IIC Legal Review

- Finalize terms
- Contracts signed

Funding Execution

- Coordinate with Investment Operations, Custodian & Legal
- Approve capital calls

Monitor

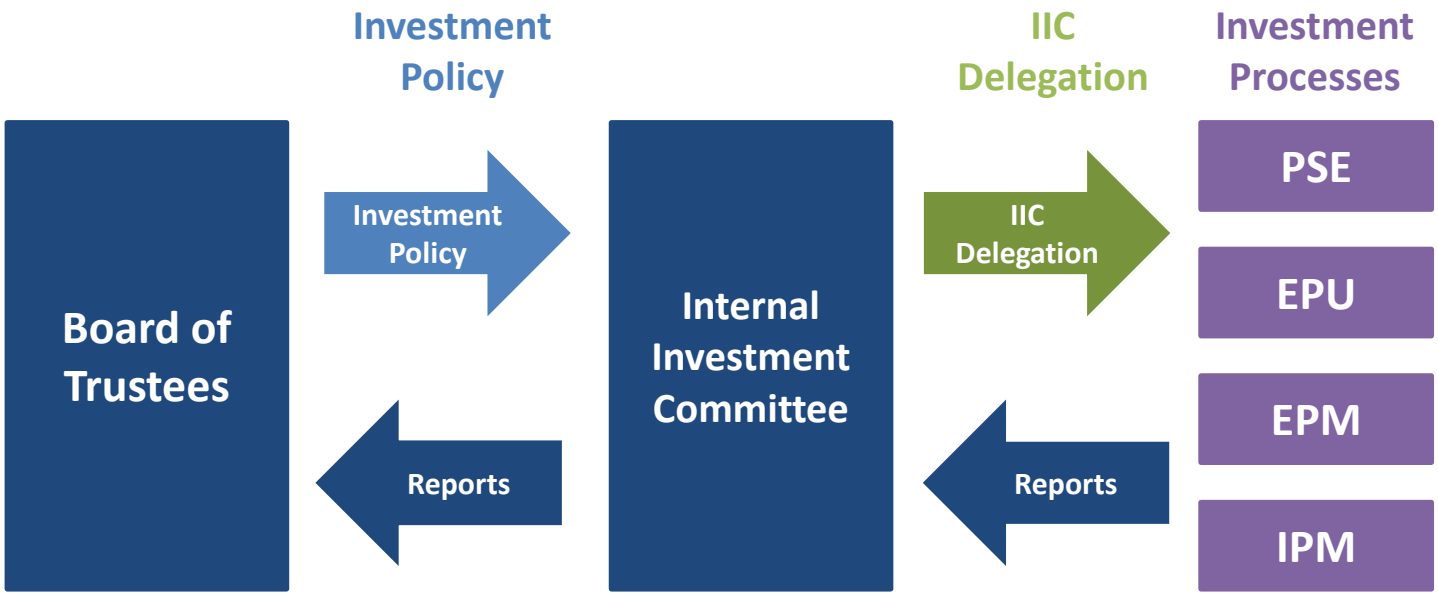
- Monitor investment performance
- Watch list concerning manager or transaction
- Attend annual advisory board meetings
- Review financial statements
- Peer comparisons

Reporting

- Generate board, IIC reporting
- Generate ad hoc reporting as requested

Conclusion

- The **Investment Policy Statement** defines how Authority is delegated by the Board of Trustees to the Investment Management Division.
- Within the Investment Management Division, this Authority is exercised through **IIC Delegation** to the Investment Centers and each Investment Center's **Investment Processes**



- **IIC Delegation** and the **Investment Processes** are characterized by:
  - Strong Risk Controls (e.g., tracking error and/or dollar allocations)
  - Well-documented processes approved by the IIC and reported to the Board of Trustees

Appendix

- Additional Investment Center Investment Process Maps
- Additional Risk Control

Investment Process

Internal Public Markets

- Top-down allocation and bottom-up security selection
- Quantitative screen, fundamental analysis, and portfolio optimization

Portfolio Construction

Step 1 → **Step 2** → **Step 3**

Top-Down Allocation

Fundamental Inputs

- Secular and Structural Theses
- Economic and Profit Cycle Analysis
- Valuation
- Investor Sentiment and Positioning

Quantitative Inputs

- Internally Developed Models
- Externally Developed Models

Bottom-Up Security Selection

Fundamental Inputs

- Global Industry Expertise
- Company Financial Modeling
- Valuation

Quantitative Inputs

- Customized Quantitative Front-End Screen

Portfolio Optimization

Risk Budget
+
Portfolio Constraints
+
Factor Outlook

↓

Optimization

↓

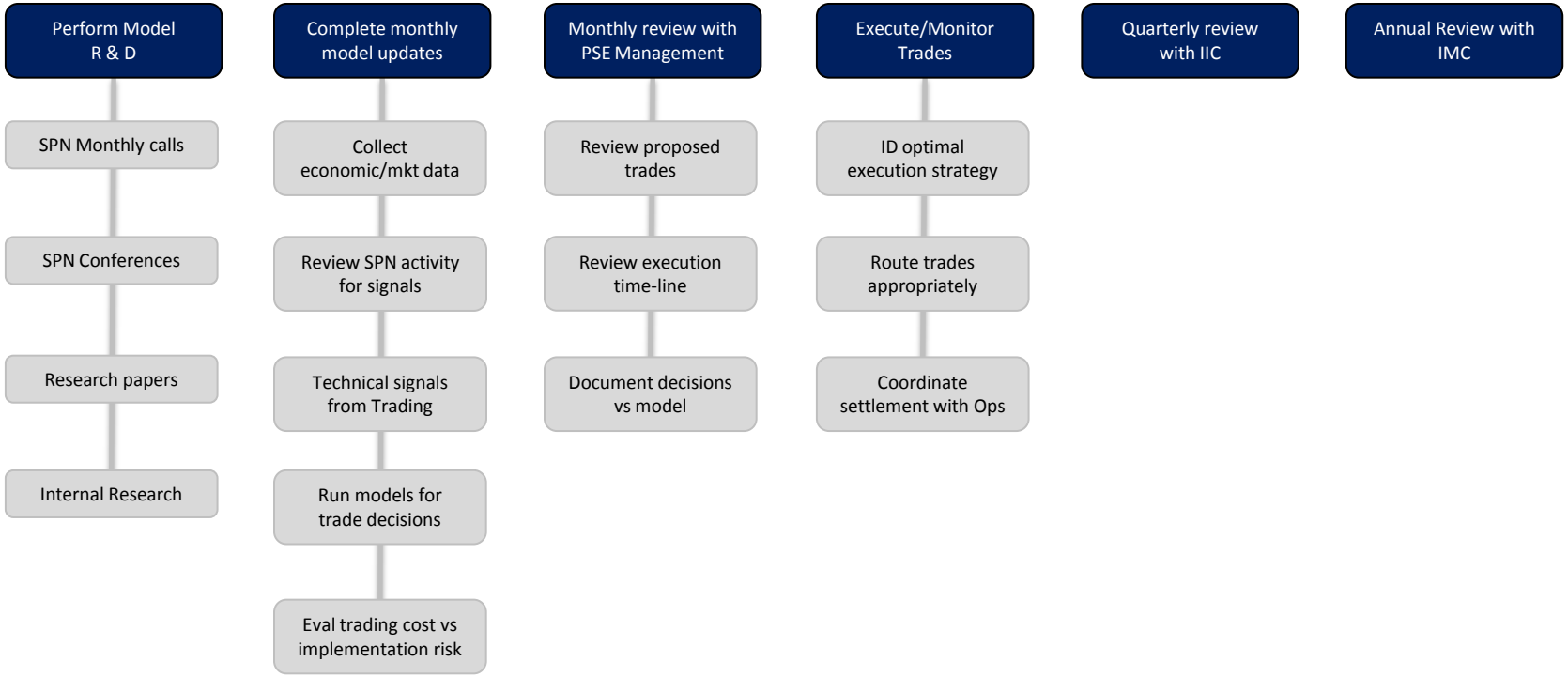
Portfolio

Portfolio Maintenance

Reporting ↔ Risk Management ↔ Performance Attribution

Investment Process

PSE: Tactical Asset Allocation



Investment Process

PSE: Risk

Research
- Identify methodology to evaluate risk
- Identify tools and technology to implement methodology
- Review with External Advisors/ Consultants

Risk Signals
- Develop Portfolio Risk Signals (policy, asset class, portfolio)
- Review Signals
- Develop recommendations and review Implementation

Risk Budget
- Review risk budget
- Engage Investment Centers to manage any resulting risk issues
- Report results to IIC as required

Risk Strategies
- Normal risk and tail risk analysis
- Review of macro, market and other risks
- Evaluate and implement "cheap" risk management solutions

Risk Certification
- Gather manager and company information
- Conference call(s) with risk managers and others
- Evaluate 7 key criteria
- Deliver signed Risk Certification to IIC

Risk Monitoring
- Review current portfolio risk
- Engage Investment Centers to manage any resulting risk issues
- Report results to IIC as required

Risk Compliance
- Monitor State Street Compliance reporting
- Engage Investment Centers to remediate any resulting compliance issues

IMD Reporting (CIO, CRO, IIC)
- Risk Reports (daily, weekly)
- Risk Monthly publication
- Monthly IIC Risk Signals Report
- Monthly Valuation Monitor

Board Reporting
- Risk Committee Report
- Risk sections of Transparency Report

Investment Process

PSE: Trading

Pre-Trade Planning
- Pre-trade analysis
- Market/sector/stock research
- PM/Broker communication

Broker Routing/Trade Venue Selection
- Identify full service, niche & pilot brokers
- Decide broker/venue/strategy
- Broker Select
- Voting Administration
- Broker Recap administration
- CSA management

Order Execution
- Divide baskets
- Real-time monitoring

Post-Trade Review
- Reconcile data
- TCA reports (wk, mth, qtr, yr)
- Post trade report

Counterparty Compliance Assessment
- Maintain broker file with web portal
- Annual compliance
- Report results to management

Broker Relationship Management
- Application process
- Broker meetings
- Broker conference calls
- Broker relationship update (BRU)
- SPN Summit

Passive Portfolio Management (Preliminary)
- Passive fund management
- Cash management
- Transition management

Reporting to IIC, CIO and Board
- Broker reports
- Performance reports
- Generate Board, IIC and policy reporting
- Generate Ad Hoc reporting as requested

Risk Control for Hedge Funds

Allocation Targets

- Hedge Funds are unique in that they are risk-controlled using both methods – (1) tracking error and (2) asset allocation
  - Tracking error of 600 basis points for Directional Hedge Funds
  - Tracking error of 400 basis points for Stable Value Hedge Funds
  - Hedge Fund Asset Allocation:

	(5% of Trust) Directional Hedge Funds			(4% of Trust) Stable Value Hedge Funds		
	Min	Max	Target	Min	Max	Target
Commodities and Trends	0%	10%		15%	25%	20%
Long Short Equity	40%	50%	40%	0%	10%	
Equity Market Neutral	0%	10%		30%	40%	35%
Event Driven[1]	30%	40%	30%	0%	10%	
Fixed Income[2]	15%	25%	20%	15%	25%	20%
Macro and Volatility	0%	10%		20%	30%	25%
Multi-Strategy	0%	10%		0%	10%	
Risk Parity	5%	15%	10%	0%	0%	
Total			**100%**			**100%**

[1]Includes Distressed

[2]Includes Convertible Arbitrage

Risk Control for Emerging Managers

Allocation Targets

- Emerging Managers Asset Allocation

$, millions	Min	Max	Target
External Public Markets	50	450	250
Private Equity	750	1150	950
Real Assets	250	650	450
Total			**1650**

Memorandum

To: Board of Trustees; Policy Committee of the Board

From: Legal Services

Date: March 30, 2012

Subject: TRS 477 – General Authority Resolution

The Board's General Authority Resolution (TRS477) evidences the board's delegation of authority to certain TRS employees with respect to investment and related matters. The complexity of the resolution has increased with the complexity of the TRS investment program.

Proposed updates would be directed at the following:

1. Improving readability and understanding;
2. Clarifying delegation and divisions of authority among authorized officers by reference to their assigned teams (as subgroups of the Investment Group); and
3. Addressing funds transfers authority as between TRS operations staff and the custodian.

Regarding item 3, the custodian has indicated that it would benefit from a clarification of the Investment Division's operations staff's authority for issuing instructions for TRS funds transfers under the custodian's Funds Transfer Operating Procedures ("FTOP"). To address that, the revisions would add a new Funds Transfer Operations Group that would be authorized, under the direction of the Investment Group, to give instructions to the custodian using secure methods selected by TRS.

Board of Trustees

Adopted [_____, 2012]~~August 13, 2010~~

A. Investment Group

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

Chief Investment Officer	**Deputy Chief Investment Officer**
Senior Managing Director	**Managing Director**
Senior Director	**Director**
Senior Investment Manager	**Investment Manager**

Resolved f~~F~~urther, That the Executive Director is authorized and directed, to designate in writing those individual ~~employees who are~~ members of the **Investment Group** who are authorized within their respective teams ~~departments~~, in addition to the Chief Investment Officer and the Deputy Chief Investment Officer, to take any one or more of the following actions authorized ~~listed~~ below. ~~with respect to investment matters as specified in writing by the Executive Director, at least annually or as he deems necessary from time to time:~~

General Authority for Investment Matters

Resolved further, That the Chief Investment Officer, Deputy Chief Investment Officer, and any other member of the **Investment Group** (but only with respect to performing his or her investment responsibilities within the Investment Division team to which he or she is assigned: **Internal Public Markets, External Private Markets, External Public Markets**, and **Portfolio Strategy and Execution)** designated by the Executive Director may, on behalf of TRS:

A.1. Buy or sell, or give orders for transactions in currencies, securities, or publicly-traded derivatives, including spot or forward currencies transactions;

A.2. Direct a custodian, broker or an authorized member of the **Funds Transfers Operations Group** to deliver, pay, expend, or receive currencies, monies, securities (including restricted or Rule 144A securities), or publicly-traded derivatives, including as collateral or margin;

A.3. Verify or confirm orally, electronically, or in writing to a custodian or broker any order for the transfer or delivery of currencies, monies, securities, contracts, or publicly-traded derivatives to any other person;

A.4. Make, execute, and deliver any and all investment-related written contracts, agreements, consents, waivers, amendments, transfers, assignments, certificates, powers of attorney, notes, deeds, releases, security agreements, pledges, endorsements, and any and all documents necessary or proper to effectuate the authority granted in this resolution, until revoked;

A.5. Establish and maintain accounts for the purpose of holding assets, margin, or collateral or for transactions in currencies, securities, publicly-traded derivatives, and forward and spot cash contracts.

~~**A.1.** Acquire, modify, and sell investments and negotiate, fix, execute, amend, modify, renew, extend, terminate, certify, and endorse contracts and agreements for portfolio investment transactions, including without limitation trading authorizations, subscription agreements, tax forms, investment contracts, investment vehicle entity agreements, investment management agreements, license agreements, brokerage or margin account agreements, securities or commodities exchange documents, and agreements and documents relating to trading operations.~~

~~**A.2.**~~**A.6.** Give oral, electronic, or written directions and instructions to members of the **Trading Group** or the **Funds Transfers Operations Group**, brokers, or external managers, and to amend, modify, fix, and execute written investment guidelines in investment management agreements with external managers, including fund managers.

~~**A.3.** Negotiate, fix, execute, amend, modify, renew, extend, transfer, assign, terminate, certify, and endorse the following: amendments; notes; powers of attorney; indentures; deeds; conveyances; certificates; instruments of transfer or assignment; instruments or agreements evidencing, releasing, or creating liens, mortgages, or security interests; and all other instruments and agreements, sealed or unsealed, attested or unattested, relating to TRS investments.~~

A.7. Waive, modify, or amend in writing specific provisions of an account agreement, investment contract or investment management agreement, if the waiver, modification or amendment is deemed by the authorized employee to be in the best interest of TRS.

~~A.4.~~**A.8.** Jointly with a member of the **Financial Group** or the **Executive Group**, execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, or securities to a TRS account by a third-party fund, account, debtor, or counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements.

Over-the-Counter Derivatives ~~***Contracts***~~

Resolved further, That the Chief Investment Officer, or the Deputy Chief Investment Officer and any designated member of the **Investment Group** who is also a member of the **Portfolio Strategy and Execution** team may, in addition to the authority granted in Sections 1 through 8, on behalf of TRS:

~~A.5.~~**A.9.** Negotiate, make, fix, execute, amend, modify, renew, extend, transfer, assign, terminate, endorse, and terminate master agreements for over-the-counter derivatives transactions, including swaps, and any schedules, ~~or~~ credit support annexes, and transaction confirmations relating to such agreements, and any deliverables relating to such agreements, schedules, ~~or~~ annexes, or confirmations.

~~A.6.~~**A.10.** Waive, modify, renew, extend, transfer, assign, endorse, terminate or amend in writing ~~specific provisions of over-the-counter master~~ agreements relating to ~~for~~ derivatives transactions, and any transaction confirmations under such agreements, if the waiver, modification, or amendment is deemed by the employee to be in the best interest of TRS.

~~**A.7.** Negotiate, fix, execute, amend, modify, renew, extend, transfer, assign, endorse, or terminate transactions entered into under master agreements for over-the-counter derivatives transactions, including without limitation confirmations of transactions.~~

~~***Transfers of Funds or Assets; Fund or Account Redemptions and Withdrawals***~~

~~**A.8.** Authorize and instruct TRS employees, brokers or custodians to transfer funds or assets in connection with TRS investment transactions or commitments of capital or to or from managed investment accounts, investment funds, and custodians of TRS assets.~~

~~**A.9.** Authorize and instruct TRS employees, brokers, and custodians to deliver cash, securities or other assets as collateral or margin in accordance with regulatory, account, or contractual requirements, including without limitation credit support annexes or agreements relating to over-the-counter derivatives transactions.~~

~~**A.10.** Execute redemption or withdrawal notices for private investment funds and managed investment accounts and, when required by applicable policies and procedures, not solely but jointly with a member of the Financial Group.~~

B. Financial Group

~~***Further***~~***Resolved further,*** That ~~employees holding the following TRS working titles are members of~~ the **"Financial Group" comprises employees holding the following TRS working titles**:

Chief Financial Officer	**Manager of Investment Accounting**
Manager of General Accounting	**Team Leader of Investment Accounting**
Team Leader of Financial Reporting	**Team Leader of Budgeting**

~~***Further,*** That each employee in the **Financial Group** is authorized and empowered on behalf of TRS to deliver or otherwise transfer cash, securities, collateral, or contracts, and to execute affidavits, certificates and powers of attorney required to transfer, redeem, or exchange securities, collateral, or contracts.~~

~~***Further***~~***Resolved further,*** That each member of ~~employee in~~ the **Financial Group** is authorized and empowered on behalf of TRS, jointly with a member of the **Investment Group** or the **Executive Group, to** execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, or securities to a TRS account by a third-party fund, account, debtor, or counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements.~~not solely but jointly with an employee in the **Investment Group** or the **Executive Group**, to executefund or account redemptionand and related documents.~~

~~***Further***~~***Resolved further,*** That each member of ~~employee in~~ the **Financial Group** is authorized and empowered on behalf of TRS, directly or through the **Funds Transfers Operations Group,** to deliver, transfer, redeem, exchange and to instruct TRS custodians or brokers to deliver, transfer, redeem, or exchange securities, collateral, contracts, or cash to fund margin or collateral requirements, clear and settle securities trades, fund capital called or subscribed for investment under an investment contract, and to execute affidavits, certificates and powers of attorney required to deliver, receive, transfer, redeem, or exchange cash, securities, collateral, or contracts~~ exchange securities, collateral, contracts, or cash for other securities, collateral, contracts, or cash~~, in accordance with internal procedures.

C. Executive Group

~~***Further***~~***Resolved further,*** That the **Executive Group** comprises ~~is comprised of~~ employees holding the TRS working titles of Executive Director and Deputy Director, and each member of ~~employee in~~ the **Executive Group** is authorized and empowered to perform, with respect to a particular matter or transaction, any and all of the acts that any and all employees in the **Investment Group,**

~~or~~ the **Financial Group**, **and the Funds Transfers Operations Group** are authorized to perform; *provided*, however, that when joint action by a member of the **Investment Group** and a member of the **Financial Group** is required~~ by applicable policies and procedures~~, only one member of the **Executive Group** may act jointly with a member of either of the **Investment Group** or the **Financial Group**.

D. Trading Group

Resolved f~~F~~urther, That the **"Trading Group"** comprises ~~is comprised of~~ the employees holding the following TRS working titles: Director – Trading Center~~,~~ and Trader**,** and each member of ~~employee in~~ the **Trading Group** is authorized and empowered on behalf of TRS to take the following actions: to place orders or agree with brokers, dealers and market-makers to purchase or sell securities, futures or forward contracts, options, or currency; to monitor and supervise execution and settlement of such orders or agreements; and to negotiate, fix, and vary the commissions, spreads, or discounts for individual orders or agreements to purchase or sell securities, futures or forward contracts, options, or currency.

~~***Further,*** That the TRS employee groups described in this resolution are identified as such only for the purposes of this resolution and not for any other purpose unless the Board or the Executive Director, as authorized, expressly so provides.~~

E. Funds Transfers Operations Group

Resolved further, That the **"Funds Transfers Operations Group"** in the Investment Division comprises the employees holding the following TRS working titles:

Director of Investment Operations	**Manager, Cash Settlements Operations]**
Manager, Derivatives Operations	**Senior Associate (Business Center Operations)**
TRS Cashier	**Senior Analyst (Business Center Operations)**
Analyst (Business Center Operations)	

Resolved further, That the members of the **Funds Transfers Operations Group** are hereby authorized to take any one or more of the following actions under the direction of authorized members of the **Investment Group** by delivering proper instructions in accordance with applicable funds transfer guidelines and security procedures:

E.1. Direct or instruct a custodian, broker or other authorized TRS employee, in connection with investment transactions and contracts, to deliver or receive currencies, monies, securities (including restricted or Rule 144A securities), or publicly-traded derivatives, including as collateral or margin, whether one-time or repetitive transfers.

E.2. Direct or instruct a custodian or broker to make internal book or account transfers or drawdowns.

E.3. Direct, instruct, or authorize a custodian or broker to share electronically, in a secure and reliable manner, TRS trading and holdings information with third parties under an applicable contract with TRS.

E.4. Give directions or instructions to a custodian or broker in connection with clearing, settlement, and payment-against-delivery for any investment transaction, including transactions in derivatives.

E.5. Cancel, correct, or amend any pending funds transfer direction, instruction authorization, or order.

E.6. Obtain, verify, confirm, and issue account information and wire instructions for investment transactions.

E.7. Verify or confirm orally, electronically, or in writing to a custodian or broker any TRS direction, instruction, or order for the transfer or delivery of currencies, monies, securities, collateral, margin, contracts, or publicly-traded derivatives to any other person, including one-time and repetitive transfers.

Resolved further, That any of the Chief Investment Officer, the Deputy Chief Investment Officer, or the Chief Financial Officer may take any action authorized to be performed by the **Funds Transfers Operations Group**.

Resolved further, That any of the Chief Investment Officer, Deputy Chief Investment Officer, Chief Financial Officer, and the Director of Investment Operations are hereby authorized to make, execute, and deliver to a custodian or broker any and all documents necessary to adopt or implement adequate security procedures relating to funds transfers or delivery or sharing of TRS portfolio information with third parties under contract with TRS, a TRS external manager, or a TRS custodian.

Resolved further, That any of the Executive Director, the Deputy Director, or the Chief Financial Officer may designate in writing other TRS employees who are authorized to perform the authorized actions of the **Funds Transfers Operations Group**.

Board of Trustees

Adopted [, 2012]

A. Investment Group

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

Chief Investment Officer	**Deputy Chief Investment Officer**
Senior Managing Director	**Managing Director**
Senior Director	**Director**
Senior Investment Manager	**Investment Manager**

Resolved further, That the Executive Director is authorized and directed, to designate in writing those individual members of the **Investment Group** who are authorized within their respective teams, in addition to the Chief Investment Officer and the Deputy Chief Investment Officer, to take any one or more of the following actions authorized below.

General Authority for Investment Matters

Resolved further, That the Chief Investment Officer, Deputy Chief Investment Officer, and any other member of the **Investment Group** (but only with respect to performing his or her investment responsibilities within the Investment Division team to which he or she is assigned: **Internal Public Markets, External Private Markets, External Public Markets**, and **Portfolio Strategy and Execution)** designated by the Executive Director may, on behalf of TRS:

A.1. Buy or sell, or give orders for transactions in currencies, securities, or publicly-traded derivatives, including spot or forward currencies transactions;

A.2. Direct a custodian, broker or an authorized member of the **Funds Transfers Operations Group** to deliver, pay, expend, or receive currencies, monies, securities (including restricted or Rule 144A securities), or publicly-traded derivatives, including as collateral or margin;

A.3. Verify or confirm orally, electronically, or in writing to a custodian or broker any order for the transfer or delivery of currencies, monies, securities, contracts, or publicly-traded derivatives to any other person;

A.4. Make, execute, and deliver any and all investment-related written contracts, agreements, consents, waivers, amendments, transfers, assignments, certificates, powers of attorney, notes, deeds, releases, security agreements, pledges, endorsements, and any and all documents necessary or proper to effectuate the authority granted in this resolution, until revoked;

A.5. Establish and maintain accounts for the purpose of holding assets, margin, or collateral or for transactions in currencies, securities, publicly-traded derivatives, and forward and spot cash contracts.

A.6. Give oral, electronic, or written directions and instructions to members of the **Trading Group** or the **Funds Transfers Operations Group**, brokers, or external managers, and to amend, modify, fix, and execute written investment guidelines in investment management agreements with external managers, including fund managers.

A.7. Waive, modify, or amend in writing specific provisions of an account agreement, investment contract or investment management agreement, if the waiver, modification or amendment is deemed by the authorized employee to be in the best interest of TRS.

A.8. Jointly with a member of the **Financial Group** or the **Executive Group**, execute redemption and withdrawal notices and instructions for the transfer or delivery by wire or physical transfer of cash, collateral, or securities to a TRS account by a third-party fund, account, debtor, or counterparty, except that an authorized member of the **Investment Group** may be the sole TRS signatory on subscription agreements and side letter agreements.

Over-the-Counter Derivatives

Resolved further, That the Chief Investment Officer, or the Deputy Chief Investment Officer and any designated member of the **Investment Group** who is also a member of the **Portfolio Strategy and Execution** team may, in addition to the authority granted in Sections 1 through 8, on behalf of TRS:

A.9. Negotiate, make, fix, execute, amend, modify, renew, extend, transfer, assign, terminate, endorse, and terminate master agreements for over-the-counter derivatives transactions, including swaps, and any schedules, credit support annexes, and

transaction confirmations relating to such agreements, and any deliverables relating to such agreements, schedules, annexes, or confirmations.

A.10. Waive, modify, renew, extend, transfer, assign, endorse, terminate or amend in writing agreements relating to derivatives transactions, and any transaction confirmations under such agreements, if the waiver, modification, or amendment is deemed by the employee to be in the best interest of TRS.

B. Financial Group

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

Chief Financial Officer	**Manager of Investment Accounting**
Manager of General Accounting	**Team Leader of Investment Accounting**
Team Leader of Financial Reporting	**Team Leader of Budgeting**

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

Resolved further, That each member of the **Financial Group** is authorized and empowered on behalf of TRS, directly or through the **Funds Transfers Operations Group,** to deliver, transfer, redeem, exchange and to instruct TRS custodians or brokers to deliver, transfer, redeem, or exchange securities, collateral, contracts, or cash to fund margin or collateral requirements, clear and settle securities trades, fund capital called or subscribed for investment under an investment contract, and to execute affidavits, certificates and powers of attorney required to deliver, receive, transfer, redeem, or exchange cash, securities, collateral, or contracts, in accordance with internal procedures.

C. Executive Group

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

D. Trading Group

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

E. Funds Transfers Operations Group

Resolved further, That the **"Funds Transfers Operations Group"** in the Investment Division comprises the employees holding the following TRS working titles:

Director of Investment Operations	**Manager, Cash Settlements Operations]**
Manager, Derivatives Operations	**Senior Associate (Business Center Operations)**
TRS Cashier	**Senior Analyst (Business Center Operations)**
Analyst (Business Center Operations)	

Resolved further, That the members of the **Funds Transfers Operations Group** are hereby authorized to take any one or more of the following actions under the direction of authorized members of the **Investment Group** by delivering proper instructions in accordance with applicable funds transfer guidelines and security procedures:

E.1. Direct or instruct a custodian, broker or other authorized TRS employee, in connection with investment transactions and contracts, to deliver or receive currencies, monies, securities (including restricted or Rule 144A securities), or publicly-traded

derivatives, including as collateral or margin, whether one-time or repetitive transfers.

E.2. Direct or instruct a custodian or broker to make internal book or account transfers or drawdowns.

E.3. Direct, instruct, or authorize a custodian or broker to share electronically, in a secure and reliable manner, TRS trading and holdings information with third parties under an applicable contract with TRS.

E.4. Give directions or instructions to a custodian or broker in connection with clearing, settlement, and payment-against-delivery for any investment transaction, including transactions in derivatives.

E.5. Cancel, correct, or amend any pending funds transfer direction, instruction authorization, or order.

E.6. Obtain, verify, confirm, and issue account information and wire instructions for investment transactions.

E.7. Verify or confirm orally, electronically, or in writing to a custodian or broker any TRS direction, instruction, or order for the transfer or delivery of currencies, monies, securities, collateral, margin, contracts, or publicly-traded derivatives to any other person, including one-time and repetitive transfers.

Resolved further, That any of the Chief Investment Officer, the Deputy Chief Investment Officer, or the Chief Financial Officer may take any action authorized to be performed by the **Funds Transfers Operations Group**.

Resolved further, That any of the Chief Investment Officer, Deputy Chief Investment Officer, Chief Financial Officer, and the Director of Investment Operations are hereby authorized to make, execute, and deliver to a custodian or broker any and all documents necessary to adopt or implement adequate security procedures relating to funds transfers or delivery or sharing of TRS portfolio information with third parties under contract with TRS, a TRS external manager, or a TRS custodian.

Resolved further, That any of the Executive Director, the Deputy Director, or the Chief Financial Officer may designate in writing other TRS employees who are authorized to perform the authorized actions of the **Funds Transfers Operations Group**.