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

(Committee Chair and Members: Mr. Corpus, Chair; Mr. Colonnetta, Mr. Elliott, and Mr. Kelly.)

All or part of the April 6, 2017, meeting of the TRS Policy Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 or 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: 1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.

AGENDA

April 6, 2017 – 3:15 p.m.
TRS East Building, 5th Floor, Boardroom

1. Call roll of Committee members.

2. Consider the approval of the proposed minutes of the December 1, 2016 committee meeting – David Corpus.

3. Consider recommending to the Board proposed amendments to the Proxy Voting Policy–Sylvia Bell and Heather Traeger.

4. Receive an update on the 403(b) rulemaking – Rebecca Merrill.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Policy Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.
TAB 2
Minutes of the Policy Committee

December 1, 2016

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on December 1, 2016, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas.

Committee Members present:
Mr. David Corpus, Chair
Mr. John Elliott
Mr. David Kelly
Ms. Anita Palmer

Other Board Members present:
Ms. Karen Charleston
Mr. Chris Moss

Others present:
Brian Guthrie, TRS
Ken Welch, TRS
Carolina de Onis, TRS
Don Green, TRS
Britt Harris, TRS
Jerry Albright, TRS
Amy Barrett, TRS
Katrina Daniel, TRS
Heather Traeger, TRS
Sylvia Bell, TRS
Mohan Balachandran, TRS
Rebecca Smith, TRS
Katherine Farrell, TRS

Dr. Keith Brown, Investment Advisor
Steve Huff, Fiduciary Counsel, Reinhart Boerner Van Deuren s.c.
Steve Voss, Aon Hewitt
Ted Melina Raab, Texas AFT
Philip Mullins, TRTA

Policy Committee Chair Mr. Corpus called the meeting to order at 2:20 p.m.

1. Call roll of Committee members.

Ms. Farrell called the roll. A quorum was present. Mr. Colonnetta was not present.

2. Consider the approval of the proposed minutes of the September 22, 2016 committee meeting – Committee Chair David Corpus.

On a motion by Mr. Kelly, seconded by Ms. Palmer, the proposed minutes for the September 22, 2016 Policy Committee meeting were approved as presented.

3. Conduct the required review, discuss and consider recommending to the Board proposed amendments to the Securities Lending Policy – Sylvia Bell, Mohan Balachandran and Heather Traeger.
Ms. Heather Traeger provided background on the Securities Lending Program. She stated the Securities Lending Policy comprises the guidelines, restrictions, and framework by which the Securities Lending Program operates. Ms. Traeger presented two amendments to the policy recommended by the Investment Management Division. The first amendment would change the minimum credit quality threshold for short-term debt instruments eligible for investment by the cash collateral portfolio. The new threshold would be one of the two highest rated rating categories for the credit rating agencies of Moody’s, S&P, Fitch and DBRS. Previously, Ms. Traeger noted, the policy relied on credit ratings mentioned in SEC Rule 2a-7. The SEC, Ms. Traeger said, had amended Rule 2a-7 to delete references to credit ratings for eligible securities. Accordingly, Ms. Traeger recommended changing the policy in order to reflect the changes to the related SEC rule.

Ms. Traeger said that the second recommended change to the Securities Lending Policy would elaborate the process that State Street uses to review and monitor eligible investments in the cash collateral program. Ms. Traeger said the amendment would add some of the quantitative and qualitative factors that were already part of the review process and formally make them part of the program. Those factors, she explained, included financial ratio analyses, capitalization levels, macroeconomic trends and issuer funding profiles.

On a motion by Mr. Kelly, seconded by Ms. Palmer, the committee unanimously voted to recommend to the Board adoption of the proposed amendments to the Securities Lending Policy as recommended by staff.

4. Conduct the required review, discuss and consider recommending to the Board proposed amendments to the Soft Dollar Policy – Sylvia Bell and Heather Traeger.

Ms. Heather Traeger stated the Soft Dollar Policy provides guidelines and principles for TRS' commission credits program, which Ms. Traeger summarized. Ms. Traeger said the primary recommended amendment was to change the title of the policy from the Soft Dollar Policy to the Commission Credits Policy. Ms. Traeger explained that the new title would better reflect the scope of the policy, which covers traditional soft dollar programs, commission sharing arrangements and commission recapture agreements. She described other proposed changes that would clarify internal practices already being followed under general principles and guidelines of the program.

Ms. Sylvia Bell reviewed the layers of controls and processes that are in place to keep TRS from overpaying for goods and services under this program.

On a motion by Mr. Kelly, seconded by Ms. Palmer, the committee unanimously voted to recommend to the Board adoption of the proposed amendments to the Soft Dollar Policy as proposed by staff.

5. Consider recommending to the Board adoption of the proposed rule amendments to TRS rules in Title 34, Part 3 of the Texas Administrative Code – Rebecca Smith and Heather Traeger:
   A. § 23.7, relating to the Code of Ethics for Contractors.
   B. § 23.8, relating to Expenditure Reporting by Certain Contractors.
   C. § 25.24, relating to Performance Pay.
   D. § 25.31, relating to Percentage Limits on Compensation Increases.
E. § 25.303, relating to Calculations of Actuarial Cost for Purchase of Compensation Credit.
F. § 29.83, relating to Calculation of Amount of Retirement Benefit.

Ms. Rebecca Smith presented three proposed rule amendments (34 Tex. Admin. Code §§ 25.24, 25.31, and 25.303) and one new proposed rule (34 Tex. Admin. Code § 29.83) related to the pension plan. Ms. Smith stated the amended-rule proposals addressed how compensation for benefit purposes and how the cost to purchase compensation credit were calculated. Ms. Smith said the new rule concerned how the amount of the benefit for participants who have combined service credit under proportionate retirement program would be determined. Ms. Smith reported that the proposed rules had been published for 30 days in the Texas Register and that TRS had received no public comments on the rule proposals, which were ready for the committee to consider recommending their adoption to the Board.

Ms. Heather Traeger presented the proposed changes to the rules for the Code of Ethics for Contractors (34 Tex. Admin. Code §§ 23.7 and 23.8). She said the amendments would update references to the code, which the Board revised in June 2016, and related documents. Ms. Traeger reported that the proposed rules had been published for 30 days in the Texas Register and that TRS had received no public comments on the rule proposals, which were ready for the committee to consider recommending their adoption to the Board.

On a motion by Mr. Kelly, seconded by Ms. Palmer, the committee unanimously voted to recommend that the Board adopt the proposed new or amended TRS rules in Title 34, Part 3 of the Texas Administrative Code as presented by staff.

Without further discussion, the committee adjourned the meeting at 2:30 p.m.


______________________________    _________________
Katherine H. Farrell       Date
Secretary of the TRS Board of Trustees
TAB 3
Proposed Modifications to Proxy Voting Policy

Sylvia Bell, Managing Director
Chi K. Chai, Senior Managing Director
Heather Traeger, Chief Compliance Officer

April 2017
The Investment Management Division ("IMD") is proposing modifications to the Proxy Voting Policy to the Policy Committee

- This presentation highlights the modifications to the Proxy Policy
- This presentation also outlines RFP process and timeline

Additional items enclosed for your review and reference are:

1. Memorandum from Aon Hewitt
2. Memorandum from Dr. Keith Brown
3. Memorandum from Reinhart Boerner Van Dueren S.C.
4. Revised Proxy Policy (marked copy)
5. Revised Proxy Policy (clean copy)
## Proposed Modifications

<table>
<thead>
<tr>
<th>Modification</th>
<th>Proposed Change</th>
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<tbody>
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<td>1</td>
<td>Update the policy to more clearly delineate TRS’ responsibilities with respect to governance of the proxy voting process</td>
</tr>
<tr>
<td>2</td>
<td>Update the policy to provide that the Board will select an independent Proxy Advisor and review proxy voting guidelines</td>
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<tr>
<td>3</td>
<td>Update the policy to affirm that TRS Board may direct Proxy Committee on matters of special importance</td>
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Modification 1

Update the policy to more clearly delineate TRS’ responsibilities with respect to governance of the proxy voting process

Proposal
• TRS’ exclusive objective when voting its proxies is to maximize the long term economic benefits to the TRS pension plan participants and beneficiaries

Rationale
• Aligns proxy voting policy language with fiduciary standards for a prudently managed proxy voting process

Background Information
• Improved clarity of objectives results in better execution of the proxy voting process
Modification 2

Update the policy to provide that the Board will select an independent Proxy Advisor and review proxy voting guidelines

Proposal
• TRS Board will select the Proxy Advisor
• As part of selecting a Proxy Advisor, TRS Board will review Proxy Advisor guidelines
• On an annual basis, TRS Board will review the Proxy Advisor guidelines

Rationale
• Enhances TRS Board oversight of the proxy voting process

Background Information
• Better alignment through common understanding of Proxy Advisor services and guidelines
Modification 3

Update the policy to affirm that TRS Board may direct Proxy Committee on matters of special importance

Proposal
• TRS Board may direct Proxy Committee to vote proxies differently than Proxy Advisor recommendations on matters of special importance
• Changes to proxy votes must be consistent with maximizing long term economic benefits to the plan

Rationale
• Clarifies process to vote differently than Proxy Advisor on matters of special importance

Background Information
• Provides clearer process for changes to proxy votes
# RFP Process and Time Line

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<tr>
<th>Target Date</th>
<th>Task</th>
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<td>March 31, 2017</td>
<td>RFP Posted to the Electronic State Business Daily (ESBD)</td>
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<tr>
<td>April 7, 2017</td>
<td>Deadline for Submitting Written Questions</td>
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<td>April 14, 2017</td>
<td>Finalized Q&amp;A Document Approved</td>
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<td>April 28, 2017</td>
<td>Proposal Responses Due from Vendors</td>
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<td>May 5, 2017</td>
<td>Send Clarifications to Respondents</td>
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<td>May 9, 2017</td>
<td>Response to Clarifications Due</td>
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<td>May 12, 2017</td>
<td>Final Scores Due with Staff Recommendation</td>
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<tr>
<td>June 1, 2017</td>
<td><strong>Presentation of Finalists for TRS Board Review and Approval</strong></td>
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Memo

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

From  Steve Voss; Mike McCormick; Mike Comstock

Date  March 17, 2017

Re  2017 Review of Proxy Voting

Introduction
The ongoing review of the TRS Investment Policy and the ancillary policies represents an important responsibility of the Board, and an area where we spend a considerable amount of time. These policies govern TRS investment activities and are a critical component of good governance. While the TRS Investment Policy is reviewed on a biennial basis, the ancillary policies are reviewed less frequently; however, the policies can be revisited at any time deemed appropriate.

The goal of voting proxies is to enhance value to TRS. Given proxies are an asset with implicit value to TRS it is an important responsibility of the Board to periodically review the Proxy Voting Policy and to engage in an on-going review and monitoring of the proxy voting process.

General Practices of Other Institutional Investors
As discussed during pervious proxy policy reviews, there is no “right approach” for all institutional investors. Most entities tend to fall within a spectrum as it relates to their proxy voting practices. The exhibit below represents the level of delegation we typically see; from fully delegated responsibilities on the far left to an entity that brings all proxy voting responsibilities in house. The proposed and current TRS approach falls in the middle of the spectrum.

- Full delegation to external managers
- No direct guidance on standards
- Delegate to third party
- Rely on third party standards
- Delegate to third party
- Provide voting standards
- In-House
The approach utilized among our client base also tends to be in the middle to the left end of the spectrum. With our larger clients tending to delegate to a third party provider and some smaller clients choosing full delegation.

While dated, The Council of Institutional Investors (CII) conducted a broad study of proxy voting practices across its members in 2010. The Council received 21 responses with the following breakdown: 12 (57%) fully delegate to a third party advisory firm and / or their investment managers; 4 (19%) delegate to a third party and maintain some in-house voting; and 5 (24%) vote proxies in-house. Clearly, where an entity falls on this spectrum is a function of resources available and how active it wishes to be as a shareholder.

Relative to the proxy voting spectrum above and considering the practices of other large institutional investors, IMD’s proposed policy does not change current practices associated with proxy voting. The changes do however; represent a greater level of oversight by the Board with regard to the selection of a proxy advisor and annual review of the proxy guidelines. TRS will continue to use an independent proxy advisory firm to manage and vote its proxies.

Proposed Changes
We are comfortable with the proposed changes to the policy and recommend the Board adopt them as presented by the Investment Management Division (IMD). The changes outlined below are based on thorough discussion and debate and include feedback and comments from fiduciary counsel, TRS Legal and Compliance, and the Board’s investment consultant and advisor.

The Board should recognize that the proposed changes represent an increased use of Board and Trustee time for the proxy advisor selection process as well as the annual review of the proxy guidelines. The proxy voting guidelines are voluminous in nature and require meaningful time for review.

The following items represent an overview of the notable changes proposed.

Modification 1: Objective Section, Amended language regarding the appointment of a proxy advisor
In the past, the CIO was responsible for appointing the proxy advisor. The policy now outlines that the TRS Board shall retain a reputable, independent proxy advisory service to analyze proxy issues, make voting recommendations, and vote proxies. We are comfortable with the Board retaining the authority to select the proxy advisor.

Modification 2: General Voting Guidelines Section, Proxy Guideline Distribution to the TRS Board
The proxy voting guidelines were historically available to the Board by request. In the future the proxy voting guidelines will be provided to the Board for review on an annual basis. We are comfortable with this change in the policy and feel it is appropriate given modification 1.
Modification 3: Delegation Section, Review of the proxy advisor guidelines during proxy advisor selection
As part of the proxy advisor selection process, the Board will be required to review the proxy advisors’ guidelines. The Board will determine that the proxy advisors’ voting guidelines are reasonably designed to help ensure that TRS fulfills its fiduciary responsibility. We are comfortable with the Board retaining this level of authority in the proxy advisor selection process.

Modification 4: Objective Section, Amended language regarding the voting of proxies
Previously the policy noted that TRS proxies are voted in the best interests of the pension plan to maximize portfolio values over time. This language was amended to say that “proxies are voted in the best economic interests” to “maximize portfolio returns”. We are comfortable with this change, and believe it very succinctly articulates the primary goal of the proxy voting program.

Modification 5: General Voting Guidelines Section, Board direction of proxy voting
On matters of special importance to TRS the policy previously allowed for the Proxy Committee to decide that proxies be voted differently than recommended by the proxy advisor. The language was amended to allow the Board to vote during a Board meeting to direct the Proxy Committee to vote differently than recommended by the proxy advisor when doing so is in the best economic interests of the pension plan.

Remaining Modifications
The remaining modifications to the policy represent wordsmithing. The most prevalent of these changes includes changing “independent advisory service” to “proxy advisor” throughout the policy.

We look forward to discussing the proposed policy modifications with you at the next Board meeting.
MEMORANDUM

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

From: Keith C. Brown
       Advisor to the TRS Board

Re: Proposed Changes to the TRS Proxy Voting Policy Statement

Date: March 17, 2017

I have reviewed the changes to the Proxy Voting policy statement that have been proposed recently by the Investment Management Division (IMD). Overall, I endorse these modifications and recommend their adoption.

Overview and Summary

It is worth noting that this proposal represents a significant conceptual shift in the way that proxy voting is managed at TRS. In the current version of the policy—which was adopted in 2013—the Board delegates the entire process to the IMD, which in turn forms an internal Proxy Committee to execute the votes and also selects a third-party voting service for assistance. As I have expressed in previous memos, that approach is flawed in that it does not provide the Board with adequate control to determine the direction and vision for how votes are cast. As a consequence, it is hard to make the argument that the current policy allows the Board to exercise its fiduciary responsibilities properly with respect to this important corporate governance matter.

The modifications being proposed in the revised policy statement correct this shortcoming. In particular, the document now designates that it is the Board that is responsible for retaining the third-party voting service (i.e., “Proxy Advisor”), an action that includes a review of the Proxy Advisor’s voting guidelines to insure their suitability for TRS’ purposes. The proposed policy also includes specific language that allows the Board to direct the IMD’s Proxy Committee to vote specific proxies differently than the guidelines stipulate should the situation arise. In all other respects, the mechanics of executing proxy votes remain the same (i.e., the Board delegates the day-to-day operation of the voting process to the Proxy Committee).
This is represents an appropriate adjustment to the delegation process. In essence, the Board is now once again responsible for setting the overall direction for this voting responsibility, while the IMD is charged with managing the process within the parameters the Board has approved. The use of a Proxy Advisor is a useful expediency that precludes the need for the Board to create an exhaustive list of recommended votes to cover every potential situation.

**A Brief History of the Proxy Voting Policy’s Evolution**

To better understand the context in which these modifications are being proposed, it may be useful to review the recent historical evolution of TRS’ Proxy Voting policy. Prior to 2013, the policy statement took the following form:

*Pre-2013 Version:* Board creates a specific set of rules that govern how proxies are to be voted, but delegates to IMD the responsibility for executing those votes. IMD was also authorized to use a third-party proxy voting service (e.g., ISS) in that process. The policy document also listed a procedure for casting votes in situations that were not specifically covered in the policy.

In late 2013, the Board approved IMD’s recommendation for a major philosophical and practical shift to the proxy voting procedures. That new approach, which comprises the current policy, can be summarized as follows:

*Current Version:* Board delegates to IMD the responsibility for voting all proxies, based on the recommendations of a third-party voting service, which IMD is responsible for selecting. Importantly, all specific Board-generated recommendations are removed from the policy statement, which also creates a Proxy Voting Committee run by IMD.\(^1\)

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\(^1\) The specific language in the current policy that is relevant here comes from the Delegation and General Voting Guidelines sections of the document and reads as follows: “The Board hereby delegates to the Chief Investment Officer (“CIO”) the responsibility for proxy voting and administration. To manage TRS’ proxy voting prudently, the CIO shall retain a reputable, independent advisory service to analyze proxy issues, to make prudent voting recommendations to TRS in proxy matters, and to vote proxies … The CIO shall further appoint a committee (the “Proxy Committee”) of qualified, professional members of the Investment Management Division (the “IMD”) to oversee the independent advisory service. The Proxy Committee shall also have two non-voting members, one from the Legal Services Division and one from Investment Operations. The Proxy Committee shall keep current on voting guidelines recommended by the independent advisory service. As needed, but at least on an annual basis, the Proxy Committee shall review any voting guidelines recommended by the independent advisory service to ensure that they are appropriate for TRS. When appropriate, the CIO or Proxy Committee should consult with staff in other departments and with consultants or advisors to TRS under contract with TRS … Generally, the Proxy Committee shall cause TRS proxies to be voted in accordance with the recommendations of the independent advisory service. Recommendations are based on their guidelines. On matters of special importance to TRS, however, the Proxy Committee may decide that TRS proxies be voted differently than recommended by the independent advisory service.”
For what it is worth, the existing TRS policy does not appear to be consistent with the governance approach taken by other comparable institutional investors. Although I have not conducted an exhaustive analysis of every institutional proxy voting policy statement, I have examined several different ones from a variety of large-scale asset owners (e.g., California TRS, Texas ERS, New York City ERS, New York City BERS, AFL-CIO, Wisconsin Investment Board, UTIMCO) and all of these policies mandate Board involvement in the voting process, albeit in different forms and to different degrees.

In this context, then, the changes that are now being proposed of the TRS Proxy Voting policy statement can be seen as a movement back toward the pre-2013 approach in which the Board controls the top-end of the process while the IMD executes that direction. Thus, the proposed statement would clearly move proxy voting at TRS in the direction of what appears to be best practice in the industry.
March 15, 2017

Board of Trustees:

Re: Proxy Policy Revisions

TRS will present proposed changes to the Proxy Policy (the "Policy") for the Board's consideration and approval at the Board's April 2017 meeting. TRS periodically reviews and updates the Policy to remain consistent with industry standards and practice. The Policy was reviewed in full this year in accordance with the policy review schedule.

The proposed changes include clarifications as well as substantive revisions. The proposed substantive changes include revising the Policy to provide the Board with oversight responsibility related to proxy voting. TRS also clarified review procedures related to voting guidelines.

We reviewed and discussed the proposed changes to the Policy with TRS and advisors. TRS also consulted with Aon and Dr. Brown. We and other advisors provided comments to TRS on the proposed revisions, which we believe were carefully and collaboratively considered. For example, we requested clarification regarding the Board's role related to proxy voting guidelines. TRS has incorporated this clarification into the Policy revisions, and TRS staff agreed to provide related future review and reporting process details to the Board at the April meeting.

At the conclusion of this process, the Board will have followed a well-documented, prudent review process, resulting in these TRS recommended changes. Overall, the Board will have demonstrated positive fiduciary oversight of the Policy revisions.

Yours very truly,

REINHART BOERNER VAN DEUREN s.c.

BY

Steven D. Huff
OBJECTIVE

Corporate governance and shareholder proposals can directly affect shareholder values. The right to vote shareholder proxies is therefore a trust asset. Informed proxy voting can enhance long-term shareholder returns in all markets. Accordingly, the purpose of this policy is to ensure that the TRS proxies are voted prudently and in the best economic interests of the pension plan TRS so as to maximize portfolio values returns over time.

DELEGATION

To assist and advise TRS to vote its proxies prudently, the TRS Board shall retain a reputable, independent proxy advisory service (the “Proxy Advisor”) to analyze proxy issues, make voting recommendations, and vote proxies as TRS’ agent. In selecting the Proxy Advisor, the Board will have determined that the Proxy Advisors’ voting guidelines are reasonably designed to help ensure that TRS fulfills its fiduciary responsibilities governing proxy voting, with the exclusive objective of maximizing the long-term economic benefits of TRS pension plan participants and beneficiaries.

The Board hereby delegates to the Chief Investment Officer (“CIO”) the responsibility for proxy voting and administration. To manage TRS’ proxy voting prudently, the CIO shall retain a reputable, independent advisory service to analyze proxy issues, to make prudent voting recommendations to TRS in proxy matters, and to vote proxies. The CIO shall further appoint a committee (the “Proxy Committee”) of qualified, professional members of the Investment Management Division (the “IMD”) to oversee the independent advisory service Proxy Advisor. The Proxy Committee shall also have two non-voting members, one from the Legal Services & Compliance Division and one from Investment Operations. The Proxy Committee shall keep current on voting guidelines recommended by the independent advisory service Proxy Advisor. As needed, but at least on an annual basis, the Proxy Committee shall review any voting guidelines issued by the Proxy Advisor to ensure that they are appropriate for TRS. When appropriate, the CIO or Proxy Committee should consult with staff in other departments, with other TRS consults, and with the Board, and with consultants or advisors to TRS under contract with TRS.

GENERAL VOTING GUIDELINES

Generally, the Proxy Committee shall will cause TRS proxies to be voted in accordance with the recommendations of the Proxy Advisor independent advisory service. Recommendations are based on the Proxy Advisor’s published guidelines. Such guidelines will be provided to the Board for review on an annual basis. On matters of special importance to TRS, however, the Board may vote during a Board meeting to direct the Proxy Committee to vote TRS proxies differently than recommended by the Proxy Advisor when doing so is in the best economic interests of the pension plan independent advisory service.

REPORTING & RECORD-KEEPING

The Proxy Committee shall provide prior notice to the Chair of the Board’s Policy Committee, the Executive Director, and the CIO of proxy votes where TRS votes other than in accordance with
the independent advisory service’s Proxy Advisor’s recommendation.

The Proxy Committee shall maintain, or cause to be maintained, a record of votes on all proxy votes issues. As described above, if a proxy item is voted other than in accordance with the independent advisory service’s Proxy Advisor’s recommendation or no recommendation has been made, if a proxy item is voted for which the independent service does not provide a recommendation, such "exception votes" shall be described in a Proxy Exceptions Report presented delivered to the Board by the Proxy Committee at, or prior to, the Board’s next quarterly meeting. The Proxy Exceptions Report must document the exception votes, the reasons supporting each such vote, the number of shares voted, and the date of each corporate meeting at which exception votes were cast.

Proxy voting will be handled administered so as to permit review for compliance with this policy. The Proxy Committee shall maintain, or cause to be maintained, the following items in readily accessible records for the retention period required by approved the applicable records retention policy schedule:

a. a record of all proxies voted that contains company names, numbers of shares voted, date of each corporate meeting at which votes were cast, issues voted upon and the corresponding TRS vote, along with any necessary supporting documentation;

b. the Proxy Exceptions Report referenced above;

c. a record of any proxies received but not voted due to special circumstances, including untimely receipt, re-registration, or blocking;

d. copies of annual guidelines issued by the Proxy Advisor.

LOANED SECURITIES

Because TRS conducts a securities lending program, securities may be on loan during the time when proxies must be voted. Loaned securities will be recalled for purposes of voting proxies only when the CIO or the Proxy Committee as the CIO’s designee determines that the proxy issue voting interest clearly outweighs the securities lending interest. Recalling loaned securities for proxy voting purposes is expected to be the exception, represent the exception rather than the general rule.

USE OF THIRD PARTY INVESTMENT MANAGERS TO VOTE PROXIES

The CIO or the CIO’s designee(s) may delegate to third party external managers proxy voting authority related to the securities managed by such manager, provided that the delegation of proxy voting authority is reasonably related to the investment strategy set forth in that manager’s investment guidelines in the investment management agreement. Any proxy votes cast by an external manager pursuant to a delegation of proxy voting authority must be cast (1) in accordance with the applicable investment guidelines governing such external manager and (2) in the external manager’s reasonable judgment as a fiduciary to TRS, in the best long-term economic interest of TRS. External managers must maintain records of any proxy votes cast on behalf of TRS and annually provide TRS reports of such votes or deliver reports of proxy votes cast upon request.
OBJECTIVE

Corporate governance and shareholder proposals can directly affect shareholder values. The right to vote shareholder proxies is therefore a trust asset. Informed proxy voting can enhance long-term shareholder returns in all markets. Accordingly, the purpose of this policy is to ensure that the TRS proxies are voted prudently and in the best economic interests of the pension plan so as to maximize portfolio returns over time.

DELEGATION

To assist and advise TRS to vote its proxies prudently, the TRS Board shall retain a reputable, independent proxy advisory service (the “Proxy Advisor”) to analyze proxy issues, make voting recommendations, and vote proxies as TRS’ agent. In selecting the Proxy Advisor, the Board will have determined that the Proxy Advisors’ voting guidelines are reasonably designed to help ensure that TRS fulfills its fiduciary responsibilities governing proxy voting, with the exclusive objective of maximizing the long-term economic benefits of TRS pension plan participants and beneficiaries.

The Board hereby delegates to the Chief Investment Officer (“CIO”) the responsibility for proxy voting and administration. The CIO shall further appoint a committee (the “Proxy Committee”) of qualified, professional members of the Investment Management Division (the “IMD”) to oversee the Proxy Advisor. The Proxy Committee shall also have two non-voting members, one from the Legal & Compliance Division and one from Investment Operations. The Proxy Committee shall keep current on voting guidelines recommended by the Proxy Advisor. As needed, but at least on an annual basis, the Proxy Committee shall review any voting guidelines issued by the Proxy Advisor to ensure that they are appropriate for TRS. When appropriate, the CIO or Proxy Committee should consult with staff in other departments, with other TRS consultants, and with the Board.

GENERAL VOTING GUIDELINES

Generally, the Proxy Committee will cause TRS proxies to be voted in accordance with the recommendations of the Proxy Advisor. Recommendations are based on the Proxy Advisor’s published guidelines. Such guidelines will be provided to the Board for review on an annual basis. On matters of special importance to TRS, however, the Board may vote during a Board meeting to direct the Proxy Committee to vote TRS proxies differently than recommended by the Proxy Advisor when doing so is in the best economic interests of the pension plan.

REPORTING & RECORD-KEEPING

The Proxy Committee shall provide prior notice to the Chair of the Board’s Policy Committee, the Executive Director, and the CIO of proxy votes where TRS votes other than in accordance with the Proxy Advisor’s recommendation.

The Proxy Committee shall maintain, or cause to be maintained, a record of all proxy votes. If a proxy item is voted other than in accordance with the Proxy Advisor’s recommendation or no recommendation has been made, such “exception votes” shall be described in a Proxy Exceptions

Proxy Voting Policy, Page 1 of 2, rev. eff.
Report delivered to the Board by the Proxy Committee at, or prior to, the Board’s next quarterly meeting. The Proxy Exceptions Report must document the exception votes, the reasons supporting each such vote, the number of shares voted, and the date of each corporate meeting at which exception votes were cast.

Proxy voting will be administered so as to permit review for compliance with this policy. The Proxy Committee shall maintain, or cause to be maintained, the following items in readily accessible records for the retention period required by the applicable records retention schedule:

a. a record of all proxies voted that contains company names, numbers of shares voted, date of each corporate meeting at which votes were cast, issues voted upon and the corresponding TRS vote, along with any necessary supporting documentation;

b. the Proxy Exceptions Report referenced above;

c. a record of any proxies received but not voted due to special circumstances, including untimely receipt, re-registration, or blocking; and

d. copies of annual guidelines issued by the Proxy Advisor.

**LOANED SECURITIES**

Because TRS conducts a securities lending program, securities may be on loan during the time when proxies must be voted. Loaned securities will be recalled for purposes of voting proxies only when the CIO or the Proxy Committee as the CIO’s designee determines that the proxy voting interest clearly outweighs the securities lending interest. Recalling loaned securities for proxy voting purposes is expected to be the exception.

**USE OF THIRD PARTY INVESTMENT MANAGERS TO VOTE PROXIES**

The CIO or the CIO’s designee(s) may delegate to third party external managers proxy voting authority related to the securities managed by such manager, provided that the delegation of proxy voting authority is reasonably related to the investment strategy set forth in that manager’s investment guidelines in the investment management agreement. Any proxy votes cast by an external manager pursuant to a delegation of proxy voting authority must be cast (1) in accordance with the applicable investment guidelines governing such external manager and (2) in the external manager’s reasonable judgment as a fiduciary to TRS, in the best long-term economic interest of TRS. External managers must maintain records of any proxy votes cast on behalf of TRS and annually provide TRS reports of such votes or deliver reports of proxy votes cast upon request.
TAB 4
As the Board is aware, the Division of Strategic Initiatives (DSI) is developing proposed 403(b) rule amendments based on stakeholder input and industry expertise from our consultant, Aon Hewitt. DSI had planned to present draft 403(b) rule amendments for public comment publication in the Texas Register at the April Policy Committee meeting. However, DSI now thinks it is prudent to bring the draft rule amendments for public comment publication at the Policy Committee’s June meeting.

The delay is to ensure that we have a thorough understanding of how any rule amendments will impact the 403(b) Product Registration System (PRS). The PRS is the online portal that 403(b) vendors use to register products, including associated fees. Information entered into the PRS is made available to the public on TRS’ website. Rule changes that modify the existing fee structure could entail significant programming changes to the PRS and these should be fully understood before any rules are proposed. We are currently consulting with TRS’ Information Technology Division to better understand the technological consequences of any proposed rule amendments.

Understanding the technology needs is consistent with Internal Audit’s recommendation to track the cost of program administration for fee-setting purposes. Should the rule amendments necessitate additional resources, these costs should be factored into the overall cost of program administration.

Furthermore, delaying until June affords DSI time to schedule another informal conference to receive stakeholder input on the draft rules after they are published in the Texas Register. This input is extremely useful as we weigh the benefits and impacts of the proposed rule amendments.

DSI anticipates closing the rule review and bringing the rule amendments for final adoption in either August or September. The rules should be ready for adoption in August, but we do not anticipate a Policy Committee meeting that month. Whether the final rules go to the full Board of Trustees in August or to the Policy Committee and the full Board in September is at the discretion of Board and Policy Committee chairs.

At the April Policy Committee meeting, I plan to briefly discuss this schedule change to receive direction and answer any questions.

Proposed Revised Rule Review Schedule

June Policy Committee Meeting – Request Authority for Public Comment Publication of Draft Rules

Mid-June – Publish Draft Rules in Texas Register

Late June - Hold Informal Conference for Stakeholder Input on Draft Rules

August or September Board Meeting – Request Final Adoption of Proposed Rule Amendments and Conclude the Rule Review