

Policy Committee Meeting

December 12, 2013

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

(Mr. Colonna, Chairman; Mr. Barth; Mr. Corpus; Mr. Kelly; & Ms. Ramirez, Committee Members)

AGENDA

**December 12, 2013 – 11:00 a.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the proposed minutes of the September 12, 2013 committee meeting – Joe Colonna.
2. Conduct the required review of the TRS Mission Statement and consider recommending to the Board amendments, if necessary – Brian Guthrie.
3. Consider recommending to the Board adoption of the four-year statutory rule review of Chapter 53 of TRS' rules in Title 34, Part 3, of the Texas Administrative Code, including the reoption of the Chapter 53 rules with or without changes – Dan Junell.
4. Discuss and consider recommending to the Board proposed amendments to the Proxy Voting Policy – Janis Hydak and Tim Wei.
5. Conduct the required review of the Soft Dollar / Commission Sharing Arrangement Policy and consider recommending to the Board amendments, if necessary – Sylvia Bell.
6. Conduct the required review of the Securities Lending Policy and consider recommending to the Board amendments, if necessary – Sylvia Bell and Mohan Balachandran.
7. Discuss and consider recommending to the Board adoption of proposed amendments to the Trustee Ethics Policy – Tim Wei and Steve Huff, Reinhart, Boerner, Van Duren.
8. Conduct the required review of the Employee Ethics Policy and related materials and consider recommending to the Board adoption of the following – Tim Wei and Steve Huff, Reinhart, Boerner, Van Duren:
 - A. Proposed amendments to the policy;
 - B. Proposed amendments to the Ethics Compliance Statement for Employees;
 - C. Proposed resolution adopting revised determinations of Key Employees; and
 - D. Proposed new Key Employee Enhanced Disclosure Form.

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 1



Minutes of the Policy Committee

September 12, 2013

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 12, 2013, in the boardroom on the Fifth Floor of the East Building of TRS offices located at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Joe Colonna, Chair
Todd Barth
David Kelly

A quorum of the committee was present. Others present:

Chris Moss, TRS Trustee	Dan Junell, TRS
Anita Palmer, TRS Trustee	Eric Lang, TRS
Nanette Sissney, TRS Trustee	Lynn Lau, TRS
Brian Guthrie, TRS	Scot Leith, TRS
Ken Welch, TRS	Denise Lopez, TRS
Amy Barrett, TRS	Rebecca Merrill, TRS
Carolina de Onís, TRS	James Nield, TRS
Britt Harris, TRS	Hugh Ohn, TRS
Jerry Albright, TRS	Noel Sherman, TRS
Thomas Albright, TRS	Rebecca Smith, TRS
Jase Auby, TRS	Patty Steinwedell, TRS
Mohan Balachandran, TRS	Sharon Toalson, TRS
Ashley Baum, TRS	David Veal, TRS
Ronnie Bounds, TRS	Angela Vogeli, TRS
Grant Birdwell, TRS	Tim Wei, TRS
Tina Carnes, TRS	Dale West, TRS
Juan Durán, TRS	Steven Wilson, TRS
Anna Espinosa, TRS	Dr. Keith Brown, Investment Advisor
Susanne Gealy, TRS	Steven Huff, Fiduciary Counsel
Brad Gilbert, TRS	Brady O'Connell, Hewitt EnnisKnupp
Dennis Gold, TRS	Steve Voss, Hewitt EnnisKnupp
Dan Herron, TRS	Leroy DeHaven, Texas Retired Teachers Association
Joel Hinkhouse, TRS	Ronnie Jung, Texas Retired Teachers Association
Katy Hoffman, TRS	Carol Bowie, ISS
Clarke Howard, TRS	Corina Florea, ISS
Janis Hydak, TRS	Joseph Gonzalez, ISS
	Tom Rogers, Austin Retired Teachers Association & Texas Retired Teachers Association

With a quorum of the committee present, Mr. Colonna called the meeting to order at 11:34 a.m.

1. Consider the approval of the proposed minutes of the June 14, 2013 committee meeting

On a motion by Mr. Kelly, seconded by Mr. Barth, the committee approved the proposed minutes of the June 14, 2013 meeting as presented.

2. Discuss and consider recommending to the Board proposed amendments to the Investment Policy Statement

Mr. Colonna stated that audit, legal, executive, Dr. Brown, Mr. Huff, Hewitt EnnisKnupp, and he had reviewed and approved the proposed modifications to the Investment Policy Statement (IPS).

Ms. Baum presented the following proposed modifications:

1. Add a 3% allocation to Energy and Natural Resources
2. Adjust the Emerging Manager allocation
3. Adjust Iran restrictions to conform to new statute restricting investments in companies with active business operations in Iran
4. Clarify and expand TRS investment representation
5. Improve the Private Equity benchmark

Concerning modification 3, Mr. Guthrie noted that the Pension Review Board had assumed responsibility for producing the prohibited investment list from the state comptroller.

Concerning modification 4 relating to authorizing TRS employees or third parties to serve on company boards, Ms. Baum described the potential legal issues relating to conflicts of duties, liability risks for employees and TRS, and compensation paid in connection with a TRS employee's service on a company board. She stated that Appendix G of the proposed IPS addressed those issues and provided remedies. She noted that both legal staff and fiduciary counsel would be involved in the approval of each representation on company boards and the TRS board would be informed of the proposed representation. Responding to a question from Dr. Brown regarding the benefits and costs of having TRS representation on company boards, Ms. Baum replied that the costs included purchasing additional director's and officer's insurance coverage for employees and incurring the risk of a lawsuit against the system or individual employees. The benefits of company-board representation, she said, would be the opportunity to improve company governance. Mr. Kelly and Mr. Colonna asked when TRS would hire a third party to represent TRS on a company board instead of an employee. Ms. Baum replied that a third party would represent TRS when a TRS employee was not qualified to serve or when the company board regularly held its meetings in a foreign country. Mr. Colonna agreed with Mr. Kelly that a third party relationship for this purpose could be established for future needs. Mr. Colonna said he preferred having TRS employees serve on company boards instead of third parties. Responding to a question from Ms. Sissney concerning limited legal liability, Mr. Gold explained that it related to TRS' status as a governmental entity, which would indemnify TRS from being sued for the actions taken by an employee. Mr. Gold further explained that TRS would not be liable under state law for the intentional wrongdoings of an employee who committed them in connection with his or her service on a company board. He said that TRS' D&O insurance coverage would apply to a suit filed in connection with an employee's representation on a company board. He confirmed for Mr. Barth that TRS would train employees selected to serve on company boards and would perform due diligence to verify the personal



liability issues. Ms. de Onís pointed out that TRS might be subjected to more scrutiny and public comment by having representatives on company boards.

Concluding with Modification 5, Ms. Baum explained that it would change the private equity policy benchmark to a newly-available customized State Street Private Equity Index (SSPEI) benchmark that uses the same currency exchange rates as the TRS trust.

On a motion by Mr. Barth, seconded by Mr. Kelly, the committee unanimously voted to adopt the amended Investment Policy Statement.

3. Discuss and begin the review of the Proxy Voting Policy

Ms. Hydak reviewed the history of the Proxy Voting Policy. She confirmed for Dr. Brown that the voting guidelines mostly dated from the 1996 version. She said that the board had modified the policy from time to time when an issue became prominent. She said that, as allowed by law and policy, the board had delegated administration of the actual voting of proxies within policy guidelines to staff; in turn, staff had delegated the voting to a third party advisory service. She said that staff worked with the current service, Institutional Shareholder Services (ISS), to identify issues the policy did not address. She explained that TRS used ISS standards to fill those gaps, as long as ISS' standards did not conflict with TRS' policy. She also described the practice of reviewing the standards annually to keep them current. Mr. Wei noted that the current policy authorizes staff to vote contrary to the standards if doing so was in TRS' best interests. He added that the policy directs staff to report to the board any vote made as an exception to the standards.

Ms. Hydak described the current proxy voting process, proxy voting statistics from July 2012 through June 2013, and the proxy voting categories. Responding to the questions from Mr. Guthrie regarding the process of working with ISS, Ms. Hydak stated that, if an ISS analyst found an apparent conflict between TRS' policy and ISS' guidelines, then ISS would issue a possible policy-issues exception report, and TRS' compliance officer, Terry Harris, would decide whether the apparent conflict actually constituted an exception.

Mr. Colonna concluded by saying that the information presented at the meeting was good and would be considered in determining whether to amend the Proxy Voting Policy.

4. Conduct the required review of the Employment At-Will Policy and consider recommending policy amendments to the Board, if needed

Ms. Carnes presented the proposed amended Employment At-Will Policy. She stated that the proposed amendments would delete the phrase "and without prior notice to TRS," which was not part of the at-will doctrine, and delete the review tracking box at the bottom, which was for internal policy purposes and not applicable to board policies.

On a motion by Mr. Barth, seconded by Mr. Kelly, the committee unanimously voted to recommend to the board the adoption of the amended Employment At-Will Policy.



5. Consider updates to the Policy Review Schedule

Ms. Merrill presented the proposed updates to the Policy Review Schedule. Per Mr. Colonna's request, she highlighted the upcoming policy and rule review activities.

On a motion by Mr. Barth, seconded by Mr. Kelly, the committee unanimously voted to approve the Policy Review Schedule.

6. Discuss and consider recommending to the Board adoption the following TRS rules in Title 34, Part 3 of the Texas Administrative Code:

Consider recommending to the Board final adoption of proposed amended Rule 34 Tex. Admin. Code § 47.17 of Chapter 47, Qualified Domestic Relations Orders, relating to calculation for alternate payee benefits before a member's benefit begins– Rebecca Smith.

Ms. Smith presented the proposed amendments to rule § 47.17 concerning Qualified Domestic Relations Orders, concerning the calculation of the portion of benefits an alternate payee receives before a member begins to receive an annuity. She stated the proposed amendments would add language to allow staff to annuitize that stated portion over the life of the alternate payee by taking into account the member's life. She stated that the proposed amendments had been published for public comment, no comments were received, and so the amended rule was ready to be considered for adoption.

Consider recommending to the Board final adoption of proposed amended TRS-ActiveCare Rule 34 Tex. Admin. Code § 41.41, relating to premium payments – Clarke Howard.

Mr. Howard presented the proposed amendments to rule § 41.41, relating to TRS-ActiveCare. He stated that the amendments would move up by three weeks the due date for participating entities to pay the cumulative amount of the premiums owed for all their employees. He recapped that the amended rule had been published for public comments for 30 days and had been concurrently adopted on an emergency basis in June. He noted that the emergency adoption was only effective for 120 days, and therefore staff was currently presenting the amended rule for the committee to consider recommending to the board for permanent adoption.

On a motion by Mr. Barth, seconded by Mr. Kelly, the committee voted unanimously to recommend to the board the adoption of amended rule sections 47.17 and 41.41, as presented by staff.

The meeting adjourned at 12:40 p.m.



Tab 3



Legal Services

Memorandum

DATE: November 26, 2013
TO: TRS Policy Committee and Board of Trustees
FROM: TRS Legal Services
COPY: TRS Executive Office
RE: Completion of Chapter 53 Rule Review (403(b) Rules)

Summary of Item

Staff recommends that the board complete the statutory review of the 403(b) program rules in Chapter 53 of TRS' rules.

Background

Every four years TRS reviews and considers for readoption each of its rules under section 2001.039 of the Government Code. The statutory rule review assesses whether the reasons for initially adopting a rule continue to exist. After reviewing a rule, TRS may then readopt it with or without changes or repeal it. In accordance with the statute and the rules of the Texas Secretary of State, TRS normally conducts statutory rule reviews by chapter rather than section for purposes of efficiency and thoroughness in addressing the subject matter covered by a group of rules.

TRS has been reviewing Chapter 53 of TRS' rules relating to the 403(b) company certification and product registration program. The board completed the last review of Chapter 53 on March 4, 2010, and is scheduled to complete the current review at the December 2013 meeting.

The Policy Committee began the recent statutory review of the rules in Chapter 53 at its June 2013 meeting. The Committee authorized public-comment publication of a plan to review and notice of intention to review Chapter 53 in the *Texas Register*. The plan and notice were published on July 5, 2013 (38 TexReg 4391). The Proposed Rule Review Notice informed the public of TRS' intention to review Chapter 53 and to consider the

chapter for re-adoption, amendment, or repeal. It noted that the review would include, at a minimum, an assessment as to whether the reasons for adopting the rules in Chapter 53 continue to exist. The notice also informed the public of the opportunity to comment on the rule review in writing and at meetings of the policy committee and board. To date, TRS has received no public comments related to the review of Chapter 53.

Staff has drafted a proposed board order completing the review process for Chapter 53. The order would readopt Chapter 53 without changes to any of the 403(b) rules and would find that the reasons for initially adopting Chapter 53 continue to exist. If the board adopts the order, staff will submit it with a notice of the readoption of Chapter 53 to the *Texas Register*. Filing the order and notice with the *Register* would complete this review of the 403(b) rules and restart the clock for the next review in four years.

Action

Staff asks the policy committee to recommend that the board adopt the proposed order completing the review of Chapter 53 of TRS' rules and authorize the board chair to sign the order on behalf of the board.

SUGGESTED COMMITTEE MOTION LANGUAGE:

"I move that the committee recommend that the board adopt the proposed order completing the statutory review of Chapter 53 of TRS' rules and authorizing the board chair to sign the order on behalf of the board."

**THE BOARD OF TRUSTEES
OF THE
TEACHER RETIREMENT SYSTEM OF TEXAS**

ORDER

Adopting the Statutory Rule Review of Chapter 53 of TRS' Rules,
Concerning Certification by Companies Offering Qualified Investment Products
(34 TEX. ADMIN. CODE §§ 53.1–53.20)

Under section 2001.039 of the Texas Government Code, the Board of Trustees of the Teacher Retirement System of Texas has reviewed Chapter 53 of its rules, §§53.1–53.20, concerning the Certification by Companies Offering Qualified Investment Products (403(b) program). The proposed notice of review was published in the July 5, 2013 issue of the *Texas Register* (38 TexReg 4391). No public comments were received.

The rules in Chapter 53 relate to the administration of TRS' 403(b) program, under which an eligible company may certify to TRS that it offers qualified investment products that meet the requirements of section 403(b) of the Internal Revenue Code of 1986 and comply with applicable federal and state insurance and securities laws, regulations, and rules. Eligible companies may also register their qualified investment products with TRS. To offer qualified investment products to employees of a school district or an open-enrollment charter school, eligible companies must certify to and register the products with TRS under Article 6228a-5 of the Revised Civil Statutes and TRS' rules in Chapter 53.

The board determined at its December 12-13, 2013 meeting that the reasons for adopting the rules in Chapter 53 without changes continue to exist because state law under Article 6228a-5 of the Texas Revised Civil Statutes continues to require TRS to administer the 403(b) program and to adopt rules as necessary to do so.

This action of the board concludes the review of Chapter 53.

NOW, THEREFORE, BE IT

ORDERED, That, under section 2001.039 of the Texas Government Code, the Board of Trustees of the Teacher Retirement System of Texas adopts the four-year statutory review of the rules in Title 34, Part 3, Chapter 53 of the Texas Administrative Code, concerning Certification by Companies Offering Qualified Investment Products (403(b) program);

ORDERED, That, as a result of the review of the 403(b) program rules, the board readopts without changes the following sections of Chapter 53:

§53.1 (Definitions);

§53.2. (Applicability);

- §53.3. (Maximum Fees, Costs, and Penalties);
- §53.4. (Qualifications for Certification by Companies Offering Qualified Investment Products that are Annuity Contracts);
- §53.5. (Qualifications for Certification by Companies Offering Qualified Investment Products Other than Annuity Contracts);
- §53.6. (Procedure for Certification);
- §53.7. (Certification Fee);
- §53.8. (List of Certified Companies);
- §53.9. (Notice to Potential Purchaser);
- §53.11. (Coordination with Regulatory and Enforcement Agencies);
- §53.12. (Company Notification of Non-compliance);
- §53.13. (Suspension or Revocation of Certification);
- §53.14. (Re-certification);
- §53.15. (Product Registration Requirement);
- §53.16. (Procedure for Product Registration);
- §53.17. (Product Registration Fee);
- §53.18. (List of Registered Products);
- §53.19. (Proceedings to Suspend or Revoke Certification or Registration); and
- §53.20. (Administrative Service Providers);

ORDERED, That the board authorizes TRS staff to prepare and to file with the *Texas Register* in proper form this Order and the notice of readoption of the rules in Chapter 53, including preparing and filing the necessary documents as required for publication;

ORDERED, That the board authorizes TRS staff to work with the *Texas Register* office in filing the materials required for publication of this Order and notice of readoption and to make any technical changes needed to publish them;

ORDERED, That the notice of readoption and applicable board and committee materials and deliberations considered in the review and readoption of Chapter 53 are adopted by reference and made part of this Order; and

ORDERED, That the board authorizes its chair to sign this Order on behalf of the board.

SIGNED THIS ____ DAY OF DECEMBER 2013.

R. David Kelly, Chair
TRS Board of Trustees

ATTEST:

Brian K. Guthrie
TRS Executive Director

Carolina de Onís
TRS General Counsel

Tab 4



Proposed Modifications to Proxy Voting Policy

Janis W. Hydak
Managing Director
December 2013

Modification

Update the Proxy Voting Policy (the “Policy”) to adjust to issues as they arise while increasing succinctness and readability

Background Information

- The right to vote proxies is a Trust asset and informed proxy voting can enhance long-term shareholder returns
- The current policy is consistent with the guidelines of the independent advisory service in cases where the policy addresses a proxy issue
- The current practice uses the guidelines of the independent advisory service for proxy issues where the TRS policy is silent, lacks detail, or does not address the proxy issue

Proposal

- Establish an internal Proxy Committee to oversee proxy voting
- Clarify that TRS will use an independent advisory service relating to proxy matters
- Clarify that TRS generally votes in accordance with the recommendations (guidelines) of the independent advisory service
- Clarify that in special situations, TRS may opt not to vote in accordance with the recommendations of the independent advisory service
- Provide prior notice to the Policy Committee Chair, Executive Director, and CIO of a vote not in accordance with the independent advisory service’s recommendation
- Clarify content of the Proxy Exceptions Report (reported to the Board quarterly)

Reviewed by:

<input checked="" type="checkbox"/> HEK	<input checked="" type="checkbox"/> Audit
<input checked="" type="checkbox"/> Keith Brown	<input checked="" type="checkbox"/> Legal

Proxy Committee

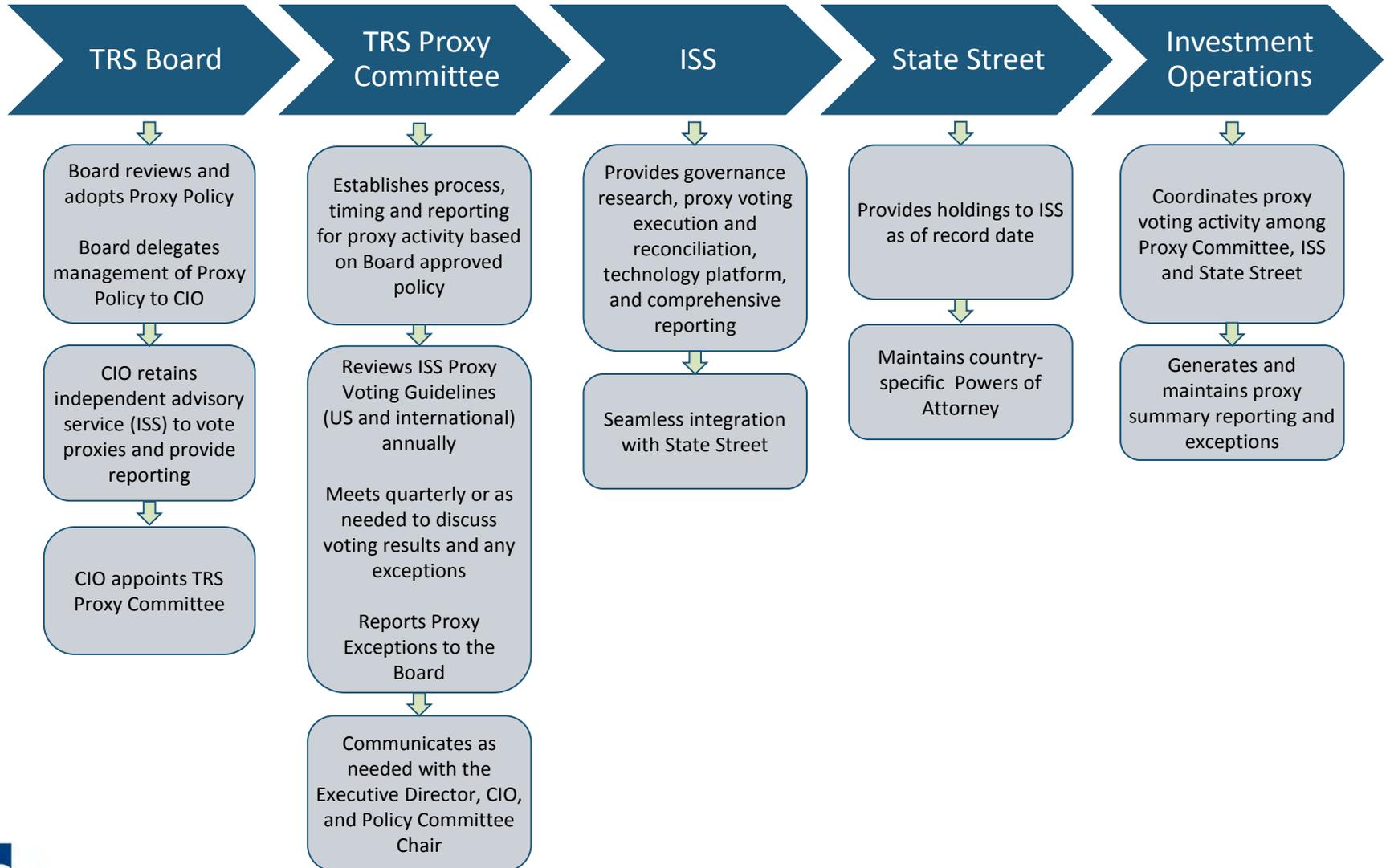
Members

- Appointed by CIO
- Meets quarterly and as needed
- Proposed Committee Members (5)
 - Janis Hydak, Internal Public Markets
 - Kay Cuclis, Internal Public Markets
 - Susanne Gealy, External Public Markets
 - One non-voting representative each from Investment Operations and Legal Services Division

Functions

- Oversee the independent advisory service
- Keep current on independent advisory service standards
- Review proxy voting standards annually and as needed
- Coordinate “matters of special importance” and provide notification to the Policy Committee Chair, the Executive Director and the CIO, as needed
- Maintain records of proxy voting
- Maintain the Proxy Exceptions Report and present to the Board on a quarterly basis

Proposed Proxy Process





PROXY VOTING POLICY

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 in the best interests of TRS so as to maximize portfolio values over time.

DELEGATION

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.

GENERAL VOTING GUIDELINES

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.

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 recommendation.

The Proxy Committee shall maintain, or cause to be maintained, a record of votes on all proxy

issues. As described above, if a proxy item is voted other than in accordance with the independent advisory service's recommendation or 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 to the Board by the Proxy Committee at 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 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 an approved records retention policy:

- a. a record of all proxies voted that contains company name, number 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, and
- c. a record of any proxies received but not voted due to special circumstances, including untimely receipt, re-registration, or blocking.

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 interest clearly outweighs the securities lending interest. Recalling loaned securities for proxy voting purposes is expected to 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 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.

Memo

To: **Board of Trustees, Teacher Retirement System of Texas**

From: Steve Voss, Brady O'Connell

Date: November 26th, 2013

Re: Review of Proposed Modifications to Proxy Voting Policy

Summary

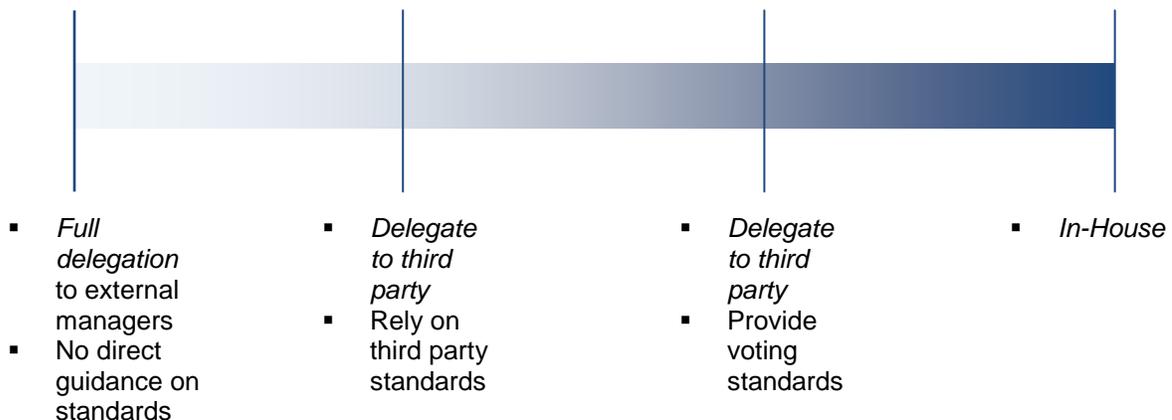
From time to time the Board reviews the policy and practices surrounding Proxy Voting. Voting proxies is the primary means by which TRS can influence the companies in which it has an equity interest. The goal of voting proxies is to enhance value to TRS.

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.

The Investment Management Division is proposing modifications to the Proxy Voting Policy moving from a somewhat rules based policy to a policy that 1) recognizes the role of the third party voting agent; 2) creates a Proxy Committee; and maintains a robust reporting and monitoring system enabling Board oversight. We have reviewed the policy; held discussions with members of IMD and TRS' legal team and compared TRS practices with that of other institutional investors. We are comfortable with the proposed policy, but suggest the Board receive an annual overview of the third party voting agent's proposed voting guidelines. Doing so will ensure the agent's guidelines are in keeping with the Board's standards and expectations.

General Practices of Other Institutional Investors

While there is no “right approach” for all institutional investors, we do see most entities falling within a spectrum as it relates to their proxy voting practices. The exhibit below represents the level of delegation; 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 this spectrum.



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.

In looking at the spectrum above and considering the practices of other large institutional investors, IMD’s proposed policy does not change current practices associated with proxy voting. TRS will continue to use an independent proxy advisory firm to manage and vote its proxies.

Proposed Change to Policy

The changes proposed by IMD move the policy from a document that was seemingly “rules based” to one that is more principles based. TRS will rely on the established voting standards of a third party agent and create an oversight committee of professionals within IMD charged with overseeing the agent and reviewing its recommended voting guidelines. In practice, TRS has long followed such an approach and as such the resulting modifications of the policy reflect current practices and the practical limitations of providing a third party a complete set of rules-based voting standards.

The Board continues to retain monitoring and oversight of proxy voting and will receive exception reports as described in the proposed policy.

We find that the Policy includes all critical elements of a well written proxy voting policy: 1) objective / purpose; 2) clarity on delegation of responsibilities; 3) standards for voting guidelines; 4) reporting and monitoring criteria and; 5) consideration of treatment of securities on loan.

We suggest that the Board receive annual updates from the Proxy Committee on the third party agent's guideline recommendations. The purpose of such a review is to ensure the guidelines of the agent are in keeping with the Board's standards and expectations.

Tab 5



Memorandum

Investment Management Division

To: TRS Policy Committee
Brian Guthrie, Executive Director
Britt Harris, Chief Investment Officer
Jerry Albright, Deputy Chief Investment Officer

From: Sylvia Bell, Director of Investment Operations
Dennis Gold, Assistant General Counsel

Cc: Amy Barrett, Chief Audit Officer

Date: 11/18/2013

Soft Dollar refers to the use of “credits” to pay for goods, services or investment research that are related to the investment management function. These credits are generated via additional commissions paid for securities or futures trades by the TRS internally managed portfolios. For FY 2014, the program has a budget of \$24.7 million which is primarily allocated to investment research and data services and information systems such as Bloomberg and Factset.

The TRS Soft Dollar Policy outlines general principles and guidelines for the program in order to comply with applicable securities laws. These principles and guidelines include ensuring best efforts are made to obtain optimal trade execution, that Soft Dollar arrangements are properly documented and approved by TRS Legal Services, and all applicable laws are followed. The policy also outlines the types of services which may be purchased under Soft Dollar arrangements including investment research, data services, seminars and conferences, professional services such as consultants, and information systems used to support the investment management function.

Based on a review of the Soft Dollar program, we are not proposing any changes to the Soft Dollar Policy at this time.

Memo

To: **Board of Trustees, Teacher Retirement System of Texas**

From: Brady O'Connell, Steve Voss

Date: November 20th, 2013

Re: Review of Securities Lending and Soft Dollar Policies

Summary

We spend a considerable amount of time with the Board reviewing TRS's Investment Policy Statement, and rightly so, this document governs the vast bulk of TRS's investment activities. Several ancillary policies are also reviewed regularly, but generally on a less frequent basis. We are comfortable reviewing these other policies less frequently, as changes are not as common as with the IPS. We would note, however, that should the need arise these policies could be revisited at any time.

While no changes are being proposed to the Securities Lending and Soft Dollar policies, we did have a few comments to share with the Board.

Securities Lending Policy

The phrase below has been included in our reviews of securities lending policy in 2003, 2006, 2010, and we feel it is worth repeating yet again here.

We view securities lending predominantly as a way to offset some of the plan's custody and other expenses, not as a source to add value to an investment program. The focus of a securities lending program should be on controlling risk, not maximizing returns. In an agency-based securities lending program, the agent participates in the returns, without any risk sharing.

We believe securities lending programs should be conservative and the global financial crisis provided several examples of the risks inherent in certain aspects of these programs. We are comfortable with TRS continuing to lend securities under the policy as it currently stands but note that these programs should be very conservative in nature. The policy's Objections are very clearly stated in the policy that risks are to be controlled and the impact on the broader investment activities of TRS minimized while conservatively reinvesting collateral.

HEK has no recommendations for changes to the Securities Lending Policy at this time.

Soft Dollar Policy

Several modifications to this policy were put forth in 2012 and we do not see a need for further adjustments at this time. While we have expressed broad industry concerns about soft dollar practices in the past (they suggest inefficient resource allocation, potential for misuse), we note that TRS has taken steps to ensure soft dollars are not abused or misused. Section 3.3 describes the budgeting, accounting, controls, and reporting in place for the soft dollar program which will help ensure these assets are used to the further benefit of the investment program at TRS.

We are comfortable with the Soft Dollar Policy as it currently stands.



SOFT DOLLAR POLICY

(rev. June 7, 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 incidental 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.

Tab 6



Memorandum

Investment Management Division

To: TRS Policy Committee
Brian Guthrie, Executive Director
Britt Harris, Chief Investment Officer
Jerry Albright, Deputy Chief Investment Officer

From: Sylvia Bell, Director of Investment Operations
Dennis Gold, Assistant General Counsel
Mohan Balachandran, Managing Director of SAA/SV

Cc: Amy Barrett, Chief Audit Officer

Date: August 6, 2013

The securities lending program is a program through which TRS earns incremental revenue by lending a portion of its securities to approved borrowers in exchange for collateral. State Street Bank and Trust Company, the TRS custodian, acts as securities lending agent. The collateral is managed in a separate trust account for the benefit of TRS. Investments of cash collateral must comply with the TRS Securities Lending Policy. A portion of the revenue generated from the program is used to compensate TRS' custodian bank (State Street) for custodial and ancillary services in connection with trade settlement, asset servicing, accounting, performance measurement, collateral management, valuations, risk, and compliance services.

The TRS Securities Lending Policy outlines the objectives, controls, guidelines, restrictions and reporting required by TRS in order to manage the program. The objective of the program is to earn a competitive market return through a conservative lending program that seeks to preserve capital, minimize risk, and seamlessly integrate with the management of TRS portfolios. The TRS Board has ultimate authority over selection of the securities lending agent. The securities lending agent agrees to conduct the program with the skill and prudence of a professional securities lending agent and in accordance with applicable federal and state law. The remainder of the policy outlines the investment guidelines and restrictions in the collateral account including minimum collateral delivery and maintenance requirements and the types, credit quality, maturity, and interest rates requirements of investments in the account. As required by Section 825.303, Government Code, the lending agent is obligated to fully indemnify TRS against loss resulting from borrower default or the failure of the bank to properly execute its responsibilities under the securities lending agreement.

Based on a review of the securities lending program, we are not proposing any changes to the Securities Lending Policy at this time.

Memo

To: **Board of Trustees, Teacher Retirement System of Texas**

From: Brady O'Connell, Steve Voss

Date: November 20th, 2013

Re: Review of Securities Lending and Soft Dollar Policies

Summary

We spend a considerable amount of time with the Board reviewing TRS's Investment Policy Statement, and rightly so, this document governs the vast bulk of TRS's investment activities. Several ancillary policies are also reviewed regularly, but generally on a less frequent basis. We are comfortable reviewing these other policies less frequently, as changes are not as common as with the IPS. We would note, however, that should the need arise these policies could be revisited at any time.

While no changes are being proposed to the Securities Lending and Soft Dollar policies, we did have a few comments to share with the Board.

Securities Lending Policy

The phrase below has been included in our reviews of securities lending policy in 2003, 2006, 2010, and we feel it is worth repeating yet again here.

We view securities lending predominantly as a way to offset some of the plan's custody and other expenses, not as a source to add value to an investment program. The focus of a securities lending program should be on controlling risk, not maximizing returns. In an agency-based securities lending program, the agent participates in the returns, without any risk sharing.

We believe securities lending programs should be conservative and the global financial crisis provided several examples of the risks inherent in certain aspects of these programs. We are comfortable with TRS continuing to lend securities under the policy as it currently stands but note that these programs should be very conservative in nature. The policy's Objections are very clearly stated in the policy that risks are to be controlled and the impact on the broader investment activities of TRS minimized while conservatively reinvesting collateral.

HEK has no recommendations for changes to the Securities Lending Policy at this time.

Soft Dollar Policy

Several modifications to this policy were put forth in 2012 and we do not see a need for further adjustments at this time. While we have expressed broad industry concerns about soft dollar practices in the past (they suggest inefficient resource allocation, potential for misuse), we note that TRS has taken steps to ensure soft dollars are not abused or misused. Section 3.3 describes the budgeting, accounting, controls, and reporting in place for the soft dollar program which will help ensure these assets are used to the further benefit of the investment program at TRS.

We are comfortable with the Soft Dollar Policy as it currently stands.



SECURITIES LENDING POLICY

(rev. December 9, 2010)

This Securities Lending Policy is adopted by the Board of Trustees of the Teacher Retirement System of Texas (the "Board") pursuant to section 825.303 of the Texas Government Code. The staff shall include the provisions of this Policy in any contract with a securities lending agent engaged to lend TRS securities under Tex. Gov't Code section 825.303.

1. Objectives

The TRS securities lending program is designed to achieve the following objectives:

- 1.1.** Earn a competitive market return on securities lending through conservative securities lending practices, consistently with the preservation of capital.
- 1.2.** Minimize risk to a reasonable and acceptable level with respect to both the broker/borrower and the collateral.
- 1.3.** Operate the securities lending program so that it will not interfere with the management of the TRS portfolios.

2. Controls

- 2.1.** The Executive Director will assure that the responsibilities for the securities lending program are appropriately allocated and implemented as between the Chief Investment Officer and the Chief Financial Officer.
- 2.2.** The Chief Investment Officer and his or her designated staff are responsible for implementing and monitoring the securities lending program to insure compliance with TRS policy and guidelines and restrictions by the lending agent(s). Such monitoring will include at least an annual review of the creditworthiness of the lending agent(s). The Chief Financial Officer is responsible for monitoring the program and providing accurate and timely accounting for the securities lending program.
- 2.3.** The Board will select the lending agent(s) that will perform the securities-lending function. The selection will be made in accordance with applicable statutory requirements and any other factors deemed appropriate pursuant to a competitive evaluation process and due diligence by the staff.
- 2.4.** Staff will negotiate and execute a contract with the lending agent(s) selected by the Board consistent with this policy and applicable law.

2.5 The lending agent(s) selected by the Board shall agree to conduct securities lending activities pursuant to the following minimum requirements. Only the Board may determine whether to waive any such requirement.

2.5.1 The lending agent will not take actions that would cause TRS to engage in a non-exempt transaction prohibited by section 503 of the Internal Revenue Code ("Code").

2.5.2 The lending agent shall assist TRS staff to monitor the creditworthiness of all borrowers and shall obtain the most recent audited statement of a borrower's financial condition (or the most recent unaudited statement, if more recent) as part of this process.

2.5.3 The lending agent shall perform its responsibilities in a manner consistent with that of a professional securities lending agent with the care, skill prudence and diligence under the circumstances then prevailing that a professional securities lending agent acting in like capacity and familiar with such matters would use, all in accordance with applicable federal and state laws.

3. Guidelines

The TRS securities lending program will include the following types of loan collateral, short-term cash collateral investments, and loan terms:

- 3.1. Securities eligible for lending.** Domestic and international equity and fixed income securities held by a bank custodian may be loaned. TRS securities held by a prime broker are not eligible for securities lending by the prime broker.
- 3.2. Compliance monitoring.** Except as specifically provided in these guidelines with respect to maintaining the required market value of collateral for loaned securities, compliance with these guidelines shall be determined as of the time of the investment of cash collateral.
- 3.3. Collateral received.** Collateral received from borrowers should be delivered in the form of cash or government securities eligible for book entry in either the Federal Reserve System or the Participants Trust Company, or their respective successors.
- 3.4. Cash collateral collective investments authorized.** Cash collateral may be invested in (a) any collective trust fund the assets of which are invested in compliance with these guidelines, is qualified for exemption from taxation under Internal Revenue Service Ruling 81-100, 1981-1 C.B. 326, or any successor ruling, regulation or similar pronouncement (the "qualified trust fund exemption"), and of which the current TRS bank custodian or securities lending agent is the trustee; or (b) if approved by the Chief Investment Officer, (1) any open-ended money market mutual fund managed by a registered investment advisor or (2) any short-term money market investment collective trust fund that has the qualified trust fund exemption and of which the current TRS bank custodian or securities lending agent is the trustee. No more than 10% of cash collateral may be invested in funds authorized in subsection (b)(2) of the preceding sentence.
- 3.5. Cash collateral authorized portfolio investments.** All investments of cash collateral must be denominated in U.S. dollars. When the borrower of a TRS security delivers cash collateral to secure its obligations to redeliver the borrowed security, such cash collateral shall be invested only in the following types of instruments in accordance with these guidelines:

- 3.5.1** U.S. Government Securities and GSE Securities.
- 3.5.2** Money market instruments including but not limited to commercial paper, master notes, time deposits, bank certificates of deposit and bankers' acceptances.
- 3.5.3** Repurchase agreement, either deliverable or triparty, that are fully collateralized by collateral determined by the lending agent consistently with its established practices and in its reasonable discretion, which collateral may include, but not be limited to, any of the following: U.S. Treasuries, U.S. Treasury STRIPS, Federal Agency Obligations, Mortgage Backed Securities, Agency REMICS/CMOs, Commercial Paper, Corporates, Asset Backed Securities, Equities, Whole Loans, or any combination thereof. The lending agent shall notify TRS when other types of collateral are used. The market value of collateral received under any repurchase agreement must exceed the market value of the cash distributed by a margin of not less than two percent.
- 3.5.4** Fixed or floating rate debt obligations, including, but not limited to, automobile loans (including dealer inventory financing), credit card receivables, student loans, home equity, and residential and commercial mortgage issues. Any floating rate obligation must meet the following criteria:
 - 3.5.4.1** Interest must be based upon a coupon formula that resets at least quarterly.
 - 3.5.4.2** The coupon formula must be tied to one of the following: the Federal Funds Effective Rate, the U.S. prime lending rate, the three-month U.S. Treasury Bill rate, the one- or three-month London Interbank Offered Rate (LIBOR), or a published composite index for interest rates on commercial paper or certificates of deposit.
 - 3.5.4.3** The coupon formula must be based upon a constant spread relationship between the security coupon rate and the reference rate. Step-up or -down floaters are permitted. Prohibited floaters include, but are not limited to, complex derivative structures such as inverse floating rate notes, and defined range floating rate notes. No investment may be made in any instrument for which a negative coupon interest rate is possible. Zero coupon securities such as commercial paper, short term discount notes, original issue discount notes, and Treasury bills purchased at prevailing market yields are acceptable for purchase.
- 3.5.5** All other fixed and floating rate obligations, including but not limited to, corporate and medium term notes.
- 3.5.6** Derivative instruments, including but not limited to, futures contracts and options on futures, interest rate swaps, credit default swaps, total return swaps, and options on securities and securities indices. No individual derivative instrument may exceed applicable guideline limits, and no derivative exposure, either individually or in the aggregate, may cause the collateral fund to exceed applicable guideline limits. All derivatives exposure shall be measured on a net basis.

3.6. Maturity limits for individual cash collateral investments.

- 3.6.1** At the time of purchase, the expected final maturity of any individual fixed-rate instrument (expected weighted-average life in the case of amortizing fixed-rate investments) may not exceed 36 months.
- 3.6.2** At the time of purchase, the expected final maturity of any individual floating-rate instrument (expected weighted-average life in the case of amortizing floating-rate investments) may not exceed seven years.

3.7. Portfolio maturity limits for cash collateral investments.

3.7.1 The par value, dollar-weighted average maturity of the collective cash collateral investment portfolio may not exceed 120 days. For purposes of this calculation, the maturity of any floating rate obligation may be considered the remaining time to the instrument's next coupon reset. Additionally, for the purpose of this calculation, the weighted-average life of any amortizing, fixed-rate obligation may be substituted for the instrument's maturity.

3.8. Minimum credit quality ratings for individual cash collateral investments.

3.8.1 Each instrument having a maturity at the time of purchase of less than 13 months must qualify as "first tier securities" within Rule 2a-7 under the Investment Company Act of 1940.

3.8.2 Each instrument having a maturity at the time of purchase greater than 13 months must be rated at the time of purchase within the highest major, long-term rating category of an NRSRO (e.g., Moody's A3 or Standard & Poor's A-), or, if unrated, be determined to be of comparable quality by the collective trust fund's trustee.

3.9. Downgraded Securities. If, subsequent to purchase, a security is downgraded by an NRSRO such that the security no longer meets the minimum rating requirements prescribed in Section 8 above, the securities lending agent shall inform one or more of the TRS Chief Investment Officer, Deputy Chief Investment Officer, or Director of Risk Management of the downgrade in writing or through electronic transmittal within 72 hours of the action. Upon receipt of such a notice, the Director of Risk Management, or his or her designee, will conduct a review of the downgraded security and submit a recommended action to the CIO or the Deputy CIO within 72 hours of the receipt of written notice from the securities lending agent. Within 48 hours of the receipt of this recommendation, the CIO or his or her designee will instruct the securities lending agent as to how to administer the downgraded security.

3.10. Initial collateral; marking to market. Loaned securities and initial collateral delivered by the borrower of TRS securities shall be marked to current market value at the close of each business day, as "business day" may be defined in an applicable securities lending authorization agreement between TRS and the securities lending agent.

3.10.1 Domestic securities. For purposes of this policy, domestic securities are securities denominated in U.S. dollars and whose primary trading markets are in the United States. The initial collateral delivered to secure a loan of domestic securities must have a market value of at least 102% of the initial market value of the loaned securities. If, while the loan is outstanding, the current market value of the collateral initially delivered by the borrower is less than 100% of the current market value of the loaned securities, the securities lending agent must require the borrower to deliver additional collateral to restore the value of the collateral to 102% of the market value of the loaned securities.

3.10.2 International securities. For purposes of this policy, international securities are securities not denominated in U.S. dollars or whose primary trading markets are not in the United States. The initial collateral delivered to secure a loan of international securities must have a market value of at least 105% of the initial market value of the loaned securities. If, while the loan is outstanding, the current market value of the collateral initially delivered by the borrower is less than 105% of the current market value of the loaned securities, the securities lending agent must require the borrower to

deliver additional collateral to restore the market value of the collateral to 105% of the current market value of the loaned securities.

3.10.3 Invested cash collateral. When cash collateral is invested for the account of TRS, the borrower is not required to deliver additional collateral based on a drop in the market value of such investments except as provided in the applicable securities loan agreement.

3.11. Loans must be callable by TRS or the lending agent so as to make timely delivery on the applicable trade settlement date if the loaned security is sold by a TRS portfolio. Any term loans that are not callable must be approved in advance by the Chief Investment Officer or his or her designee.

4. Restrictions

4.1. Collectively, the maturity limits established for individual securities and the weighted average limits for the entire cash collateral portfolio, as specified in paragraphs 3.6.1 and 3.6.2, respectively, coupled with the parameters defined for floating rate securities in paragraph 3.5.4, are intended to control the market-value sensitivity of the portfolio to overall changes in interest rates. In addition to these parameters, the cash collateral portfolio will be constructed in a manner that will limit the sensitivity of the fair market value of the portfolio to changes in interest rates as follows:

4.1.1. "Change in interest rates" is defined as an instantaneous, parallel shift in yield curves affecting the entire term structure of interest rates, as indicated by the yields on U.S. Treasury securities, and the interest rate indices referenced in paragraph 3.5.4.2.

4.1.2. The fair market value sensitivity of the portfolio and individual investments will be calculated as the percentage change in the fair market value of the portfolio or investment per 1 basis point change in interest rates paid per annum. Additionally, the fair market value sensitivity limit will be applied to changes in interest rates of any and every magnitude (i.e., the ratio of the percentage change in the fair market value of the portfolio to a 1 basis point change in interest rates must remain within the specified limits if interest rates change by any amount).

4.1.3. The fair market value of the portfolio must not decline by more than .0035 percent per 1 basis point change in interest rates.

4.2. The maximum market value of TRS securities on loan at any one time shall not exceed 30% of the market value of the total TRS investment portfolio.

4.3. No mortgages or mortgage-backed securities may be loaned in "dollar roll" transactions in which the identical borrowed securities are not returned to TRS.

4.4. On at least an annual basis, the lending agent will furnish a list of potential borrowers and corresponding dollar loan limits. The Chief Investment Officer or his/her designee has the discretion to remove any name from the potential borrower list and may obtain an updated list of potential borrowers on request.

4.5. Securities lending agreements entered into by the securities lending agent will be covered by written contracts consistent with this policy and applicable law.

4.6. Diversification requirements.

- 4.6.1** No more than 10% of total cash collateral investments may be made in issues of any one non-governmental entity. There are no concentration limits for U.S. Treasury and Agency securities. The single counterparty exposure on a repurchase agreement may not exceed 5% of the total cash collateral account unless those transactions are covered by an indemnification agreement that is sponsored by an organization that bears a long-term NRSRO rating of A- or better and is enhanced by acceptable collateral as specified by section 5.3 of the guidelines. For purposes of this requirement, counterparty includes the counterparty's subsidiaries.
- 4.6.2** Exclusive of approved money market funds, no more than 40% of cash collateral investments may be made in asset-backed commercial paper.
- 4.6.3** Exclusive of approved money market funds, no more than 50% of cash collateral investments may be made in foreign debt obligations.
- 4.7.** Investments in structured notes are prohibited with the exception of those listed in Section 3.5 of the guidelines.

5. Reports

Staff will review the progress of the securities lending program, including an overall evaluation of the performance of the lender(s) and the program, with the Risk Committee of the Board of Trustees at least annually. This review will include a written report on the lending volume, income generated, and the most-recent maximum broker loan limits.

Tab 7

Teacher Retirement System of Texas



Trustee Ethics Policy Revisions Policy Committee of the Board of Trustees Meeting December 12-13, 2013

Reinhart Boerner Van Deuren s.c. and TRS Legal Services Division





Trustee Ethics Policy Recommended Revisions

- Revised to permit Trustees to continue holding preexisting investments in TRS contractors before they became a Trustee or before entity becomes a vendor
 - Subject to certain conditions, such as disclosure of the interest and recusal from discussions concerning those contractors



Trustee Ethics Policy Recommended Revisions

- Revised to permit Trustees to continue holding preexisting investments in private investment funds in which TRS is considering investing before they became a Trustee or before TRS invests
 - Subject to certain conditions, such as disclosure of the interest and recusal from discussions concerning those investment funds



Trustee Ethics Policy Recommended Revisions

- Gift and Benefit restrictions revised to be consistent with Employee Ethics Policy on
 - Certain Meals, Transportation and Lodging



Legal Services

Memorandum

DATE: December 2, 2013

TO: Policy Committee of the Board of Trustees

FROM: Carolina de Onís, General Counsel
Timothy P. Wei, Assistant General Counsel

COPY: Board of Trustees
Steven Huff, Fiduciary Counsel

RE: Proposed Changes to the Trustee Ethics Policy

In the last legislative session, the Legislature amended TRS' ethics statute, Gov't Code § 825.212. The new legislation affected the Trustee Ethics Policy, in particular limitations on Trustees' personal investments. Attached please find a red-lined version of proposed changes to the Trustee Ethics Policy (Exhibit A), a clean copy of the Policy with proposed revisions (Exhibit B), and a Board resolution adopting the revised Policy (Exhibit C).

The proposed revisions implement changes made possible by the new legislation. They also harmonize the gift restrictions under the Trustee Ethics Policy with those imposed on employees under the Employee Ethics Policy.

Legal Services worked closely with fiduciary counsel in preparing the proposed revisions to the Trustee Ethics Policy. IMD and Internal Audit were provided drafts of the revisions and the opportunity to comment upon them.

Exhibit A

Teacher Retirement System of Texas Board of Trustees Ethics Policy

Adopted December 8, 2011; Revised December _____, 2013

The Board of Trustees of the Teacher Retirement System of Texas (TRS) has adopted this Ethics Policy so that high ethical standards are followed by the TRS Board of Trustees. This Policy is based upon the duty of loyalty that all Trustees, as fiduciaries, owe to the members and retirees of TRS. This Policy also affirms the Board's commitment to fairness, openness, and transparency in its operations. It is important to the Board that it preserves the confidence of the membership, the employers, government officials, and the general public by avoiding even the appearance of impropriety.

Every Trustee has not only the obligation to follow the provisions of the Texas State Constitution, Texas statutes, and federal law applicable to TRS but also has the obligation to adhere to and promote high ethical principles, including those set forth below.

- Act solely in the best interest of the fund and the TRS members, retirees, and beneficiaries.
- Act with prudence, competence, independence, and objectivity.
- Adhere to laws, rules, regulations, bylaws, and policies adopted by the Board in overseeing investments, pension and healthcare benefits administration, and general operations of TRS.
- Act in a transparent manner in Board and Committee meetings when deliberations of official business take place.
- Maintain confidentiality when required to do so by law or by contract.
- Cooperate fully if questioned about an ethical matter related to TRS.

This Ethics Policy is a guide, not a complete statement of all fiduciary responsibilities; therefore, compliance with this Policy does not necessarily ensure compliance with all legal requirements. The provisions below are to aid Trustees in identifying conflicts of interest, avoiding them, disclosing them in a proper way, and managing them if they cannot be avoided. A "conflict of interest" is where a Trustee has, or reasonably could be perceived to have, an incentive to decide a matter or provide a recommendation for a reason that would be inconsistent with acting solely in the interest of TRS, or that would provide a financial benefit to the Trustee. It also includes a personal or business relationship or interest that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to TRS. The provisions are also meant to assist Trustees in identifying prohibited conduct and circumstances that cannot be managed through disclosure or recusal from voting on issues.

This Policy applies only to the Board, and the TRS staff has a separate ethics policy applicable to them.

1. PERSONAL ADVANTAGE

Trustees ~~will~~shall not use their position on the Board for financial gain, obtaining privileges, avoiding the consequences of illegal acts, or for obtaining more favorable terms on loans, investments, or TRS benefits that are not available to others. This prohibition applies whether the Trustees seek a personal advantage or gain for themselves or for a third party.

2. GIFTS

A Trustee shall not solicit or accept any gifts (e.g., objects, services, favors, entertainment, preferential treatment, vacations, or property) from any donor, except as provided below. Such gifts cannot be accepted by Trustees for themselves or for their families or business partners. While this standard ~~is~~may be stricter than what is required by law, the Board has decided it is best practice to place limitations on gifts.

The following are allowed under this Policy as long as the Trustee is not influenced by the gift or does not have knowledge that it was offered with intent to influence the Trustee in the discharge of the Trustee's official duties to TRS:

- Gifts conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Trustee;
- Gifts having a value of less than \$50 (but in no event cash, negotiable instruments, or cash equivalents such as gift cards), including the following examples:
 - Tokens of nominal value that are distributed to all attendees at conferences, seminars, meetings, and receptions;
 - Meals, transportation, lodging, or entertainment, regardless of whether the donor is present;
 - Modest food items and other perishable items given on a holiday or other infrequent occasions;
- ~~Ground transportation~~Transportation valued at \$50 or more, ~~if provided by~~in connection with a business meeting, business meal, business conference or reception that serves a TRS vendors who are in good standing or by an existing general partner or representative of a private investment fund in which TRS has an existing investment, as long as purpose and the vendor, general partner, or representative of the fund~~donor~~ is present at the meeting, meal, conference or reception;
- Meals valued at \$50 or more, ~~if provided by TRS vendors who are in good standing and who are~~in connection with a business meeting, business meal, business conference or reception, and the donor is present;
- Lodging valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception.
- Gifts given on special occasions between Trustees or between Trustees and TRS employees;
- Food and entertainment included in the conference or seminar fee;
- Travel expenses paid for by another governmental entity or a non-profit organization related to the public retirement industry, provided there are no prohibitive circumstances as determined after consultation pursuant to Section 11~~3~~.

To avoid not only improper conduct but also the appearance of impropriety, Trustees should consider whether the circumstances associated with an expense payment or a courtesy by another would draw unfavorable public criticism. If this appears to be the case, Trustees should modify their behavior even if their acceptance of an expense payment, a courtesy, or gift is otherwise allowed.

3. USE OF TRS RESOURCES

Trustees shall not use TRS facilities, equipment, or staff for their personal benefit or for any commercial or political purposes. Trustees may use TRS resources that are reasonably necessary to support them in their role on the Board or that facilitate their attendance at Board meetings, if the use of TRS resources involves only an insignificant cost, does not impede TRS business, and does not create an appearance of impropriety.

4. PERSONAL INVESTMENTS

Trustees shall take care that their personal investments do not create a conflict of interest that impacts their loyalty to TRS and their ability to function as a Trustee. While serving on the TRS Board, Trustees, their spouses, and dependents shall not make personal investments ("co-invest"), directly or indirectly, in private investment funds in which TRS has invested. ~~If~~However, a Trustee becomes aware that such, a co-investmentTrustee's spouse or dependent may continue to hold an investment in a private investment fund if the investment was held prior to TRS' investment or prior to the date the individual became a Trustee. If a Trustee becomes aware that any co-investment, or potential co-investment, exists, the Trustee shall disclose the investment and date of purchase to the Executive Director. If a Trustee becomes aware that TRS is considering an investment in a private investment fund in which the Trustee, or the Trustee's spouse or dependent already has invested, in accordance with the procedure set forth in

Section 9. The Trustee shall ~~notify~~ not receive any non-public or confidential information from TRS related to the Executive Director promptly. ~~co-investment unless the Board provides a waiver as set forth in Section 9.~~ A Trustee shall not make a new personal investment in a private investment fund if TRS has informed the Trustee that TRS is considering investing in the fund.

In addition, Trustees, their spouses, and dependents may ~~not~~ hold direct ownership interests (e.g., stock or partnership interests) in entities that contract with TRS, provided that the ownership interest arose prior to the individual becoming a Trustee or prior to the entity becoming a TRS contractor. A Trustee who holds the foregoing preexisting investments must disclose his or her interest in accordance with the procedure set forth in Section 9. In addition, a Trustee who holds the foregoing preexisting investments must disclose and recuse him- or herself from (1) discussions and decisions involving contracts or potential contracts with contractors in which the Trustee holds such interests and (2) discussions and decisions involving delegations to, or selection of, staff assigned to award or negotiate contracts or potential contracts with contractors in which the Trustee holds such interests. The Trustee shall not receive any non-public or confidential information from TRS related to the contract or potential contract unless the Board provides a waiver as set forth in Section 9. Notwithstanding the above, a Trustee is ineligible, and must resign, if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS. TRS will furnish to the Trustees a list of its contractors from time to time. Mutual funds ~~and~~ exchange-traded funds and other similar funds are not affected by this ~~prohibition.~~ provision.

Although the Board has largely delegated the selection of investment managers and securities to the staff, Trustees should not use their personal knowledge of upcoming TRS investments or material developments regarding TRS investments, about which the general public is not aware, for the financial gain of themselves or their family, business associates, or friends.

5. REFERRALS

If approached by persons seeking to do business with TRS, Trustees shall 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 concerns.

6. BLACKOUT PERIODS

Decisions made by the Board are to be free from improper or undisclosed influence. From time to time, in the ordinary course of business, TRS will issue requests for proposals, information or qualifications (RFPs, RFIs, and RFQs) for goods and services. If the request is one that involves a decision by the Board or a recommendation of a Board Committee, Trustees shall not privately communicate or meet with potential vendors on the subject of the request during the procurement period. Similarly, if the Board is considering 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. Obvious exceptions to this are communications and meetings the Board or a Committee participates in as part of due diligence in the selection process. Notice will be provided by the Executive Director to Trustees regarding the applicable procurement period or the decision-making period in accordance with procedures developed by the Executive Director.

7. HONESTY

In their role on the TRS Board, Trustees ~~will~~ shall conduct themselves with utmost honesty and not intentionally provide false or misleading information or intentionally conceal information that should be disclosed.

8. DISCLOSURES

Before the Board or a Board Committee discusses a matter where a Trustee has, or is likely to have, a conflict of interest, the Trustee is to disclose any conflict of interest or potential conflict to the Executive Director. Potential conflicts could arise from such things as a Trustee's, spouse's, or dependent's:

- Business relationships or interests;
- Campaign contributions or solicitations;
- Ownership or financial interests;
- Family relationships;
- Close personal friendships;
- Employment by a TRS business vendor.

The Executive Director, in consultation with legal counsel, will assist the Trustee in determining whether a conflict exists and whether further disclosure is required.

Trustees are also to disclose to the Executive Director the financial information as required by state law, any legal proceedings they are involved with that affects or could impact their ability to serve on the Board, and matters relating to co-fiduciary responsibility.

9. RECUSALS AND CURING CONFLICTS OF INTEREST

Trustees should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest. If a conflict cannot be avoided, a Trustee should attempt to cure the conflict. If a conflict cannot be cured, a Trustee with a conflict of interest ~~must~~ shall comply with one of the following procedures.

Standard Procedure

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, disclose the conflict at an open meeting and recuse him- or herself from discussing or voting on the matter.

Optional Waiver Request

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, request the Board of Trustees to waive the conflict at an open meeting. In determining whether to waive the conflict, the non-conflicted Trustees shall consider at a minimum the following factors, as applicable:
 - The number of Trustees with the conflict;
 - The nature of the conflict;
 - The materiality of the conflict; and
 - Whether the Trustee has a personal or private interest, as defined in Texas Government Code section 572.058, in the measure, proposal or decision pending before the Board.

If the non-conflicted Trustees determine the Trustee has a personal or private interest, the conflict may not be waived and the conflicted Trustee must recuse him- or herself according to the Standard Procedure.

Upon a Trustee's disclosure of a conflict of interest, the conflicted Trustee shall not receive any non-public or confidential information from TRS on that matter that gave rise to the conflict, unless the non-conflicted Trustees have voted to waive the conflict for that individual.

In some instances, however, recusal or waiver is not sufficient to avoid violations of law. For example, recusal or waiver does not cure a violation of Texas conflict of interest law that results from (1)-a gift, (2)-employment or compensation, or (3)-a personal investment that might reasonably be expected to affect the ~~Trustee's~~ Trustee's independence of judgment in the performance of TRS duties. Similarly,

recusal or waiver does not cure a violation of Texas conflict of interest law that results from having accepted employment that a Trustee might reasonably expect would require or induce the Trustee to disclose TRS' TRS' confidential information. Trustees may ask the Executive Director or General Counsel for guidance on these matters.

10. ADVICE ABOUT THE ETHICS POLICY

The Board recognizes that, at times, ethical issues might fall into a "gray" area where the acceptable ethical conduct is not obvious. In such circumstances, Trustees are to seek advice from the Executive Director, General Counsel or fiduciary counsel and, based on this advice, use their best judgment to uphold the highest ethical standards of behavior.

11. EVENTS THAT MAY MERIT LEGAL CONSULTATION

This Policy reflects general ethical principles and does not attempt to cover every conceivable situation where a Trustee may face an ethical dilemma or violate a law that could result in civil damages or criminal prosecution (see, e.g., Texas Government Code Chapters 572, 825, and 2203; and Texas Penal Code Chapters 36 and 39). Therefore, in addition to the specific circumstances that are covered in other sections of this Policy, the following checklist sets forth common events that might merit consultation with the TRS General Counsel or outside fiduciary counsel.

- Change in employment of yourself or spouse.
- Change in your marital status.
- Children become employed by someone doing business or likely to do business with TRS.
- A family member is considering employment at TRS.
- Sale of all or a part of your business.
- Start of a new business.
- Being asked to serve in another governmental office.
- Being contacted about litigation involving TRS.
- Information about an alleged violation of law or ethics.
- Request from third parties for favors, accommodations, or disclosure of information.
- A benefit or gift from a TRS vendor, potential vendor, or member.
- An invitation to speak on behalf of TRS at a conference, meeting, or seminar.
- Someone offers to pay or waive your expenses in connection with a conference or meeting.

12. CO-FIDUCIARY RESPONSIBILITY

If a Trustee is aware of illegal activity, a breach of fiduciary duty by another Trustee or by someone else serving as a fiduciary to TRS, or a violation of this Policy, the Trustee ~~is to~~ promptly disclose such activity or breach to the Executive Director and the Chair of the Ethics Committee of the Board. No retaliatory action will be taken toward any individual who, in good faith, makes a report or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.

13. TRAINING AND ANNUAL ACKNOWLEDGEMENT

Annually, every Trustee shall attend ethics training provided by TRS and acknowledge in writing that he or she understands the Ethics Policy, has abided by it, and will abide by it. New Trustees are to make this written acknowledgment when they take office.

14. CONSEQUENCES FOR VIOLATIONS

For Trustees who violate this Ethics Policy, the Board may impose sanctions including public reprimand, removal from service on Committees, censure, requests for resignation from the Board, or other appropriate parliamentary measures.

Exhibit B

Teacher Retirement System of Texas Board of Trustees Ethics Policy

Adopted December 8, 2011; Revised December _____, 2013

The Board of Trustees of the Teacher Retirement System of Texas (TRS) has adopted this Ethics Policy so that high ethical standards are followed by the TRS Board of Trustees. This Policy is based upon the duty of loyalty that all Trustees, as fiduciaries, owe to the members and retirees of TRS. This Policy also affirms the Board's commitment to fairness, openness, and transparency in its operations. It is important to the Board that it preserves the confidence of the membership, the employers, government officials, and the general public by avoiding even the appearance of impropriety.

Every Trustee has not only the obligation to follow the provisions of the Texas State Constitution, Texas statutes, and federal law applicable to TRS but also has the obligation to adhere to and promote high ethical principles, including those set forth below.

- Act solely in the best interest of the fund and the TRS members, retirees, and beneficiaries.
- Act with prudence, competence, independence, and objectivity.
- Adhere to laws, rules, regulations, bylaws, and policies adopted by the Board in overseeing investments, pension and healthcare benefits administration, and general operations of TRS.
- Act in a transparent manner in Board and Committee meetings when deliberations of official business take place.
- Maintain confidentiality when required to do so by law or by contract.
- Cooperate fully if questioned about an ethical matter related to TRS.

This Ethics Policy is a guide, not a complete statement of all fiduciary responsibilities; therefore, compliance with this Policy does not necessarily ensure compliance with all legal requirements. The provisions below are to aid Trustees in identifying conflicts of interest, avoiding them, disclosing them in a proper way, and managing them if they cannot be avoided. A "conflict of interest" is where a Trustee has, or reasonably could be perceived to have, an incentive to decide a matter or provide a recommendation for a reason that would be inconsistent with acting solely in the interest of TRS, or that would provide a financial benefit to the Trustee. It also includes a personal or business relationship or interest that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to TRS. The provisions are also meant to assist Trustees in identifying prohibited conduct and circumstances that cannot be managed through disclosure or recusal from voting on issues.

This Policy applies only to the Board, and the TRS staff has a separate ethics policy applicable to them.

1. PERSONAL ADVANTAGE

Trustees shall not use their position on the Board for financial gain, obtaining privileges, avoiding the consequences of illegal acts, or for obtaining more favorable terms on loans, investments, or TRS benefits that are not available to others. This prohibition applies whether the Trustees seek a personal advantage or gain for themselves or for a third party.

2. GIFTS

A Trustee shall not solicit or accept any gifts (*e.g.*, objects, services, favors, entertainment, preferential treatment, vacations, or property) from any donor, except as provided below. Such gifts cannot be accepted by Trustees for themselves or for their families or business partners. While this standard may be stricter than what is required by law, the Board has decided it is best practice to place limitations on gifts.

The following are allowed under this Policy as long as the Trustee is not influenced by the gift or does not have knowledge that it was offered with intent to influence the Trustee in the discharge of the Trustee's official duties to TRS:

- Gifts conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Trustee;
- Gifts having a value of less than \$50 (but in no event cash, negotiable instruments, or cash equivalents such as gift cards), including the following examples:
 - Tokens of nominal value that are distributed to all attendees at conferences, seminars, meetings, and receptions;
 - Meals, transportation, lodging, or entertainment, regardless of whether the donor is present;
 - Modest food items and other perishable items given on a holiday or other infrequent occasions;
- Transportation valued at \$50 or more if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception;
- Meals valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception, and the donor is present;
- Lodging valued at \$50 or more, if provided in connection with a business meeting, business meal, business conference or reception that serves a TRS purpose and the donor is present at the meeting, meal, conference or reception.
- Gifts given on special occasions between Trustees or between Trustees and TRS employees;
- Food and entertainment included in the conference or seminar fee;
- Travel expenses paid for by another governmental entity or a non-profit organization related to the public retirement industry, provided there are no prohibitive circumstances as determined after consultation pursuant to Section 11.

To avoid not only improper conduct but also the appearance of impropriety, Trustees should consider whether the circumstances associated with an expense payment or a courtesy by another would draw unfavorable public criticism. If this appears to be the case, Trustees should modify their behavior even if their acceptance of an expense payment, a courtesy, or gift is otherwise allowed.

3. USE OF TRS RESOURCES

Trustees shall not use TRS facilities, equipment, or staff for their personal benefit or for any commercial or political purposes. Trustees may use TRS resources that are reasonably necessary to support them in their role on the Board or that facilitate their attendance at Board meetings, if the use of TRS resources involves only an insignificant cost, does not impede TRS business, and does not create an appearance of impropriety.

4. PERSONAL INVESTMENTS

Trustees shall take care that their personal investments do not create a conflict of interest that impacts their loyalty to TRS and their ability to function as a Trustee. While serving on the TRS Board, Trustees, their spouses, and dependents shall not make personal investments ("co-invest"), directly or indirectly, in private investment funds in which TRS has invested. However, a Trustee, a Trustee's spouse or dependent may continue to hold an investment in a private investment fund if the investment was held prior to TRS' investment or prior to the date the individual became a Trustee. If a Trustee becomes aware that any co-investment, or potential co-investment, exists, the Trustee shall disclose the investment and date of purchase in accordance with the procedure set forth in Section 9. The Trustee shall not receive any non-public or confidential information from TRS related to the co-investment unless the Board provides a waiver as set forth in Section 9. A Trustee shall not make a new personal investment in a private investment fund if TRS has informed the Trustee that TRS is considering investing in the fund.

Trustees, their spouses, and dependents may hold direct ownership interests (e.g., stock or partnership interests) in entities that contract with TRS, provided that the ownership interest arose prior to the

individual becoming a Trustee or prior to the entity becoming a TRS contractor. A Trustee who holds the foregoing preexisting investments must disclose his or her interest in accordance with the procedure set forth in Section 9. In addition, a Trustee who holds the foregoing preexisting investments must disclose and recuse him- or herself from (1) discussions and decisions involving contracts or potential contracts with contractors in which the Trustee holds such interests and (2) discussions and decisions involving delegations to, or selection of, staff assigned to award or negotiate contracts or potential contracts with contractors in which the Trustee holds such interests. The Trustee shall not receive any non-public or confidential information from TRS related to the contract or potential contract unless the Board provides a waiver as set forth in Section 9. Notwithstanding the above, a Trustee is ineligible, and must resign, if the Trustee or the Trustee's spouse owns or controls, directly or indirectly, more than a 10% interest in a business entity or other organization receiving funds from TRS. TRS will furnish to the Trustees a list of its contractors from time to time. Mutual funds, exchange traded funds and other similar funds are not affected by this provision.

Although the Board has largely delegated the selection of investment managers and securities to the staff, Trustees should not use their personal knowledge of upcoming TRS investments or material developments regarding TRS investments, about which the general public is not aware, for the financial gain of themselves or their family, business associates, or friends.

5. REFERRALS

If approached by persons seeking to do business with TRS, Trustees shall 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 concerns.

6. BLACKOUT PERIODS

Decisions made by the Board are to be free from improper or undisclosed influence. From time to time, in the ordinary course of business, TRS will issue requests for proposals, information or qualifications (RFPs, RFIs, and RFQs) for goods and services. If the request is one that involves a decision by the Board or a recommendation of a Board Committee, Trustees shall not privately communicate or meet with potential vendors on the subject of the request during the procurement period. Similarly, if the Board is considering 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. Obvious exceptions to this are communications and meetings the Board or a Committee participates in as part of due diligence in the selection process. Notice will be provided by the Executive Director to Trustees regarding the applicable procurement period or the decision-making period in accordance with procedures developed by the Executive Director.

7. HONESTY

In their role on the TRS Board, Trustees shall conduct themselves with utmost honesty and not intentionally provide false or misleading information or intentionally conceal information that should be disclosed.

8. DISCLOSURES

Before the Board or a Board Committee discusses a matter where a Trustee has, or is likely to have, a conflict of interest, the Trustee is to disclose any conflict of interest or potential conflict to the Executive Director. Potential conflicts could arise from such things as a Trustee's, spouse's, or dependent's:

- Business relationships or interests;
- Campaign contributions or solicitations;
- Ownership or financial interests;
- Family relationships;
- Close personal friendships;
- Employment by a TRS business vendor.

The Executive Director, in consultation with legal counsel, will assist the Trustee in determining whether a conflict exists and whether further disclosure is required.

Trustees are also to disclose to the Executive Director the financial information as required by state law, any legal proceedings they are involved with that affects or could impact their ability to serve on the Board, and matters relating to co-fiduciary responsibility.

9. CURING CONFLICTS OF INTEREST

Trustees should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest. If a conflict cannot be avoided, a Trustee should attempt to cure the conflict. If a conflict cannot be cured, a Trustee with a conflict of interest shall comply with one of the following procedures.

Standard Procedure

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, disclose the conflict at an open meeting and recuse him- or herself from discussing or voting on the matter.

Optional Waiver Request

- Disclose the conflict of interest to the Executive Director.
- If the source of the Trustee's conflict is to be discussed at a meeting, request the Board of Trustees to waive the conflict at an open meeting. In determining whether to waive the conflict, the non-conflicted Trustees shall consider at a minimum the following factors, as applicable:
 - The number of Trustees with the conflict;
 - The nature of the conflict;
 - The materiality of the conflict; and
 - Whether the Trustee has a personal or private interest, as defined in Texas Government Code section 572.058, in the measure, proposal or decision pending before the Board.

If the non-conflicted Trustees determine the Trustee has a personal or private interest, the conflict may not be waived and the conflicted Trustee must recuse him- or herself according to the Standard Procedure.

Upon a Trustee's disclosure of a conflict of interest, the conflicted Trustee shall not receive any non-public or confidential information from TRS on that matter that gave rise to the conflict, unless the non-conflicted Trustees have voted to waive the conflict for that individual.

In some instances, however, recusal or waiver is not sufficient to avoid violations of law. For example, recusal or waiver does not cure a violation of Texas conflict of interest law that results from (1) a gift, (2) employment or compensation, or (3) a personal investment that might reasonably be expected to affect the Trustee's independence of judgment in the performance of TRS duties. Similarly, recusal or waiver does not cure a violation of Texas conflict of interest law that results from having accepted employment that a Trustee might reasonably expect would require or induce the Trustee to disclose TRS' confidential information. Trustees may ask the Executive Director or General Counsel for guidance on these matters.

10. ADVICE ABOUT THE ETHICS POLICY

The Board recognizes that, at times, ethical issues might fall into a "gray" area where the acceptable ethical conduct is not obvious. In such circumstances, Trustees are to seek advice from the Executive Director, General Counsel or fiduciary counsel and, based on this advice, use their best judgment to uphold the highest ethical standards of behavior.

11. EVENTS THAT MAY MERIT LEGAL CONSULTATION

This Policy reflects general ethical principles and does not attempt to cover every conceivable situation where a Trustee may face an ethical dilemma or violate a law that could result in civil damages or criminal prosecution (see, e.g., Texas Government Code Chapters 572, 825, and 2203; and Texas Penal Code Chapters 36 and 39). Therefore, in addition to the specific circumstances that are covered in other sections of this Policy, the following checklist sets forth common events that might merit consultation with the TRS General Counsel or outside fiduciary counsel.

- Change in employment of yourself or spouse.
- Change in your marital status.
- Children become employed by someone doing business or likely to do business with TRS.
- A family member is considering employment at TRS.
- Sale of all or a part of your business.
- Start of a new business.
- Being asked to serve in another governmental office.
- Being contacted about litigation involving TRS.
- Information about an alleged violation of law or ethics.
- Request from third parties for favors, accommodations, or disclosure of information.
- A benefit or gift from a TRS vendor, potential vendor, or member.
- An invitation to speak on behalf of TRS at a conference, meeting, or seminar.
- Someone offers to pay or waive your expenses in connection with a conference or meeting.

12. CO-FIDUCIARY RESPONSIBILITY

If a Trustee is aware of illegal activity, a breach of fiduciary duty by another Trustee or by someone else serving as a fiduciary to TRS, or a violation of this Policy, the Trustee shall promptly disclose such activity or breach to the Executive Director and the Chair of the Ethics Committee of the Board. No retaliatory action will be taken toward any individual who, in good faith, makes a report or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.

13. TRAINING AND ANNUAL ACKNOWLEDGEMENT

Annually, every Trustee shall attend ethics training provided by TRS and acknowledge in writing that he or she understands the Ethics Policy, has abided by it, and will abide by it. New Trustees are to make this written acknowledgment when they take office.

14. CONSEQUENCES FOR VIOLATIONS

For Trustees who violate this Ethics Policy, the Board may impose sanctions including public reprimand, removal from service on Committees, censure, requests for resignation from the Board, or other appropriate parliamentary measures.

Exhibit C



December 12-13, 2013

Teacher Retirement System of Texas

Board of Trustees

Resolution Approving Certain Changes to the Board of Trustees Ethics Policy

Whereas, In December 2011, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Board of Trustees Ethics Policy; and

Whereas, It is now necessary and prudent to adopt certain changes to the Board of Trustees Ethics Policy to implement changes made possible by 2013 revisions to TRS' ethics statute, Gov't Code § 825.212, and to conform it, in part, to the Employee Ethics Policy; and now, therefore be it

Resolved, That the Board hereby adopts the revisions to the Board of Trustees Ethics Policy, as presented by the staff to the Policy Committee. [with the following changes, if any, to the recommended revisions:

- _____
- _____]

[optional language bracketed]

Tab 8

Teacher Retirement System of Texas



Employee Ethics Policy Revisions Policy Committee of the Board of Trustees Meeting December 12-13, 2013

Reinhart Boerner Van Deuren s.c. and TRS Legal Services Division



- Conflict of Interest Definitions
 - Prior statutory language repealed.
 - Slightly revised definition, which is not a material change.

- Other Recommended Revisions
 - Outside Employment Approval for All Employees
 - Revisions to Annual Compliance Forms
 - Permits Donation of Impermissible Gifts to Charity as a First Option.
 - Revisions to Restrictions on Personal Investments.
 - Permits employees to hold existing investments in Contractors, subject to limitations
 - Requires Cooperation in Investigations
 - Permits Electronic Compliance with Disclosure Requirements
 - Revisions to Improve Readability

- Proposed Key Employee Determination Revisions
 - Slight revision to the Key Employee resolution to account for new statutory language
 - Addition of Director of Strategic Initiatives to Key Employees
 - Elimination of a subcategory of Key Employees that was both redundant and overbroad
 - Clarification that Enhanced Disclosure form for 2012 must be submitted by Key Employees

- Key Employees' Enhanced Disclosures
 - Proposed enhanced disclosures focus on outside employment, material debts, gifts from Restricted Donors, outside fiduciary positions, and private investments.



Legal Services

Memorandum

DATE: December 2, 2013

TO: Policy Committee of the Board of Trustees

FROM: Carolina de Onís, General Counsel
Timothy P. Wei, Assistant General Counsel

COPY: Board of Trustees
Steven Huff, Fiduciary Counsel

RE: Proposed Changes to the Employee Ethics Policy and Related Materials

In the last legislative session, the Legislature amended TRS' ethics statute, Gov't Code § 825.212. The new legislation affected the Employee Ethics Policy, in particular the definition of conflict of interest and matters related to key employees and related forms. Attached please find

- A red-lined version of proposed changes to the Employee Ethics Policy (Exhibit A);
- A clean copy of the Policy with proposed revisions (Exhibit B);
- A red-lined version of proposed revisions the Ethics Compliance Statement For Employees and Certain Contractors (Exhibit C);
- A clean copy of the Ethics Compliance Statement For Employees and Certain Contractors with proposed revisions (Exhibit D);
- A proposed Key Employee Enhanced Disclosure Form (Exhibit E);
- A proposed Board resolution adopting the revised Policy and related forms (Exhibit F);
- A red-lined version of proposed revisions to the Board resolution adopting revised determinations of Key Employees (Exhibit G); and
- A clean copy of the Board resolution adopting revised determinations of Key Employees with proposed revisions (Exhibit H).

The proposed revisions implement changes made possible by the new legislation. They also propose changes that the Board may find prudent.

Legal Services worked closely with fiduciary counsel in preparing the proposed revisions to the Employee Ethics Policy. IMD and Internal Audit were provided drafts of the revisions and the opportunity to comment upon them.

Exhibit A

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I. Overview

The Teacher Retirement System of Texas (“TRS”) is charged by the Texas Constitution and state law with the administration of pension assets held in trust for the exclusive benefit of active or retired TRS members and their beneficiaries, and assets may not be diverted. Certain Employees are subject to fiduciary duties of prudence and loyalty. The duty of prudence compels Employees to exercise 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 when making investment decisions. The duty of loyalty requires Employees to have an undivided loyalty to the participants of the trust and to exclude all other interests. All operations and activities of TRS must be undertaken solely to advance and protect the interests of the members, retirees, and beneficiaries of the pension plan and must be conducted in a prudent manner. Similarly, TRS is trustee of other trusts that must be administered according to their terms and TRS, as trustee, is subject to fiduciary responsibilities under trust law with regard to those assets and the participants of each particular trust. These other trusts include the TRS-Care health benefits program, the TRS-ActiveCare health benefits program, and the 403(b) Certification Program. Accordingly, Employees have fiduciary duties commonly associated with pensions and other trusts, and each Employee must exercise an independent judgment on behalf of each trust. These duties extend not only to the investment activities but also to the application of TRS benefit provisions, the establishment of actuarial assumptions, the collection of amounts owed TRS, and the general administration of TRS.

TRS is a public entity. Consequently, Employees have the special responsibilities for honesty and integrity applicable to public servants. Texas Government Code, Chapters 572, 825, and 2203, along with Texas Penal Code, Chapters 36 and 39, describe specific standards of conduct that the TRS Employees must follow.

This Employee Ethics Policy (the “Policy”) specifies standards of conduct expected of Employees in view of these responsibilities. Although many of its provisions are based upon legal and fiduciary concepts, this Policy should not be interpreted as an exclusive and complete statement of legal and fiduciary responsibilities and its provisions should not necessarily be construed as only statements of legal and fiduciary responsibility. This Policy does not supersede any applicable federal or Texas law or administrative rule. All Employees must abide by all applicable federal and Texas law, including applicable fiduciary duties; administrative rules; and TRS conduct policies, including this Policy.

Adherence to this Policy will allow Employees to meet any applicable fiduciary obligations, comply with statutory mandates, and facilitate mutual respect and public confidence.

Any ambiguity in this Policy generally will be resolved in accordance with applicable legal or fiduciary standards.

In fulfilling the Board's roles and responsibilities and pursuant to requirements of applicable statutes, the Board has delegated to the Executive Director the responsibilities outlined in the Bylaws, including management of the day-to-day operations of TRS. Through the Bylaws, the Board has also delegated authority for some matters to the Executive Director or the staff, in accordance with Board actions or applicable law, including the following: certain investment decisions, contracts, payments and other releases of assets, and litigation decisions. Further, the Board has delegated authority to staff in various other policies, such as the investments policies adopted by the Board.

Capitalized terms are defined in Appendix A, attached hereto and incorporated herein for all purposes, if not otherwise described in the text of this Policy. Therefore, the definitions in Appendix A shall apply unless the context requires otherwise.

II. General Conduct Guidelines

Employees shall fulfill the following fiduciary duties and abide by the general conduct guidelines detailed below:

- A. Exercise undivided loyalty to the ~~fund beneficiaries~~¹trust participants;
 - An Employee must exercise care and caution always to place the interests of trust participants and TRS ahead of the Employee's own interest and to act exclusively in the interest of the respective participants of each trust. No Employee may represent any person in any action or proceeding before or involving the interests of TRS except as a duly authorized representative or agent of TRS.
 - On all matters related to or involving TRS, an Employee's actions must benefit the interests of trust participants and trust funds.

- B. Dissociate one's personal viewpoints from the objective requirements of the Employee's fiduciary obligations to ~~fund beneficiaries~~²trust participants;
 - An Employee must act with integrity, competence, diligence, respect, and in a transparent and an ethical manner in all matters related to or involving TRS, including all dealings with the participants of a TRS trust, TRS Trustees, other TRS staff, and the public.

- C. Exercise care, skill, prudence, and diligence appropriate to the prevailing circumstances³;

¹-Stanford, *Best Practices*, supra note 2 at 6; Missouri State Employee Retirement System, *Governance Policy* at 25 (2008) [hereinafter *Missouri, Governance Policy*].

²-Stanford, *Best Practices*, supra note 2 at 8.

³-Id. at 8; State Retirement and Pension System of Maryland, *Charters*, at 1 (2003) [hereinafter *Maryland, Charters*]; Virginia Retirement System, *Board of Trustees Code of Ethics and Conduct*, at 2 (2005) [hereinafter *Virginia, Code of Ethics*].

- D. An Employee must abide by all applicable laws, rules, and regulations, including the terms of the pension plan and, as applicable, the specific laws and rules governing other programs administered by TRS;
- E. Avoid unreasonable favoritism toward one beneficiary group over another⁴;
 - An Employee must deal fairly, objectively, and impartially with all participants.
- F. Refrain from prohibited or conflicted actions⁵.
 - An Employee must maintain independence and objectivity with respect to the execution of the Employee’s responsibilities to TRS and to trust participants and must avoid actions or activities that create an appearance of bias or that bring into question the Employee’s own independence of judgment. This includes avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect an Employee’s loyalty.
 - No Employee may influence the investment decision-making process of TRS, either for personal gain or private advantage or in a manner detrimental to the interests of TRS.
 - An Employee must maintain the confidentiality of TRS and trust participant information and must never use such information for personal gain or for the gain of third parties.

III. Specific Legal Standards of Conduct

The following specific legal standards of conduct apply to Employees:⁶

- A. An Employee shall not:
 - 1. accept or solicit any gift, favor, or service that might reasonably tend to influence the Employee in the discharge of official duties, or that the Employee knows or should know is being offered with the intent to influence the Employee’s official conduct;
 - 2. intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised his or her official powers or performed his or her official duties in favor of another;

⁴~~Stanford, Best Practices, supra note 2 at 8; Colorado, Governance Manual, supra note 10 at 17-2; State Retirement and Pension System of Maryland, Governance Policies at 9 (2007) [hereinafter Maryland, Governance Policies]; Virginia, Code of Ethics, supra note 5 at 1.~~

⁵~~Stanford, Best Practices, supra note 2 at 8.~~

⁶~~Unless otherwise noted, all of these legal standards are located in the Texas Government Code or Texas Penal Code. The language found in subsection III. A. 3. is taken substantially from the model ethics policy created by the Office of the Attorney General (“OAG”). The language found in subsection III. A. 4. and 6. are taken in their entirety from the same OAG model ethics policy.~~

3. disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act⁷, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position except when the Executive Director, or his designee, determines such disclosure is either permitted or required by law;
4. accept other employment, including self-employment, or engage in a business, charity, nonprofit organization, or professional activity that the Employee might reasonably expect would require or induce the Employee to disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position;
5. have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur any obligation of any nature that is in substantial conflict with the proper discharge of the Employee's duties in the interest of TRS;
6. accept other employment, including self-employment, or compensation or engage in a business, charity, nonprofit organization, or professional activity that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties;
7. make personal investments, or have a personal or financial interest, that could reasonably be expected to create a substantial conflict between the Employee's private interest and the public interest;
8. use TRS or state personnel time (*i.e.*, time for which you or other Employees are being paid by TRS or the state), information, property, facilities, equipment or other resources, or information or resources paid for by TRS, for any purpose other than official TRS business. Notwithstanding the above, use of an Employee's own TRS or state personnel time, or use of TRS or state information, property, facilities, equipment and other resources is acceptable if such use
 - does not result in any direct cost to TRS or the state,
 - does not impede TRS functions,
 - is not for private commercial purposes,
 - is reasonable and incidental, and
 - does not violate applicable TRS policies.Likewise, a person may not entrust TRS or state information, property, facilities, equipment or other resources, or information or resources paid for by TRS or the

⁷ ~~V.T.C.A., Texas Government Code, Title 5, Chapter 552.~~

state, to any other person if the information, property, facilities, equipment or other resources are not to be used for TRS purposes;

9. use his or her official position for financial gain, obtaining privileges, or avoiding consequences of illegal acts, including but not limited to:
 - accepting, under any circumstances, offers by reason of their position with TRS to trade in any security or other investment on terms more favorable than available to the general investing public;
 - borrowing from Contractors unless such entities are normally engaged in such lending in the usual course of their business, and then only on customary terms offered to others under similar circumstances to finance proper and usual activities;

However, this should not be interpreted to forbid communicating to others the fact that a relationship with TRS exists, provided that no misrepresentation is involved;

10. with intent to obtain a benefit or with intent to harm or defraud another, intentionally or knowingly:
 - violate a law relating to the Employee's position with TRS; or
 - misuse TRS time, property, services, personnel, or any other thing of value belonging to TRS that has come into the Employee's custody or possession by virtue of the Employee's position with TRS;
11. knowingly make misleading statements, either oral or written, or provide false information, in the course of official state business;
12. use TRS or, as applicable, state resources for any political activity;
13. contract on behalf of TRS with any entity, or an affiliate controlled by such entity, that employs or is represented by a former Trustee or former Employee if such employment or representation would violate the prohibitions on employment of or representation by former public servants contained in Section 572.054 of the Texas Government Code. Notwithstanding the provisions of Section 572.054, the Board may authorize such a contract if the Board determines that the contract would be prudent for TRS. TRS contracts must provide for a termination option, whereby TRS may terminate a contract with an entity, or an affiliate controlled by such entity, in the event that such entity or controlled affiliate employs or uses the services of a former Trustee or former Employee in violation of this Policy;

Section 572.054 of the Texas Government Code prohibits a former Trustee or former Executive Director from making any communication to or appearance before an officer or Employee of TRS before the second anniversary of the date the



Trustee or Executive Director ceased being a member of the Board or the Executive Director if the communication or appearance is made:

- with the intent to influence; and
- on behalf of any person in connection with any matter on which the person seeks official action.

Also pursuant to Section 572.054, at no time in the future may a former Trustee or former Employee⁸ represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the Trustee or Employee participated, either through personal involvement or because the matter was within the Trustee's or Employee's official responsibility;

14. except for an interest in TRS assets as a member of TRS, have a direct or indirect interest in the gains from investments made with TRS assets and shall not receive any compensation for service other than designated salary and authorized expenses;
15. advise or make decisions about matters affected by a conflict of interest as defined and provided in subsection IV. A. of this Policy; or
16. participate in or be the beneficiary of, directly or indirectly, a loan, commitment to lend, a guarantee or endorsement to lend, or investment by TRS or a contract to advise TRS or manage property or investments for TRS, except this prohibition does not apply to actions taken by an Employee within the scope of the Employee's official duties for TRS, if the actions do not involve a relationship that the Employee must disclose. An Employee must disclose a relationship if the Employee or a person related within the Second Degree by Consanguinity or Affinity to the Employee has a business or commercial relationship that could reasonably be expected to diminish the Employee's independence of judgment in the performance of the Employee's responsibilities to TRS. The Employee shall disclose such a relationship in writing to *the Executive Director or his designee*.

- B. An Employee in a "bona fide executive, administrative, or professional capacity," as that phrase is used for purposes of establishing an exemption to the overtime provisions of the federal Fair Labor Standards Act of 1938 (29 U.S.C. Section 201 et seq.) and the spouse of

~~⁸Pursuant to Ethics Advisory Opinion No. 397, issued by the Texas Ethics Commission in 1998, this part of Section 572.054 only applies to Employees who were compensated, as of the last date of state employment, at or above the amount prescribed by the General Appropriations Act for step 1, salary group A17, of the position classification salary schedule, including an Employee who is exempt from the state's position classification plan. At the time of the adoption of this Policy, the applicable salary threshold is \$35,651.~~

the Employee shall not be a paid officer, employee, or consultant of a Texas trade association^{9,10} in the field of investment or insurance.

- C. The General Counsel shall not be registered, or be required to be registered, as a lobbyist under Chapter 305 of the Texas Government Code because of the person's activities for compensation on behalf of a business or an association related to the operation of the Board.

IV. Conflicts of Interest

- A. In addition to conflicts that may arise under circumstances addressed in section III. above, a conflict of interest exists for an Employee whenever the Employee has a ~~personal, commercial (including private commercial), or business~~ relationship or interest that could reasonably be expected to diminish the Employee's independence of judgment in the performance of the Employee's responsibilities to TRS.
- B. No Employee may take action personally (*e.g.*, in the establishment of personal, employment, or business relationships or interests) or on behalf of TRS that will result in a reasonably foreseeable conflict of interest. Should there be action which an Employee believes to be in the best interest of TRS but which could foreseeably result in a personal conflict of interest, the Employee must disclose such fact to the Executive Director prior to taking such action.
- C. No Employee may participate in a matter before TRS that involves a business, contract, property or investment held by the Employee if it is reasonably foreseeable that TRS action on the matter would confer a Benefit to the Employee by or through the business, contract, property or investment. This prohibition on participation in matters involving Benefits for an Employee's own interest does not apply if the Benefit is merely incidental to the Employee's membership in a large class such as the class of TRS members.
- D. No Employee may recommend or cause discretionary TRS business to be transacted with or for the benefit of a Relative.
- E. If an Employee is uncertain whether he has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to be likely to occur, or if an Employee is uncertain whether the common-law or statutory law prohibits the

~~⁹ A Texas trade association means a cooperative and voluntarily joined association of business or professional competitors in Texas designed to assist its members and its industry or profession in dealing with mutual business or professional problems and in promoting their common interest.~~

¹⁰ A Texas trade association means a cooperative and voluntarily joined association of business or professional competitors in Texas designed to assist its members and its industry or profession in dealing with mutual business or professional problems and in promoting their common interest.

Employee from having a direct or indirect interest or relationship, such Employee should promptly inform the Executive Director, who shall evaluate whether a conflict of interest exists under the circumstances presented or whether a prohibition exists under applicable common-law and statutory law. If the Executive Director determines that the Employee does not or would not have a conflict under the facts presented and no statutory or common-law prohibition exists, the Employee is not required to make a disclosure pursuant to subsection IV. F. If the Executive Director determines that a conflict or prohibition may exist under the facts and circumstances presented, the Executive Director will advise and discuss the evaluation with the Employee in order to assist the Employee in determining whether a conflict or prohibition actually exists. If a conflict exists, the Employee must make a disclosure pursuant to subsection IV. F. and cure the conflict. Also, if it is determined that a conflict would exist upon the occurrence of the anticipated circumstances and they later do occur, the Employee must make a disclosure pursuant to subsection IV. F. upon the occurrence of such events and cure the conflict.

If the Executive Director determines that the Employee's proposed cure of an existing conflict is not appropriate and sufficient under the standards in subsection IV. G., the Executive Director shall consult with the General Counsel regarding the viability of a waiver under applicable law, and shall so inform the Ethics Committee of the Board. The Employee will take appropriate action to respond to any statutory or common-law prohibitions that exist, including the prohibition addressed in Section IV. H. below.

- F. An Employee must promptly
- disclose his own conflicts of interest in writing to the Executive Director through the Conflict of Interest Disclosure Statement, and
 - disclose conflicts of interest involving others of which the Employee becomes aware, either in writing to the Executive Director through the Conflict of Interest Disclosure Statement or verbally by contacting the TRS "hot" line for anonymous ethics reporting.

Other than the Executive Director, should an Employee with a duty to disclose conflicts of interest have reasonable cause to believe disclosure to the Executive Director will be ineffective, the Employee should file any written disclosure made through the Conflicts of Interest Disclosure Statement with the General Counsel.

In complying with this subsection, any Conflict of Interest Disclosure Statement filed by the Executive Director shall be filed with the General Counsel. Should the Executive Director have reasonable cause to believe disclosure to the General Counsel will be ineffective, the Executive Director shall file any written disclosure made through the Conflicts of Interest Disclosure Statement with the Deputy Director.

The Executive Director will report to the Ethics Committee of the Board regarding the Conflict of Interest Disclosure Statements and the verbal reports via the TRS "hot" line that are received by TRS, and provide a copy of the report to the General Counsel.

If the conflict of interest being reported by an Employee involves a Contractor, the Executive Director shall provide notice of the reported conflict of interest to the TRS personnel who supervise or monitor the Contractor, unless the Executive Director reasonably believes that such disclosure would be detrimental to the resolution of the conflict.

- G. Employees who become aware, or reasonably should have become aware, of a personal conflict of interest, have a duty not only to disclose that conflict, but also to cure it. An Employee normally cures a conflict of interest by promptly eliminating it. An Employee who cannot or does not wish to eliminate the conflict must terminate his or her relationship with TRS as quickly as responsibly and legally possible.

If an Employee may prudently withdraw from action on a particular matter in which a conflict exists, he or she may cure the conflict in that manner provided that

1. The Employee may be and is effectively separated from influencing the action taken,
2. The action may properly be taken by others, and
3. The nature of the conflict is not such that the Employee must regularly and consistently withdraw from decisions that are normally his or her responsibility with respect to TRS.

- H. An Employee who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about matters affected by the conflict of interest. The Board hereby delegates to the Executive Director the authority to waive this prohibition. This prohibition concerning the Employee's actions continues in place unless the Executive Director, after consultation with the General Counsel, expressly waives this prohibition, thereby effectively waiving the conflict of interest for that matter. To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of relationships that do not constitute material conflicts of interest. Records of all waivers granted with the supporting reasons will be maintained by the General Counsel. The Executive Director will advise the Ethics Committee of the Board of his decision to grant or deny a waiver.

- I. It shall not be considered a conflict solely because

1. An Employee is a member, retiree, or beneficiary of the system or has an interest no greater than a large class of its members, retirees, or beneficiaries, or

2. An Employee has an investment in the stock of a publicly traded corporation which is owned, purchased, or sold by TRS, provided that the Employee's interest in the stock is not more than ten (10) percent of any class of stock of the corporation.

J. Employees should become familiar with the TRS Code of Ethics for ~~Consultants, Agents, Financial Providers and Brokers~~ Contractors (the "Code of Ethics"), and any reporting responsibilities placed on such Employees.

K.⁴⁴ With respect to each proposed, pending, or closed transaction by TRS concerning a Private Investment, and except as disclosed in writing pursuant to this subsection IV. K., each Employee who actively participates in the decision-making process (an "Active Employee") on behalf of TRS with regard to a given Private Investment, including the review, evaluation or recommendation of a TRS investment, represents that:

1. The Active Employee has not solicited or accepted any direct or indirect Benefit or interest, or received or agreed to accept any Benefit or interest from any individual or entity in connection with the Private Investment, and is not aware of any personal Benefit or interest that may result or arise from TRS's investment or decision to invest in the Private Investment.

2. To the best of the Active Employee's knowledge, no Relative of the Active Employee has received any direct or indirect Benefit or interest or any promise of a Benefit or interest relating to or arising from TRS's investment or decision to invest in the Private Investment, and the Active Employee is not aware of any Benefit to or interest of a Relative that may result or arise from TRS's investment or decision to invest in the Private Investment.

3. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee, has acquired or has any current intention of acquiring any Benefit or interest, including an ownership interest in the same Private Investment and, so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will acquire such an interest.

4. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee has or will have an economic or beneficial interest in a general partner, managing member, servicer, underwriter, sponsor, investment adviser, or investment manager of the Private Investment as identified by TRS staff; and so long as the Active Employee holds the position of

⁴⁴ ~~The language of this subsection IV. K. is taken from the existing document entitled: Procedures and Representations of TRS Trustees and Certain Employees Regarding Private Equity Investments of TRS.~~

an Active Employee, neither the Active Employee nor a Relative of the Active Employee will knowingly acquire an economic or beneficial interest in any such entity.

5. The Active Employee has no business relationship with the TRS consultant or adviser recommending the Private Investment, or with any other consultant identified by TRS staff as giving advice or assistance to TRS with regard to the particular Private Investment.
6. The Active Employee is unaware of any existing relationships, interests, or other facts that could reasonably be expected to diminish the Active Employee's independence of judgment as an Active Employee and thereby constitute a conflict of interest in connection with the Active Employee's actions as an Active Employee relating to the Private Investment.

If an Active Employee is unable to make all the representations immediately above in this subsection IV. K. with regard to a Private Investment, then the Active Employee should notify the Executive Director in writing immediately upon receipt of information regarding the Private Investment so that a determination of the appropriate course of action can be made prior to authorization by TRS or, in any event, prior to TRS's becoming contractually bound to fund the Private Investment.

V. Trading

- A. The Executive Director, or his designee, shall develop and implement a trading policy (the "Trading Policy") that addresses policies, procedures, and standards of conduct applicable to Employees in the conduct of each Employee's personal trading activities and trading activities undertaken on behalf of TRS. Additionally, the Executive Director, or his designee, is authorized to amend the Trading Policy from time to time as the Executive Director deems advisable and to issue or modify forms to fully implement the provisions of the Trading Policy, as amended from time to time. Employees shall comply with ~~both the letter and spirit of~~ the Trading Policy.
- B. Restricted List. No Employee or spouse of the Employee may have or borrow a Security (or a Derivative thereof) or other ownership or profit sharing interest in a Contractor with which TRS does business, except as permitted below.

This prohibition applies to a Security (or a Derivative thereof) or other ownership or profit sharing interest held for an Employee's own account or an account in which he or she has a Beneficial Ownership.

If an Employee or a spouse of an Employee ~~holds or~~(1) has ~~borrowed an interest~~ prohibited ~~Security (or a Derivative thereof) or other ownership or profit sharing interest in a Contractor~~ by this

~~Section prior to the time becoming an employee or prior to the entity becoming a TRS commences doing business with contractor, or (2) receives an interest prohibited by this Section by inheritance or gift, the firm (Scenario 1), or if a new Employee or a spouse of a new may hold but not add to the interest. The Employee holds or has borrowed a prohibited Security (or a Derivative thereof) or such other ownership or profit sharing or spouse, in his or her discretion, may dispose of the interest at the time of his or her choosing, provided the Employee is hired (Scenario 2), or if an or spouse complies with all applicable laws and policies. The Employee or a spouse of an Employee thereafter receives a prohibited Security (or a Derivative thereof) or such other ownership or profit sharing interest by inheritance or gift or via a business transaction that occurred prior to the time shall evaluate whether holding the Employee is hired (Scenario 3), interest creates a conflict of interest, and if so, will handle the Employee or a spouse of an Employee has a reasonable period conflict of time to dispose of the prohibited Security (or a Derivative thereof) or such other ownership or profit sharing interest interest as required by this Policy.~~

~~Up to sixty days is deemed a reasonable period of time. If the Employee or a spouse of an Employee believes that more time to take action under the circumstances is reasonable, then upon written request to the Executive Director, the Executive Director will evaluate the matter and, if applicable, determine a deadline for the disposition of the prohibited interest. In the case of the Executive Director, the General Counsel (with notice to the Ethics Committee of the Board) will evaluate the matter and, if applicable, determine a deadline for the disposition of the prohibited interest.~~

VI. Nepotism

- A. TRS may not employ a person who is a Relative of a Trustee. This does not prevent the continued employment of a person who has already been working for TRS for thirty consecutive days prior to the date of a related Trustee's appointment.
- B. No Employee may exercise discretionary authority to hire, evaluate or promote a Relative. No Employee may supervise a Relative, either directly or indirectly. As used herein, "supervise" means to oversee, with the powers of direction and decision-making, the implementation of one's own or another's intentions. Supervision normally involves assigning duties, overseeing and evaluating work, and approving leave.

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 another¹²;
 2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee¹³;
 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 conduct¹⁴;
 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, cash equivalents, or a negotiable instrument as described by Section 3.104, Business & Commerce Code;

~~¹²Section 36.02(a)(1) of the Texas Penal Code and Section 572.051(a)(5) of the Texas Government Code.~~

~~¹³Section 36.02(a)(3) of the Texas Penal Code.~~

~~¹⁴Section 572.051(a)(1) of the Texas Government 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 TRS¹⁵; or
4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee¹⁶.

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.¹⁷
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 present¹⁸.
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 entertainment¹⁹. The Executive Director shall provide notice to the Chair of the Board's Audit Committee of any approvals for Restricted Donors to pay for any expenses related to business conferences under this section.
5. If the Employee is required by law to report any items of food, lodging, transportation, and entertainment, such must be reported by the Employee²⁰.

¹⁵ ~~Section 36.10(a)(1) of the Texas Penal Code.~~

¹⁶ ~~Section 36.02(a)(2) of the Texas Penal Code.~~

¹⁷ ~~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.~~

¹⁸ ~~Section 36.10(b) of the Texas Penal Code.~~

¹⁹ ~~Section 36.10(b) of the Texas Penal Code. The current Ethics Policy does not allow for the acceptance of lodging and air transportation.~~

²⁰ ~~Section 36.10(b) of the Texas Penal Code. Section 572.021 et seq., Government Code, requires state officers to file verified financial statements.~~

- 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 perfunctory²¹²². 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, donate~~ the Benefit ~~should be donated~~ to charity.

VIII. Outside Employment and Certain Other Outside Activities

- A. Employees may not engage in outside employment, business, or other activities, whether compensated or uncompensated, that detract from the ability to fulfill their full-time responsibilities to TRS. Employees must obtain advance written approval from the Executive Director for any outside employment or business. The Executive Director may delegate authority to approve outside employment to appropriate executive staff members.
- 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. This prohibition applies whether the activity is compensated or uncompensated. 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. The Executive Director shall inform the Chair of the Board's Audit Committee of any approvals granted under this section. C.
- ~~C. Key Employees must obtain advance written approval from the Executive Director for any outside employment or business.~~

²¹ ~~Section 305.025 of the Texas Government Code.~~

²² Section 305.025 of the Texas Government Code.

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

IX. Key Employees

- A. The Board shall designate by position the Employees who exercise ~~either~~ significant ~~decision-making or~~ fiduciary authority ~~or both~~. By virtue of their position with TRS, these persons are “Key Employees.” Employees with fiduciary authority have a strict duty of loyalty and care to TRS, and its members and beneficiaries.
- B. Employees designated as Key Employees must acknowledge their Key Employee status in writing through the annual Ethics Compliance Statement.

~~C. Requirements of this Policy that are exclusively applicable to Key Employees are the following:~~

- ~~1. personal financial disclosure;~~
- ~~2. additional disclosures if a Key Employee is a director, officer, or more than 5% owner (by shares, stock, or otherwise) of a corporation or other business entity, as follows:
 - ~~(a) the nature of the business of the entity; and~~
 - ~~(b) the identity of the persons and/or entities that are the owners, directors, and officers of the business;~~~~
- ~~3. disciplinary action disclosure, and~~
- ~~4. advance approval of outside employment.~~

X. Training

Employees shall ~~attend~~participate in annual ethics training.²³

XI. Trustee-Staff Relations and Communications

The Board has articulated the role and responsibility of Trustees and staff²⁴ 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 TRS²⁵. Significantly, the

²³ ~~This has been added to comply with one of the SAO recommendations.~~

²⁴ ~~Stanford, Best Practices, supra note 2 at 8~~

²⁵ ~~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.~~

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 governance²⁶.

B. Providing ~~Direction~~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.

XII. Compliance With Professional Standards

A. Employees who are members of professional organizations that promulgate standards of conduct must comply with those standards.

²⁶ ~~Stanford, Best Practices, supra note 2 at 18.~~

- B. Employees in the TRS Investment Management Division must comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct (together, the "Standards") as amended from time to time by the CFA Institute. The Standards constitute Appendix B to this Policy.

XIII. Financial and Compliance Disclosures

- A. The Executive Director must annually file a verified Personal Financial Statement with the Texas Ethics Commission in compliance with Subchapter B of Chapter 572 of the Texas Government Code. Copies of this Personal Financial Statement can be obtained from the Texas Ethics Commission. In addition, at the same time the Executive Director files a copy of his or her verified financial statement with the Texas Ethics Commission, the Executive Director shall file an identical copy of the verified financial statement with the General Counsel and the Chief Audit Executive.²⁷

- B. Key Employees must file financial enhanced disclosure statements with the Executive Director, or his designee. The content of these statements ~~must comply with the requirements for personal financial statements for state officers governed by Chapter 572 of the Texas Government Code shall disclose a key employee's, a key employee's spouse's, and a key employee's dependent child(ren)'s and other dependent's private investments, material debts, non-TRS fiduciary positions, non-TRS employment, and material Benefits received from Restricted Donors.~~

Key Employees must file ~~a financial~~ the enhanced disclosure statement within 30 days of their date of employment as a Key Employee. The Key Employee's first such financial enhanced disclosure statement must address the calendar year immediately prior to their date of employment as a Key Employee. Thereafter, ~~a financial~~ an enhanced disclosure statement must be filed by April 30th of each year covering the preceding calendar year. Notwithstanding anything to the contrary, in no event shall a Key Employee be required to file a second financial enhanced disclosure statement covering the same calendar year. The Executive Director may postpone a filing deadline for not more than 60 days on written request or for an additional period for good cause, as determined by the Chairman of the Board. ~~A financial disclosure statement must be maintained by TRS for at least five (5) years after the date of its filing.~~

- C. In addition to disclosures required in other provisions of this Policy (e.g., subsections IV. F.), Employees with knowledge of a violation of this Policy, the Trustee Ethics Policy, or of the Code of Ethics must promptly
- report his own violation of this Policy in writing to the Executive Director, and
 - report violations, of which he becomes aware, of this Policy, the Trustee Ethics Policy, or of the Code of Ethics by any other individual or entity, either in writing to the

²⁷ ~~This has been added to comply with one of the SAO recommendations.~~

Executive Director or verbally by contacting the TRS “hot” line for anonymous ethics reporting.

- D. Within sixty (60) days of the date of employment, in the case of new Employees, and within sixty (60) days of the date of employment in a position as a new Key Employee, the Employee or Key Employee, as the case may be, must file a completed ethics compliance statement that he has received and read this Policy, that he will comply with its provisions, and that it is his duty to report any acts by Trustees, other Employees, or Contractors when he has knowledge of violations of this Policy. This statement will also include a reminder that he is required to update his ethics compliance statement if a change in circumstances occurs that would require reporting under this Policy.

~~Persons employed by TRS on the date of the adoption of this Policy must file a completed ethics compliance statement within sixty (60) days of the adoption of this Policy.~~

Employees must annually file a completed ethics compliance statement. These annual ethics compliance statements are due by April 30 of each year for the preceding calendar year.

Except for the Executive Director, Employees must file their completed ethics compliance statements with the Executive Director, or his or her designee. The Executive Director must file his or her compliance statement with the General Counsel. The General Counsel will provide a copy of the Executive Director’s compliance statement to the Chairman of the Ethics Committee of the Board only if the Executive Director (i) has anything to report under the four questions found in the compliance statement or (ii) checks either the third or fourth “blank” of the box labeled “Only for Key Employees.” These annual compliance statements are due by April 30 of each year.

- ~~E. If a Key Employee is a director, officer, or more than 5% owner (by shares, stock, or otherwise) of a corporation or other business entity, he or she must also disclose (1) the nature of the business of the entity and (2) the identity of the persons and/or entities that are the owners, directors, and officers of the business.~~

- FE. Except for the Executive Director, within sixty (60) days of the date of employment in a position as a new Key Employee, the Key Employee must file a completed Disciplinary Action Disclosure Statement with the Executive Director. Within sixty (60) days of the date an individual becomes the Executive Director, he must file a Disciplinary Action Disclosure Statement with the General Counsel. The General Counsel will provide a copy of the Executive Director’s Disciplinary Action Disclosure Statement to the Chairman of the Ethics Committee of the Board only if the Executive Director responds with a “yes” to any of the questions in this statement. A Key Employee must promptly file an updated,

complete Disciplinary Action Disclosure Statement if any action occurs that would cause any answers to change on this form.

F. The Executive Director may implement an electronic system through which Employees submit required disclosures.

XIV. Custodians of Disclosures and Waivers

The Executive Director shall be the custodian for open records purposes of disclosures required under this Policy. The General Counsel shall be the custodian for open records purposes of waivers of conflicts of interest, if any, granted by the Executive Director.

XV. Enforcement

- A. The Board will enforce this Policy through the Executive Director, who is responsible for its implementation with respect to Employees.
- B. The full range of disciplinary options under TRS personnel policies and practices may be used with respect to Employees who violate this Policy, up to and including termination. Employees shall cooperate with any investigation under this Policy.
- C. Employees who are fiduciaries shall take appropriate action as co-fiduciaries in the event a violation of this Policy would involve or does involve a breach of fiduciary duties, including using reasonable care to prevent a co-fiduciary from committing a breach of trust or to compel a co-fiduciary to redress a breach of trust.
- D. No retaliatory action will be taken toward any individual who, in good faith, makes a report of or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.
- E. A list will be maintained of the Contractors whose contract or relationship with TRS has been terminated because they were found to be in violation of the Code of Ethics. The custodian of this list is the Executive Director. Termination of a contract or relationship because of a violation of the Code of Ethics can preclude another contract or relationship with TRS for a period of time up to ten years, as determined by the Executive Director or his designee, commencing from the date of the termination of the contract or relationship.
- F. The Executive Director will report to the Ethics Committee of the Board in writing by May 31 of each year, covering the immediately prior twelve-month period from May 1 to April 30, of the following:
 - 1. any approval given for outside employment by Key Employees, including the nature of the employment;
 - 2. any disciplinary action disclosed by Key Employees;

3. any Conflict of Interest Disclosure Statements and verbal reports via the TRS “hot” line that are received by TRS; and
4. any written or verbal reports of violations of this Policy, the Trustee Ethics Policy, or of the Code of Ethics.
5. any decision to grant or deny a waiver pursuant to Section IV. H.

XVI. Conflict with Other TRS Policies

The provisions of this Policy are intended to be read in conjunction with other TRS policies regarding ethics. To the extent that this Policy imposes obligations on Employees that are greater than those imposed in other TRS policies, these obligations are deemed to be in addition to, and not in conflict with, the obligations set forth in other TRS policies. Employees should seek the advice of the Executive Director if they have any questions about possible conflicts between this Policy and other TRS policies.

Appendix A

Definitions

1. **“Affinity”** means a relation which one spouse, because of marriage, has to the blood relatives of the other spouse. In other words, affinity is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other. Affinity is distinguished from “consanguinity,” which is the connection between two individuals that exists by kinship or by blood.
2. **“Beneficial Ownership”** means the true ownership of a Security or an interest in a Security as opposed to any stated legal title to ownership provided in documents or oral representations. The beneficial owner is the person that receives or has the right to receive proceeds or other advantages as a result of the ownership without regard to the nominal owner. In this Policy, Beneficial Ownership includes all types of beneficial ownership interests, such as community property or joint tenancies, the power to vote shares, profit-sharing arrangements, interests in self-directed retirement arrangements, and beneficial interests in trusts and estates, and includes, in addition to a person’s own direct beneficial ownership, an indirect beneficial interest through immediate family members (spouse, minor children, or other dependents).
3. **“Benefit”** means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.
4. **“Board”** means the Board of Trustees of TRS.
5. **“Consanguinity”** means a relation by kinship or by blood. Individuals are related by consanguinity if the individuals are descended from the same stock or common ancestor. Consanguinity is distinguished from “affinity,” which is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other.
6. **“Consultant”** means an entity or person, other than an Employee or Trustee, (i) who provides advice to TRS intended to affect or form a basis for significant TRS decisions, including but not limited to an actuary or insurance and health care plan advisor, or (ii) who provides advice to TRS and may reasonably be expected to receive for its services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31). For purposes of this Policy, the term “Consultant” does not include an entity or person defined in the Code of Ethics as a Broker or as a Financial Provider. However, if an entity

or person defined as a Consultant would also fall within the definition of a Financial Provider, the entity or person will be considered a Financial Provider for all purposes. If any question exists regarding who constitutes a Consultant for purposes of this Policy, the Executive Director or his designee shall make that determination.

7. **“Contractor”** is a collective term used to reference all individuals or entities that fall within any one or more of the definitions for an Agent, a Broker, a Consultant, or a Financial Provider, as each separate term is defined in the Code of Ethics.
8. **“Derivative”** means a financial product whose value or return is based on, derived from, or linked to the value of a reference rate, exchange rate, interest rate, index, or currency or an underlying Security, asset, commodity, or any combination of underlying rates, indices, currencies or securities (*i.e.*, futures contracts, forward contracts and options), but does not include mutual funds.
9. **“Employee”** means a person working for TRS in an employer-employee relationship and not in an independent contractor capacity, and includes the Executive Director and Chief Investment Officer of TRS.
10. **“Ethics Committee of the Board”** means the standing Ethics Committee of the Board established pursuant to the Bylaws of the Board, as amended from time to time.
11. **“General Counsel”** means the Employee of TRS serving in the position of chief legal advisor for TRS.
12. **“Policy”** means this Employee Ethics Policy.
13. **“Private Investment”** means an investment or decision to invest, regardless of form, made or under consideration by TRS in a private, non-publicly traded security pursuant to limited offerings of securities exempt from registration under the securities laws.
14. **“Relative”** means a person related in the Third Degree by Consanguinity (blood relative) or Affinity (marriage) determined in accordance with Sections 573.021-025, Texas Government Code. Examples of Relatives by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. Examples of Relatives by affinity are a spouse, any person related to the spouse within the third degree by consanguinity, or any spouse of a Relative by consanguinity or affinity. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
15. **“Restricted Donor”** means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering

doing business, (3) non-publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee's official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.

16. **“Second Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee: (1) by consanguinity (blood relative) - a child, grandchild, parent, grandparent, brother, and sister; and (2) by affinity (marriage) – a spouse and the spouse's child, grandchild, parent, grandparent, brother, and sister. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
17. **“Security” or “Securities”** means, for purposes of this Policy, (a) all types of publicly traded equity and debt securities of companies listed on a domestic or foreign exchange, including without limitation, any equity security included in a TRS policy benchmark, common stocks, preferred stocks, bonds convertible into equities, rights, warrants, units, depositary receipts and (b) Derivatives of equity securities, including without limitation, swaps, futures, options, and the functional equivalents of such instruments. The terms “Security” or “Securities” do not include: (i) open-ended mutual fund investment companies registered under the Investment Company Act of 1940; (ii) U.S. Government-issued securities; (iii) municipal debt obligations; (iv) money market instruments (*i.e.*, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments); and (v) any exchange traded fund (“ETF”) of sufficient size that TRS trades are unlikely to affect the fair market value of the ETF's shares, as determined by the Compliance Officer in consultation with TRS Investment Management Division staff.
18. **“Third Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee: (1) by consanguinity (blood relative) - a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew; and (2) by affinity (marriage) – a spouse and the spouse's child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

19. **“TRS”** means the Teacher Retirement System of Texas.
20. **“TRS Matter”** means any transaction, event, occurrence, situation, or state of affairs relating to TRS business and responsibilities, including policies, administration of benefits or programs or operations, current or prospective contracts, procurements or contracting opportunities, employees or employment opportunities, proceedings such as rule making and appeals, investments and investment opportunities, and legislation relating to or affecting TRS.
21. **“Trustee”** means a member of the Board of TRS.

CFA Institute

Code of Ethics and Standards of Professional Conduct

As amended and restated in the
Standards of Practice Handbook, 9th edition

The Code of Ethics

Members of the CFA Institute (including Chartered Financial Analyst [CFA] charterholders) and candidates for the CFA designation (“Members and Candidates”) must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Practice the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on ourselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

Standards of Professional Conduct

I. PROFESSIONALISM

A. Knowledge of the Law. Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or

consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation. Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct. Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

A. Material Nonpublic Information. Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation. Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
 - a. Make a reasonable inquiry into a client's or prospective clients' investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
 - b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
 - c. Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client.
2. Disclosure is required by law.
3. The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTION

A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients. Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
3. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Members and Candidates in the CFA Program. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA examinations.

B. Reference to CFA Institute, the CFA designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA Program.

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Exhibit B

Teacher Retirement System of Texas

Employee Ethics Policy

Adopted: October 9, 2009

Revised: _____

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I. Overview

The Teacher Retirement System of Texas (“TRS”) is charged by the Texas Constitution and state law with the administration of pension assets held in trust for the exclusive benefit of active or retired TRS members and their beneficiaries, and assets may not be diverted. Certain Employees are subject to fiduciary duties of prudence and loyalty. The duty of prudence compels Employees to exercise 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 when making investment decisions. The duty of loyalty requires Employees to have an undivided loyalty to the participants of the trust and to exclude all other interests. All operations and activities of TRS must be undertaken solely to advance and protect the interests of the members, retirees, and beneficiaries of the pension plan and must be conducted in a prudent manner. Similarly, TRS is trustee of other trusts that must be administered according to their terms and TRS, as trustee, is subject to fiduciary responsibilities under trust law with regard to those assets and the participants of each particular trust. These other trusts include the TRS-Care health benefits program, the TRS-ActiveCare health benefits program, and the 403(b) Certification Program. Accordingly, Employees have fiduciary duties commonly associated with pensions and other trusts, and each Employee must exercise an independent judgment on behalf of each trust. These duties extend not only to the investment activities but also to the application of TRS benefit provisions, the establishment of actuarial assumptions, the collection of amounts owed TRS, and the general administration of TRS.

TRS is a public entity. Consequently, Employees have the special responsibilities for honesty and integrity applicable to public servants. Texas Government Code, Chapters 572, 825, and 2203, along with Texas Penal Code, Chapters 36 and 39, describe specific standards of conduct that the TRS Employees must follow.

This Employee Ethics Policy (the “Policy”) specifies standards of conduct expected of Employees in view of these responsibilities. Although many of its provisions are based upon legal and fiduciary concepts, this Policy should not be interpreted as an exclusive and complete statement of legal and fiduciary responsibilities and its provisions should not necessarily be construed as only statements of legal and fiduciary responsibility. This Policy does not supersede any applicable federal or Texas law or administrative rule. All Employees must abide by all applicable federal and Texas law, including applicable fiduciary duties; administrative rules; and TRS conduct policies, including this Policy.

Adherence to this Policy will allow Employees to meet any applicable fiduciary obligations, comply with statutory mandates, and facilitate mutual respect and public confidence.

Any ambiguity in this Policy generally will be resolved in accordance with applicable legal or fiduciary standards.

In fulfilling the Board's roles and responsibilities and pursuant to requirements of applicable statutes, the Board has delegated to the Executive Director the responsibilities outlined in the Bylaws, including management of the day-to-day operations of TRS. Through the Bylaws, the Board has also delegated authority for some matters to the Executive Director or the staff, in accordance with Board actions or applicable law, including the following: certain investment decisions, contracts, payments and other releases of assets, and litigation decisions. Further, the Board has delegated authority to staff in various other policies, such as the investments policies adopted by the Board.

Capitalized terms are defined in Appendix A, attached hereto and incorporated herein for all purposes, if not otherwise described in the text of this Policy. Therefore, the definitions in Appendix A shall apply unless the context requires otherwise.

II. General Conduct Guidelines

Employees shall fulfill the following fiduciary duties and abide by the general conduct guidelines detailed below:

- A. Exercise undivided loyalty to the trust participants;
 - An Employee must exercise care and caution always to place the interests of trust participants and TRS ahead of the Employee's own interest and to act exclusively in the interest of the respective participants of each trust. No Employee may represent any person in any action or proceeding before or involving the interests of TRS except as a duly authorized representative or agent of TRS.
 - On all matters related to or involving TRS, an Employee's actions must benefit the interests of trust participants and trust funds.
- B. Dissociate one's personal viewpoints from the objective requirements of the Employee's fiduciary obligations to trust participants;
 - An Employee must act with integrity, competence, diligence, respect, and in a transparent and an ethical manner in all matters related to or involving TRS, including all dealings with the participants of a TRS trust, TRS Trustees, other TRS staff, and the public.
- C. Exercise care, skill, prudence, and diligence appropriate to the prevailing circumstances;
- D. An Employee must abide by all applicable laws, rules, and regulations, including the terms of the pension plan and, as applicable, the specific laws and rules governing other programs administered by TRS;
- E. Avoid unreasonable favoritism toward one beneficiary group over another;
 - An Employee must deal fairly, objectively, and impartially with all participants.

- F. Refrain from prohibited or conflicted actions.
- An Employee must maintain independence and objectivity with respect to the execution of the Employee's responsibilities to TRS and to trust participants and must avoid actions or activities that create an appearance of bias or that bring into question the Employee's own independence of judgment. This includes avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect an Employee's loyalty.
 - No Employee may influence the investment decision-making process of TRS, either for personal gain or private advantage or in a manner detrimental to the interests of TRS.
 - An Employee must maintain the confidentiality of TRS and trust participant information and must never use such information for personal gain or for the gain of third parties.

III. Specific Legal Standards of Conduct

The following specific legal standards of conduct apply to Employees:

- A. An Employee shall not:
1. accept or solicit any gift, favor, or service that might reasonably tend to influence the Employee in the discharge of official duties, or that the Employee knows or should know is being offered with the intent to influence the Employee's official conduct;
 2. intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised his or her official powers or performed his or her official duties in favor of another;
 3. disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position except when the Executive Director, or his designee, determines such disclosure is either permitted or required by law;
 4. accept other employment, including self-employment, or engage in a business, charity, nonprofit organization, or professional activity that the Employee might reasonably expect would require or induce the Employee to disclose confidential information, information that is excepted from public disclosure under the Texas Public Information Act, or information that has been ordered sealed by a court, that was acquired by reason of the Employee's official position;
 5. have a direct or indirect interest, including financial and other interests, or engage in a business transaction or professional activity, or incur any obligation of any

nature that is in substantial conflict with the proper discharge of the Employee's duties in the interest of TRS;

6. accept other employment, including self-employment, or compensation or engage in a business, charity, nonprofit organization, or professional activity that could reasonably be expected to impair the Employee's independence of judgment in the performance of the Employee's official duties;
7. make personal investments, or have a personal or financial interest, that could reasonably be expected to create a substantial conflict between the Employee's private interest and the public interest;
8. use TRS or state personnel time (*i.e.*, time for which you or other Employees are being paid by TRS or the state), information, property, facilities, equipment or other resources, or information or resources paid for by TRS, for any purpose other than official TRS business. Notwithstanding the above, use of an Employee's own TRS or state personnel time, or use of TRS or state information, property, facilities, equipment and other resources is acceptable if such use
 - does not result in any direct cost to TRS or the state,
 - does not impede TRS functions,
 - is not for private commercial purposes,
 - is reasonable and incidental, and
 - does not violate applicable TRS policies.Likewise, a person may not entrust TRS or state information, property, facilities, equipment or other resources, or information or resources paid for by TRS or the state, to any other person if the information, property, facilities, equipment or other resources are not to be used for TRS purposes;
9. use his or her official position for financial gain, obtaining privileges, or avoiding consequences of illegal acts, including but not limited to:
 - accepting, under any circumstances, offers by reason of their position with TRS to trade in any security or other investment on terms more favorable than available to the general investing public;
 - borrowing from Contractors unless such entities are normally engaged in such lending in the usual course of their business, and then only on customary terms offered to others under similar circumstances to finance proper and usual activities;However, this should not be interpreted to forbid communicating to others the fact that a relationship with TRS exists, provided that no misrepresentation is involved;
10. with intent to obtain a benefit or with intent to harm or defraud another, intentionally or knowingly;

- violate a law relating to the Employee's position with TRS; or
 - misuse TRS time, property, services, personnel, or any other thing of value belonging to TRS that has come into the Employee's custody or possession by virtue of the Employee's position with TRS;
11. knowingly make misleading statements, either oral or written, or provide false information, in the course of official state business;
 12. use TRS or, as applicable, state resources for any political activity;
 13. contract on behalf of TRS with any entity, or an affiliate controlled by such entity, that employs or is represented by a former Trustee or former Employee if such employment or representation would violate the prohibitions on employment of or representation by former public servants contained in Section 572.054 of the Texas Government Code. Notwithstanding the provisions of Section 572.054, the Board may authorize such a contract if the Board determines that the contract would be prudent for TRS. TRS contracts must provide for a termination option, whereby TRS may terminate a contract with an entity, or an affiliate controlled by such entity, in the event that such entity or controlled affiliate employs or uses the services of a former Trustee or former Employee in violation of this Policy;

Section 572.054 of the Texas Government Code prohibits a former Trustee or former Executive Director from making any communication to or appearance before an officer or Employee of TRS before the second anniversary of the date the Trustee or Executive Director ceased being a member of the Board or the Executive Director if the communication or appearance is made:

- with the intent to influence; and
- on behalf of any person in connection with any matter on which the person seeks official action.

Also pursuant to Section 572.054, at no time in the future may a former Trustee or former Employee represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the Trustee or Employee participated, either through personal involvement or because the matter was within the Trustee's or Employee's official responsibility;

14. except for an interest in TRS assets as a member of TRS, have a direct or indirect interest in the gains from investments made with TRS assets and shall not receive any compensation for service other than designated salary and authorized expenses;
15. advise or make decisions about matters affected by a conflict of interest as defined and provided in subsection IV. A. of this Policy; or

16. participate in or be the beneficiary of, directly or indirectly, a loan, commitment to lend, a guarantee or endorsement to lend, or investment by TRS or a contract to advise TRS or manage property or investments for TRS, except this prohibition does not apply to actions taken by an Employee within the scope of the Employee's official duties for TRS, if the actions do not involve a relationship that the Employee must disclose. An Employee must disclose a relationship if the Employee or a person related within the Second Degree by Consanguinity or Affinity to the Employee has a business or commercial relationship that could reasonably be expected to diminish the Employee's independence of judgment in the performance of the Employee's responsibilities to TRS. The Employee shall disclose such a relationship in writing to *the Executive Director or his designee*.
- B. An Employee in a "bona fide executive, administrative, or professional capacity," as that phrase is used for purposes of establishing an exemption to the overtime provisions of the federal Fair Labor Standards Act of 1938 (29 U.S.C. Section 201 et seq.) and the spouse of the Employee shall not be a paid officer, employee, or consultant of a Texas trade association¹ in the field of investment or insurance.
- C. The General Counsel shall not be registered, or be required to be registered, as a lobbyist under Chapter 305 of the Texas Government Code because of the person's activities for compensation on behalf of a business or an association related to the operation of the Board.

IV. Conflicts of Interest

- A. In addition to conflicts that may arise under circumstances addressed in section III. above, a conflict of interest exists for an Employee whenever the Employee has a relationship or interest that could reasonably be expected to diminish the Employee's independence of judgment in the performance of the Employee's responsibilities to TRS.
- B. No Employee may take action personally (*e.g.*, in the establishment of personal, employment, or business relationships or interests) or on behalf of TRS that will result in a reasonably foreseeable conflict of interest. Should there be action which an Employee believes to be in the best interest of TRS but which could foreseeably result in a personal conflict of interest, the Employee must disclose such fact to the Executive Director prior to taking such action.
- C. No Employee may participate in a matter before TRS that involves a business, contract, property or investment held by the Employee if it is reasonably foreseeable that TRS action

¹ A Texas trade association means a cooperative and voluntarily joined association of business or professional competitors in Texas designed to assist its members and its industry or profession in dealing with mutual business or professional problems and in promoting their common interest.

on the matter would confer a Benefit to the Employee by or through the business, contract, property or investment. This prohibition on participation in matters involving Benefits for an Employee's own interest does not apply if the Benefit is merely incidental to the Employee's membership in a large class such as the class of TRS members.

- D. No Employee may recommend or cause discretionary TRS business to be transacted with or for the benefit of a Relative.
- E. If an Employee is uncertain whether he has or would have a conflict of interest under a particular set of circumstances then existing or reasonably anticipated to be likely to occur, or if an Employee is uncertain whether the common-law or statutory law prohibits the Employee from having a direct or indirect interest or relationship, such Employee should promptly inform the Executive Director, who shall evaluate whether a conflict of interest exists under the circumstances presented or whether a prohibition exists under applicable common-law and statutory law. If the Executive Director determines that the Employee does not or would not have a conflict under the facts presented and no statutory or common-law prohibition exists, the Employee is not required to make a disclosure pursuant to subsection IV. F. If the Executive Director determines that a conflict or prohibition may exist under the facts and circumstances presented, the Executive Director will advise and discuss the evaluation with the Employee in order to assist the Employee in determining whether a conflict or prohibition actually exists. If a conflict exists, the Employee must make a disclosure pursuant to subsection IV. F. and cure the conflict. Also, if it is determined that a conflict would exist upon the occurrence of the anticipated circumstances and they later do occur, the Employee must make a disclosure pursuant to subsection IV. F. upon the occurrence of such events and cure the conflict.

If the Executive Director determines that the Employee's proposed cure of an existing conflict is not appropriate and sufficient under the standards in subsection IV. G., the Executive Director shall consult with the General Counsel regarding the viability of a waiver under applicable law, and shall so inform the Ethics Committee of the Board. The Employee will take appropriate action to respond to any statutory or common-law prohibitions that exist, including the prohibition addressed in Section IV. H. below.

- F. An Employee must promptly
- disclose his own conflicts of interest in writing to the Executive Director through the Conflict of Interest Disclosure Statement, and
 - disclose conflicts of interest involving others of which the Employee becomes aware, either in writing to the Executive Director through the Conflict of Interest Disclosure Statement or verbally by contacting the TRS "hot" line for anonymous ethics reporting.

Other than the Executive Director, should an Employee with a duty to disclose conflicts of interest have reasonable cause to believe disclosure to the Executive Director will be

ineffective, the Employee should file any written disclosure made through the Conflicts of Interest Disclosure Statement with the General Counsel.

In complying with this subsection, any Conflict of Interest Disclosure Statement filed by the Executive Director shall be filed with the General Counsel. Should the Executive Director have reasonable cause to believe disclosure to the General Counsel will be ineffective, the Executive Director shall file any written disclosure made through the Conflicts of Interest Disclosure Statement with the Deputy Director.

The Executive Director will report to the Ethics Committee of the Board regarding the Conflict of Interest Disclosure Statements and the verbal reports via the TRS “hot” line that are received by TRS, and provide a copy of the report to the General Counsel.

If the conflict of interest being reported by an Employee involves a Contractor, the Executive Director shall provide notice of the reported conflict of interest to the TRS personnel who supervise or monitor the Contractor, unless the Executive Director reasonably believes that such disclosure would be detrimental to the resolution of the conflict.

- G. Employees who become aware, or reasonably should have become aware, of a personal conflict of interest, have a duty not only to disclose that conflict, but also to cure it. An Employee normally cures a conflict of interest by promptly eliminating it. An Employee who cannot or does not wish to eliminate the conflict must terminate his or her relationship with TRS as quickly as responsibly and legally possible.

If an Employee may prudently withdraw from action on a particular matter in which a conflict exists, he or she may cure the conflict in that manner provided that

1. The Employee may be and is effectively separated from influencing the action taken,
2. The action may properly be taken by others, and
3. The nature of the conflict is not such that the Employee must regularly and consistently withdraw from decisions that are normally his or her responsibility with respect to TRS.

- H. An Employee who files a Conflict of Interest Disclosure Statement must refrain from giving advice or making decisions about matters affected by the conflict of interest. The Board hereby delegates to the Executive Director the authority to waive this prohibition. This prohibition concerning the Employee’s actions continues in place unless the Executive Director, after consultation with the General Counsel, expressly waives this prohibition, thereby effectively waiving the conflict of interest for that matter. To assist it in deciding whether to grant waivers, the Board may develop criteria for determining the kinds of

relationships that do not constitute material conflicts of interest. Records of all waivers granted with the supporting reasons will be maintained by the General Counsel. The Executive Director will advise the Ethics Committee of the Board of his decision to grant or deny a waiver.

- I. It shall not be considered a conflict solely because
 - 1. An Employee is a member, retiree, or beneficiary of the system or has an interest no greater than a large class of its members, retirees, or beneficiaries, or
 - 2. An Employee has an investment in the stock of a publicly traded corporation which is owned, purchased, or sold by TRS, provided that the Employee's interest in the stock is not more than ten (10) percent of any class of stock of the corporation.
- J. Employees should become familiar with the TRS Code of Ethics for Contractors (the "Code of Ethics"), and any reporting responsibilities placed on such Employees.
- K. With respect to each proposed, pending, or closed transaction by TRS concerning a Private Investment, and except as disclosed in writing pursuant to this subsection IV. K., each Employee who actively participates in the decision-making process (an "Active Employee") on behalf of TRS with regard to a given Private Investment, including the review, evaluation or recommendation of a TRS investment, represents that:
 - 1. The Active Employee has not solicited or accepted any direct or indirect Benefit or interest, or received or agreed to accept any Benefit or interest from any individual or entity in connection with the Private Investment, and is not aware of any personal Benefit or interest that may result or arise from TRS's investment or decision to invest in the Private Investment.
 - 2. To the best of the Active Employee's knowledge, no Relative of the Active Employee has received any direct or indirect Benefit or interest or any promise of a Benefit or interest relating to or arising from TRS's investment or decision to invest in the Private Investment, and the Active Employee is not aware of any Benefit to or interest of a Relative that may result or arise from TRS's investment or decision to invest in the Private Investment.
 - 3. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee, has acquired or has any current intention of acquiring any Benefit or interest, including an ownership interest in the same Private Investment and, so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will acquire such an interest.

4. Neither the Active Employee nor, to the best of the Active Employee's knowledge, any Relative of the Active Employee has or will have an economic or beneficial interest in a general partner, managing member, servicer, underwriter, sponsor, investment adviser, or investment manager of the Private Investment as identified by TRS staff; and so long as the Active Employee holds the position of an Active Employee, neither the Active Employee nor a Relative of the Active Employee will knowingly acquire an economic or beneficial interest in any such entity.
5. The Active Employee has no business relationship with the TRS consultant or adviser recommending the Private Investment, or with any other consultant identified by TRS staff as giving advice or assistance to TRS with regard to the particular Private Investment.
6. The Active Employee is unaware of any existing relationships, interests, or other facts that could reasonably be expected to diminish the Active Employee's independence of judgment as an Active Employee and thereby constitute a conflict of interest in connection with the Active Employee's actions as an Active Employee relating to the Private Investment.

If an Active Employee is unable to make all the representations immediately above in this subsection IV. K. with regard to a Private Investment, then the Active Employee should notify the Executive Director in writing immediately upon receipt of information regarding the Private Investment so that a determination of the appropriate course of action can be made prior to authorization by TRS or, in any event, prior to TRS's becoming contractually bound to fund the Private Investment.

V. Trading

- A. The Executive Director, or his designee, shall develop and implement a trading policy (the "Trading Policy") that addresses policies, procedures, and standards of conduct applicable to Employees in the conduct of each Employee's personal trading activities and trading activities undertaken on behalf of TRS. Additionally, the Executive Director, or his designee, is authorized to amend the Trading Policy from time to time as the Executive Director deems advisable and to issue or modify forms to fully implement the provisions of the Trading Policy, as amended from time to time. Employees shall comply with the Trading Policy.
- B. Restricted List. No Employee or spouse of the Employee may have or borrow a Security (or a Derivative thereof) or other ownership or profit sharing interest in a Contractor with which TRS does business, except as permitted below.

This prohibition applies to a Security (or a Derivative thereof) or other ownership or profit sharing interest held for an Employee's own account or an account in which he or she has a Beneficial Ownership.

If an Employee or a spouse of an Employee (1) has an interest prohibited by this Section prior to becoming an employee or prior to the entity becoming a TRS contractor, or (2) receives an interest prohibited by this Section by inheritance or gift, the Employee or spouse may hold but not add to the interest. The Employee or spouse, in his or her discretion, may dispose of the interest at a time of his or her choosing, provided the Employee or spouse complies with all applicable laws and policies. The Employee shall evaluate whether holding the interest creates a conflict of interest, and if so, will handle the conflict of interest as required by this Policy.

VI. Nepotism

- A. TRS may not employ a person who is a Relative of a Trustee. This does not prevent the continued employment of a person who has already been working for TRS for thirty consecutive days prior to the date of a related Trustee's appointment.
- B. No Employee may exercise discretionary authority to hire, evaluate or promote a Relative. No Employee may supervise a Relative, either directly or indirectly. As used herein, "supervise" means to oversee, with the powers of direction and decision-making, the implementation of one's own or another's intentions. Supervision normally involves assigning duties, overseeing and evaluating work, and approving leave.

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 another²;
 - 2. a Benefit that the Employee knows or should know is consideration for a violation of a duty imposed by law on the Employee;

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;
 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, cash equivalents, 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; or
 4. a Benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the Employee.
- 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.
 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.
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. The Executive Director shall provide notice to the Chair of the Board's Audit Committee of any approvals for Restricted Donors to pay for any expenses related to business conferences under this section.
 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.
- 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 perfunctory³. 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 or donate the Benefit to charity.

VIII. Outside Employment and Certain Other Outside Activities

- A. Employees may not engage in outside employment, business, or other activities, whether compensated or uncompensated, that detract from the ability to fulfill their full-time responsibilities to TRS. Employees must obtain advance written approval from the Executive Director for any outside employment or business. The Executive Director may delegate authority to approve outside employment to appropriate executive staff members.
- 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,

³ Section 305.025 of the Texas Government Code.

whether profit or nonprofit, or person even if such activity would not detract from the ability to fulfill their full-time responsibilities to TRS. This prohibition applies whether the activity is compensated or uncompensated. 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. The Executive Director shall inform the Chair of the Board's Audit Committee of any approvals granted under this section. C.

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

IX. Key Employees

- A. The Board shall designate by position the Employees who exercise significant fiduciary authority. By virtue of their position with TRS, these persons are "Key Employees." Employees with fiduciary authority have a strict duty of loyalty and care to TRS, and its members and beneficiaries.
- B. Employees designated as Key Employees must acknowledge their Key Employee status in writing through the annual Ethics Compliance Statement.

X. Training

Employees shall participate in annual ethics training.

XI. Trustee-Staff Relations and Communications

The Board has articulated the role and responsibility of Trustees and staff 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. 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.

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.

XII. Compliance With Professional Standards

A. Employees who are members of professional organizations that promulgate standards of conduct must comply with those standards.

B. Employees in the TRS Investment Management Division must comply with the CFA Institute's Code of Ethics and Standards of Professional Conduct (together, the "Standards") as amended from time to time by the CFA Institute. The Standards constitute Appendix B to this Policy.

XIII. Financial and Compliance Disclosures

A. The Executive Director must annually file a verified Personal Financial Statement with the Texas Ethics Commission in compliance with Subchapter B of Chapter 572 of the Texas Government Code. Copies of this Personal Financial Statement can be obtained from the Texas Ethics Commission. In addition, at the same time the Executive Director files a copy of his or her verified financial statement with the Texas Ethics Commission, the Executive Director shall file an identical copy of the verified financial statement with the General Counsel and the Chief Audit Executive.

- B. Key Employees must file enhanced disclosure statements with the Executive Director or his designee. The content of these statements shall disclose a key employee's, a key employee's spouse's, and a key employee's dependent child(ren)'s and other dependent's private investments, material debts, non-TRS fiduciary positions, non-TRS employment, and material Benefits received from Restricted Donors.

Key Employees must file the enhanced disclosure statement within 30 days of their date of employment as a Key Employee. The Key Employee's first such enhanced disclosure statement must address the calendar year immediately prior to their date of employment as a Key Employee. Thereafter, an enhanced disclosure statement must be filed by April 30th of each year covering the preceding calendar year. Notwithstanding anything to the contrary, in no event shall a Key Employee be required to file a second enhanced disclosure statement covering the same calendar year. The Executive Director may postpone a filing deadline for not more than 60 days on written request or for an additional period for good cause, as determined by the Chairman of the Board.

- C. In addition to disclosures required in other provisions of this Policy (*e.g.*, subsections IV. F.), Employees with knowledge of a violation of this Policy, the Trustee Ethics Policy, or of the Code of Ethics must promptly
- report his own violation of this Policy in writing to the Executive Director, and
 - report violations, of which he becomes aware, of this Policy, the Trustee Ethics Policy, or of the Code of Ethics by any other individual or entity, either in writing to the Executive Director or verbally by contacting the TRS "hot" line for anonymous ethics reporting.
- D. Within sixty (60) days of the date of employment, in the case of new Employees, and within sixty (60) days of the date of employment in a position as a new Key Employee, the Employee or Key Employee, as the case may be, must file a completed ethics compliance statement that he has received and read this Policy, that he will comply with its provisions, and that it is his duty to report any acts by Trustees, other Employees, or Contractors when he has knowledge of violations of this Policy. This statement will also include a reminder that he is required to update his ethics compliance statement if a change in circumstances occurs that would require reporting under this Policy.

Employees must annually file a completed ethics compliance statement. These annual ethics compliance statements are due by April 30 of each year for the preceding calendar year.

Except for the Executive Director, Employees must file their completed ethics compliance statements with the Executive Director, or his or her designee. The Executive Director must file his or her compliance statement with the General Counsel. The General Counsel will provide a copy of the Executive Director's compliance statement to the Chairman of the Ethics Committee of the Board only if the Executive Director (i) has

anything to report under the four questions found in the compliance statement or (ii) checks either the third or fourth “blank” of the box labeled “Only for Key Employees.” These annual compliance statements are due by April 30 of each year.

- E. Except for the Executive Director, within sixty (60) days of the date of employment in a position as a new Key Employee, the Key Employee must file a completed Disciplinary Action Disclosure Statement with the Executive Director. Within sixty (60) days of the date an individual becomes the Executive Director, he must file a Disciplinary Action Disclosure Statement with the General Counsel. The General Counsel will provide a copy of the Executive Director’s Disciplinary Action Disclosure Statement to the Chairman of the Ethics Committee of the Board only if the Executive Director responds with a “yes” to any of the questions in this statement. A Key Employee must promptly file an updated, complete Disciplinary Action Disclosure Statement if any action occurs that would cause any answers to change on this form.
- F. The Executive Director may implement an electronic system through which Employees submit required disclosures.

XIV. Custodians of Disclosures and Waivers

The Executive Director shall be the custodian for open records purposes of disclosures required under this Policy. The General Counsel shall be the custodian for open records purposes of waivers of conflicts of interest, if any, granted by the Executive Director.

XV. Enforcement

- A. The Board will enforce this Policy through the Executive Director, who is responsible for its implementation with respect to Employees.
- B. The full range of disciplinary options under TRS personnel policies and practices may be used with respect to Employees who violate this Policy, up to and including termination. Employees shall cooperate with any investigation under this Policy.
- C. Employees who are fiduciaries shall take appropriate action as co-fiduciaries in the event a violation of this Policy would involve or does involve a breach of fiduciary duties, including using reasonable care to prevent a co-fiduciary from committing a breach of trust or to compel a co-fiduciary to redress a breach of trust.
- D. No retaliatory action will be taken toward any individual who, in good faith, makes a report of or takes action in response to a violation or suspected violation of applicable ethical laws, standards, or policies.
- E. A list will be maintained of the Contractors whose contract or relationship with TRS has been terminated because they were found to be in violation of the Code of Ethics. The

custodian of this list is the Executive Director. Termination of a contract or relationship because of a violation of the Code of Ethics can preclude another contract or relationship with TRS for a period of time up to ten years, as determined by the Executive Director or his designee, commencing from the date of the termination of the contract or relationship.

- F. The Executive Director will report to the Ethics Committee of the Board in writing by May 31 of each year, covering the immediately prior twelve-month period from May 1 to April 30, of the following:
1. any approval given for outside employment by Key Employees, including the nature of the employment;
 2. any disciplinary action disclosed by Key Employees;
 3. any Conflict of Interest Disclosure Statements and verbal reports via the TRS “hot” line that are received by TRS; and
 4. any written or verbal reports of violations of this Policy, the Trustee Ethics Policy, or of the Code of Ethics.
 5. any decision to grant or deny a waiver pursuant to Section IV. H.

XVI. Conflict with Other TRS Policies

The provisions of this Policy are intended to be read in conjunction with other TRS policies regarding ethics. To the extent that this Policy imposes obligations on Employees that are greater than those imposed in other TRS policies, these obligations are deemed to be in addition to, and not in conflict with, the obligations set forth in other TRS policies. Employees should seek the advice of the Executive Director if they have any questions about possible conflicts between this Policy and other TRS policies.

Appendix A

Definitions

1. **“Affinity”** means a relation which one spouse, because of marriage, has to the blood relatives of the other spouse. In other words, affinity is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other. Affinity is distinguished from “consanguinity,” which is the connection between two individuals that exists by kinship or by blood.
2. **“Beneficial Ownership”** means the true ownership of a Security or an interest in a Security as opposed to any stated legal title to ownership provided in documents or oral representations. The beneficial owner is the person that receives or has the right to receive proceeds or other advantages as a result of the ownership without regard to the nominal owner. In this Policy, Beneficial Ownership includes all types of beneficial ownership interests, such as community property or joint tenancies, the power to vote shares, profit-sharing arrangements, interests in self-directed retirement arrangements, and beneficial interests in trusts and estates, and includes, in addition to a person’s own direct beneficial ownership, an indirect beneficial interest through immediate family members (spouse, minor children, or other dependents).
3. **“Benefit”** means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.
4. **“Board”** means the Board of Trustees of TRS.
5. **“Consanguinity”** means a relation by kinship or by blood. Individuals are related by consanguinity if the individuals are descended from the same stock or common ancestor. Consanguinity is distinguished from “affinity,” which is the connection existing in consequence of a marriage, between each of the married persons and the kindred of the other.
6. **“Consultant”** means an entity or person, other than an Employee or Trustee, (i) who provides advice to TRS intended to affect or form a basis for significant TRS decisions, including but not limited to an actuary or insurance and health care plan advisor, or (ii) who provides advice to TRS and may reasonably be expected to receive for its services more than \$10,000 in compensation from TRS during a fiscal year (September 1 to August 31). For purposes of this Policy, the term “Consultant” does not include an entity or person defined in the Code of Ethics as a Broker or as a Financial Provider. However, if an entity

or person defined as a Consultant would also fall within the definition of a Financial Provider, the entity or person will be considered a Financial Provider for all purposes. If any question exists regarding who constitutes a Consultant for purposes of this Policy, the Executive Director or his designee shall make that determination.

7. **“Contractor”** is a collective term used to reference all individuals or entities that fall within any one or more of the definitions for an Agent, a Broker, a Consultant, or a Financial Provider, as each separate term is defined in the Code of Ethics.
8. **“Derivative”** means a financial product whose value or return is based on, derived from, or linked to the value of a reference rate, exchange rate, interest rate, index, or currency or an underlying Security, asset, commodity, or any combination of underlying rates, indices, currencies or securities (*i.e.*, futures contracts, forward contracts and options), but does not include mutual funds.
9. **“Employee”** means a person working for TRS in an employer-employee relationship and not in an independent contractor capacity, and includes the Executive Director and Chief Investment Officer of TRS.
10. **“Ethics Committee of the Board”** means the standing Ethics Committee of the Board established pursuant to the Bylaws of the Board, as amended from time to time.
11. **“General Counsel”** means the Employee of TRS serving in the position of chief legal advisor for TRS.
12. **“Policy”** means this Employee Ethics Policy.
13. **“Private Investment”** means an investment or decision to invest, regardless of form, made or under consideration by TRS in a private, non-publicly traded security pursuant to limited offerings of securities exempt from registration under the securities laws.
14. **“Relative”** means a person related in the Third Degree by Consanguinity (blood relative) or Affinity (marriage) determined in accordance with Sections 573.021-025, Texas Government Code. Examples of Relatives by consanguinity are a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. Examples of Relatives by affinity are a spouse, any person related to the spouse within the third degree by consanguinity, or any spouse of a Relative by consanguinity or affinity. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
15. **“Restricted Donor”** means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering

doing business, (3) non-publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee's official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.

16. **“Second Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee: (1) by consanguinity (blood relative) - a child, grandchild, parent, grandparent, brother, and sister; and (2) by affinity (marriage) – a spouse and the spouse's child, grandchild, parent, grandparent, brother, and sister. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.
17. **“Security” or “Securities”** means, for purposes of this Policy, (a) all types of publicly traded equity and debt securities of companies listed on a domestic or foreign exchange, including without limitation, any equity security included in a TRS policy benchmark, common stocks, preferred stocks, bonds convertible into equities, rights, warrants, units, depositary receipts and (b) Derivatives of equity securities, including without limitation, swaps, futures, options, and the functional equivalents of such instruments. The terms “Security” or “Securities” do not include: (i) open-ended mutual fund investment companies registered under the Investment Company Act of 1940; (ii) U.S. Government-issued securities; (iii) municipal debt obligations; (iv) money market instruments (*i.e.*, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments); and (v) any exchange traded fund (“ETF”) of sufficient size that TRS trades are unlikely to affect the fair market value of the ETF's shares, as determined by the Compliance Officer in consultation with TRS Investment Management Division staff.
18. **“Third Degree by Consanguinity or Affinity,”** as determined in accordance with Sections 573.021-025, Texas Government Code, includes the following persons related to the Employee: (1) by consanguinity (blood relative) - a child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew; and (2) by affinity (marriage) – a spouse and the spouse's child, grandchild, great-grandchild, parent, grandparent, great-grandparent, brother, sister, uncle, aunt, niece or nephew. A person adopted into a family is considered a relative on the same basis as a natural born family member. A person is considered a spouse even if the marriage has been dissolved by death or divorce if there are surviving children of that marriage.

19. **“TRS”** means the Teacher Retirement System of Texas.
20. **“TRS Matter”** means any transaction, event, occurrence, situation, or state of affairs relating to TRS business and responsibilities, including policies, administration of benefits or programs or operations, current or prospective contracts, procurements or contracting opportunities, employees or employment opportunities, proceedings such as rule making and appeals, investments and investment opportunities, and legislation relating to or affecting TRS.
21. **“Trustee”** means a member of the Board of TRS.

Appendix B

CFA Institute

Code of Ethics and Standards of Professional Conduct

As amended and restated in the
Standards of Practice Handbook, 9th edition

The Code of Ethics

Members of the CFA Institute (including Chartered Financial Analyst [CFA] charterholders) and candidates for the CFA designation (“Members and Candidates”) must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Practice the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on ourselves and the profession.
- Promote the integrity of, and uphold the rules governing, capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

Standards of Professional Conduct

I. PROFESSIONALISM

A. Knowledge of the Law. Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or

consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation. Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct. Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

A. Material Nonpublic Information. Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation. Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests. In relationships with clients, Members and Candidates must determine applicable fiduciary duty and must comply with such duty to persons and interests to whom it is owed.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
 - a. Make a reasonable inquiry into a client's or prospective clients' investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
 - b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
 - c. Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must only make investment recommendations or take investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members or Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client.
2. Disclosure is required by law.
3. The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with, or might reasonably be expected to create a conflict of interest with, their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTION

A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients. Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
3. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analysis, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from, or paid to, others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Members and Candidates in the CFA Program. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA examinations.

B. Reference to CFA Institute, the CFA designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA Program.

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Exhibit C

ETHICS COMPLIANCE STATEMENT FOR EMPLOYEES AND CERTAIN CONTRACTORS¹

Name: _____

Title: _____

Department: _____

Date: _____

Key Employee (yes/no): _____

Please check the appropriate blank.

New Employee, ~~or~~ new Key Employee, New Contractor

Annual Confirmation for current Employees, ~~or~~ current Key Employees, or Contractor (Due on April 30 of each year)

FOR ALL EMPLOYEES

- I have received and read the current Employee Ethics Policy I have also received and read the current TRS Trading Policy for Employees and Certain Contractors (the "Trading Policy"). I agree to comply with ~~both the letter and spirit of~~ the Employee Ethics Policy and the Trading Policy. I understand that adherence to the Employee Ethics Policy and the Trading Policy are basic conditions of my employment at TRS.
- If I believe I have a conflict of interest as defined in the Employee Ethics Policy, I agree to report my conflicts to the Executive Director in writing through the TRS Conflict of Interest Disclosure Statement.
- If I believe that that I have knowledge that a Trustee, Employee, or Contractor (as defined in the TRS Code of Ethics for Contractors (the "Code of Ethics")) has a conflict of interest as defined respectively in the Trustee Ethics Policy (the "Trustee Ethics Policy"), in the Employee Ethics Policy, or in the Code of Ethics, I agree to report such conflicts either in writing to the Executive Director through the TRS Conflict of Interest Disclosure Statement or verbally through the TRS "hot" line for anonymous ethics reporting (the "Hot Line").

~~I agree (1) to report my own conflicts to the Executive Director in writing through the TRS Conflict of Interest Disclosure Statement, and (2) to report conflicts of interest involving others of which I become aware either in writing to the Executive Director through the TRS Conflict of Interest Disclosure Statement or verbally through the TRS "hot" line for anonymous ethics reporting (the "Hot Line") if:~~

- ~~_____ 1) _____ I believe that I have a conflict of interest as defined in the Employee Ethics Policy;~~
- ~~_____ 2) _____ I believe that I have knowledge that a Trustee, Employee, or Contractor (as defined in the TRS Code of Ethics for Consultants, Agents, Financial Providers and Brokers (the "Code of Ethics")) has a conflict of interest as defined respectively in the Trustee Governance and Ethics Policy (the "Trustee Ethics Policy"), in the Employee Ethics Policy, or in the Code of Ethics.~~

¹ "Covered Contractors" as that term is defined in the Code of Ethics for Contractors must use this form to comply with their obligations under Section II.M of the Code of Ethics for Contractors.

- If I believe that I have violated the Employee Ethics Policy or the Trading Policy, I agree to report my violation to the Executive Director in writing.
- If I believe that I have knowledge that a Trustee, Employee, or Contractor has violated the Trustee Ethics Policy, Employee Ethics Policy, or Code of Ethics, I agree to report such violations either in writing to the Executive Director or verbally through the Hot Line. I agree (1) to report my own violations of the Employee Ethics Policy or the Trading Policy to the Executive Director in writing (there is no particular form for this reporting), and (2) to report violations by others of the Trustee Ethics Policy, the Employee Ethics Policy, the Trading Policy, or the Code of Ethics either in writing (there is no particular form for this reporting) to the Executive Director or verbally through the Hot Line if:
 - ~~1) I believe that I have violated the Employee Ethics Policy or the Trading Policy,~~
 - ~~2) I believe that I have knowledge that a Trustee, Employee, or Contractor has violated, respectively, the Trustee Ethics Policy, the Employee Ethics Policy, the Trading Policy or the Code of Ethics.~~
- I agree that I will not allow myself to be placed in a position which might give rise to a reasonably foreseeable conflict of interest, as defined in the Employee Ethics Policy.
- I agree that I will cooperate with any investigation under the Employee Ethics Policy, Trading Policy, Trustee Ethics Policy, Code of Ethics, or other applicable TRS policy.

- To the best of my knowledge and belief, I do not have any relationship or interest, nor have I engaged in any activity, which constitutes a conflict of interest as defined in the Employee Ethics Policy.

(Write "None" if you have nothing to report. If you have something to report, please attach a completed TRS Conflict of Interest Disclosure Statement to this form.)

- I am unaware of any unreported conflicts of interest under the Trustee Ethics Policy or the Employee Ethics Policy, as applicable, involving any Trustee or Employee, or any unreported conflicts of interest under the Code of Ethics involving any Contractor, except as indicated below.

(Write "None" if you have nothing to report or have reported all conflicts of interest of which you are aware. If you are aware of an unreported conflict of interest, please either attach a completed Conflict of Interest Disclosure Statement to this form or make your report verbally to the Hot Line before filing this form.)

- To the best of my knowledge and belief, I have not violated the Employee Ethics Policy or the Trading Policy, except as indicated below.

(Write "None" if you have nothing to report. If you have something to report, please attach a written explanation to this form. There is no required form for the explanation itself.)

- I am unaware of any unreported violations of the Trustee Ethics Policy, the Employee Ethics Policy or the Trading Policy, as applicable, by any Trustee or Employee, or any unreported violations of the Code of Ethics by any Contractor, except as indicated below.

(Write "None" if you have nothing to report or have reported all violations of which you are aware. If you are aware of an unreported violation, please either attach a written explanation to this form (there is no required form for the explanation itself) or make your report verbally to the Hot Line before filing this form.)

- If required by the Trading Policy, I have properly reported my Personal Securities Transactions and properly disclosed all of my Beneficial Ownership Accounts ("BOAs") (as defined in the Trading Policy), in accordance with the Trading Policy, except as indicated below.

(Write "None" if you (1) either had no Personal Securities Transactions to report or if you properly reported all of your Personal Securities Transactions in accordance with the Trading Policy, and (2) you properly disclosed all of your BOAs in accordance with the Trading Policy.)

- I agree that if any change in circumstances occurs which should be reported in accordance with the Employee Ethics Policy or the Trading Policy, I will promptly report this change in accordance with those policies.

Outside Employment (please check blank that applies)

I am not engaged in any outside employment or business.

I am engaged in outside employment or business and have obtained advance written approval for such activity, as required by the Employee Ethics Policy.

FOR KEY EMPLOYEES

_____ I acknowledge my status as a TRS Key Employee.

ONLY FOR KEY EMPLOYEES (please check the first blank and all other applicable blanks)

_____ I acknowledge my status as a TRS Key Employee.

_____ I am not engaged in any outside employment or business.

_____ I am engaged in outside employment or business and have obtained advance written approval for such activity, as required by the Employee Ethics Policy.

_____ I am a director, officer, or more than 5% owner (by shares, stock, or otherwise) of a corporation or other business entity and have made the following disclosures as required by the Employee Ethics Policy: (i) the nature of the business of the entity and (ii) the identity of the persons and/or entities that are the owners, directors, and officers of the business.

SIGNATURE BLOCK

Signature

Printed Name

Department

Title

Date

IF THIS STATEMENT IS THE EMPLOYEE'S ANNUAL ETHICS COMPLIANCE STATEMENT, THIS COMPLIANCE STATEMENT MUST BE RETURNED TO THE OFFICE OF THE EXECUTIVE DIRECTOR BY APRIL 30.

AS TO STATEMENTS OF PAST ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM MAY 1 OF THE PRIOR CALENDAR YEAR THROUGH APRIL 30 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE. AS TO STATEMENTS OR COMMITMENTS OF FUTURE ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM MAY 1 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE THROUGH APRIL 30 OF THE NEXT CALENDAR YEAR.

Exhibit D

ETHICS COMPLIANCE STATEMENT FOR EMPLOYEES AND CERTAIN CONTRACTORS¹

Name: _____

Title: _____

Department: _____

Date: _____

Key Employee (yes/no): _____

Please check the appropriate blank.

_____ New Employee, new Key Employee, New Contractor

_____ Annual Confirmation for current Employees, current Key Employees, or Contractor (**Due on April 30 of each year**)

FOR ALL EMPLOYEES

- I have received and read the current Employee Ethics Policy I have also received and read the current TRS Trading Policy for Employees and Certain Contractors (the "Trading Policy"). I agree to comply with the Employee Ethics Policy and the Trading Policy. I understand that adherence to the Employee Ethics Policy and the Trading Policy are basic conditions of my employment at TRS.
- If I believe I have a conflict of interest as defined in the Employee Ethics Policy, I agree to report my conflicts to the Executive Director in writing through the TRS Conflict of Interest Disclosure Statement.
- If I believe that that I have knowledge that a Trustee, Employee, or Contractor (as defined in the TRS Code of Ethics for Contractors (the "Code of Ethics")) has a conflict of interest as defined respectively in the Trustee Ethics Policy (the "Trustee Ethics Policy"), in the Employee Ethics Policy, or in the Code of Ethics, I agree to report such conflicts either in writing to the Executive Director through the TRS Conflict of Interest Disclosure Statement or verbally through the TRS "hot" line for anonymous ethics reporting (the "Hot Line").
- If I believe that I have violated the Employee Ethics Policy or the Trading Policy, I agree to report my violation to the Executive Director in writing.
- If I believe that I have knowledge that a Trustee, Employee, or Contractor has violated the Trustee Ethics Policy, Employee Ethics Policy, or Code of Ethics, I agree to report such violations either in writing to the Executive Director or verbally through the Hot Line.
- I agree that I will not allow myself to be placed in a position which might give rise to a reasonably foreseeable conflict of interest, as defined in the Employee Ethics Policy.
- I agree that I will cooperate with any investigation under the Employee Ethics Policy, Trading Policy, Trustee Ethics Policy, Code of Ethics, or other applicable TRS policy.

¹ "Covered Contractors" as that term is defined in the Code of Ethics for Contractors must use this form to comply with their obligations under Section II.M of the Code of Ethics for Contractors.

- To the best of my knowledge and belief, I do not have any relationship or interest, nor have I engaged in any activity, which constitutes a conflict of interest as defined in the Employee Ethics Policy.

(Write "None" if you have nothing to report. If you have something to report, please attach a completed TRS Conflict of Interest Disclosure Statement to this form.)

- I am unaware of any unreported conflicts of interest under the Trustee Ethics Policy or the Employee Ethics Policy, as applicable, involving any Trustee or Employee, or any unreported conflicts of interest under the Code of Ethics involving any Contractor, except as indicated below.

(Write "None" if you have nothing to report or have reported all conflicts of interest of which you are aware. If you are aware of an unreported conflict of interest, please either attach a completed Conflict of Interest Disclosure Statement to this form or make your report verbally to the Hot Line before filing this form.)

- To the best of my knowledge and belief, I have not violated the Employee Ethics Policy or the Trading Policy, except as indicated below.

(Write "None" if you have nothing to report. If you have something to report, please attach a written explanation to this form. There is no required form for the explanation itself.)

- I am unaware of any unreported violations of the Trustee Ethics Policy, the Employee Ethics Policy or the Trading Policy, as applicable, by any Trustee or Employee, or any unreported violations of the Code of Ethics by any Contractor, except as indicated below.

(Write "None" if you have nothing to report or have reported all violations of which you are aware. If you are aware of an unreported violation, please either attach a written explanation to this form (there is no required form for the explanation itself) or make your report verbally to the Hot Line before filing this form.)

- If required by the Trading Policy, I have properly reported my Personal Securities Transactions and properly disclosed all of my Beneficial Ownership Accounts ("BOAs") (as defined in the Trading Policy), in accordance with the Trading Policy, except as indicated below.

(Write "None" if you (1) either had no Personal Securities Transactions to report or if you properly reported all of your Personal Securities Transactions in accordance with the Trading Policy, and (2) you properly disclosed all of your BOAs in accordance with the Trading Policy .)

- I agree that if any change in circumstances occurs which should be reported in accordance with the Employee Ethics Policy or the Trading Policy, I will promptly report this change in accordance with those policies.

Outside Employment (please check blank that applies)

_____ I am not engaged in any outside employment or business.

_____ I am engaged in outside employment or business and have obtained advance written approval for such activity, as required by the Employee Ethics Policy.

FOR KEY EMPLOYEES

_____ I acknowledge my status as a TRS Key Employee.

SIGNATURE BLOCK

Signature

Printed Name

Date

IF THIS STATEMENT IS THE EMPLOYEE'S ANNUAL ETHICS COMPLIANCE STATEMENT, THIS COMPLIANCE STATEMENT MUST BE RETURNED TO THE OFFICE OF THE EXECUTIVE DIRECTOR BY APRIL 30.

AS TO STATEMENTS OF PAST ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM MAY 1 OF THE PRIOR CALENDAR YEAR THROUGH APRIL 30 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE. AS TO STATEMENTS OR COMMITMENTS OF FUTURE ACTIONS, THIS COMPLIANCE STATEMENT COVERS THE PERIOD FROM MAY 1 OF THE CALENDAR YEAR DURING WHICH THIS COMPLIANCE STATEMENT IS DUE THROUGH APRIL 30 OF THE NEXT CALENDAR YEAR.

Exhibit E

TEACHER RETIREMENT SYSTEM OF TEXAS
KEY EMPLOYEE ENHANCED DISCLOSURE FORM

In completing this form, the reporting year is January 1 through December 31 of the prior calendar year. You may attach additional sheets if necessary for complete disclosures.

Name: _____

Reporting Year: _____

Spouse's Name: _____

Dependent Children's Names: _____

Other Economic Dependents' Names: _____

SUMMARY OF INFORMATION

Indicate yes or no to the following:

I am disclosing non-TRS Employment (page 2): _____

I am disclosing material debt or debts, defined for this purpose as a debt of of \$25,000 or more (page 3): _____

I am disclosing a benefit or benefits received from a Restricted Donor (page 4): _____

I am disclosing a non-TRS fiduciary position (page 5): _____

I am disclosing privately held investments (page 6): _____

EMPLOYMENT

Your Non-TRS Employment

I have non-TRS employment during the reporting year: _____ (yes/no)

If yes, provide the following information.

Name and address of employer:

Nature of employment:

Spousal Employment (if applicable):

Name and address of employer:

Nature of employment:

Dependent Child Employment (if applicable):

Name and address of employer:

Nature of employment:

Name and address of employer:

Nature of employment:

Name and address of employer:

Nature of employment:

Other Economic Dependent Employment (if applicable):

Name and address of employer:

Nature of employment:

Name and address of employer:

Nature of employment:

Name and address of employer:

Nature of employment:

DISCLOSABLE DEBTS:

Did or do you, your spouse, dependent child, and/or other financial dependent owe any lender or creditor a debt or aggregate debts of \$25,000 or more during the reporting year? _____ (yes/no)

If no, move on to the next section. If yes, provide the following information for each debt of \$25,000 or more actually owed at any time during the reporting year. If you, your spouse, dependent child, and/or other financial dependent owed aggregate debts of \$25,000 or more to any lender or creditor, please list each debt separately.

Creditor:
Borrower:
Guarantor if any:
Principal owed (as of 12/31):

Creditor:
Borrower:
Guarantor if any:
Principal owed (as of 12/31):

Creditor:
Borrower:
Guarantor if any:
Principal owed (as of 12/31):

Creditor:
Borrower:
Guarantor if any:
Principal owed (as of 12/31):

Creditor:
Borrower:
Guarantor if any:
Principal owed (as of 12/31):

Creditor:
Borrower:
Guarantor if any:
Principal owed (as of 12/31):

BENEFITS FROM RESTRICTED DONORS

Have you, your spouse, dependent child, or other financial dependent received any benefit (e.g., gift) worth more than \$50 from a Restricted Donor during the reporting year? _____ (yes/no)

“Benefit” means any gift, item, favor, payment, or service, including a promised future benefit, whether or not such gift, item, favor, payment, or service has a pecuniary value, and includes, without limitation, any gift, item, favor, payment, or service given to or accepted by a person in whose welfare an Employee has a direct and substantial interest. A Benefit does not include a gift, item, favor, payment, or service for which TRS has given due consideration.

“Restricted Donor” means (1) persons or entities with which TRS does business, (2) persons or entities seeking to do business with TRS or with whom TRS is considering doing business, (3) non-publicly traded entities in which TRS invests or is considering investing, (4) publicly traded entities in which TRS invests or is considering investing, but only if the Employee knows that the publicly traded entity is interested in or likely to become interested in a TRS contract, purchase, payment, claim or transaction, (5) persons or entities seeking official action from TRS, or (6) any other person or entity who gives the Benefit because of the Employee’s official position with TRS. Persons employed by the same entity, and entities with common ownership or control, shall be considered to be a single donor.

If no, move to the next section. If yes, provide the following information.

Name of recipient:
Name and address of donor:
Description of gift:
Value of gift:

Name of recipient:
Name and address of donor:
Description of gift:
Value of gift:

Name of recipient:
Name and address of donor:
Description of gift:
Value of gift:

Name of recipient:
Name and address of donor:
Description of gift:
Value of gift:

NON-TRS FIDUCIARY POSITIONS

Did or do you, your spouse, dependent child, or other financial dependent hold any non-TRS office or position that owed fiduciary duties during the reporting year? _____ (yes/no)

If yes, provide the following information.

Organization:
Position Held:
Position Held by:

DISCLOSABLE PRIVATELY HELD INVESTMENTS

Do or did you, your spouse, dependent child, or other financial dependent hold an interest in any privately held investment (e.g., limited partnership, closely held corporation, limited liability company) during the reporting year? _____ (yes/no)

If no, move to the next section. If yes, provide the following information.

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Held by:
Name of investment:
Date Acquired:
Estimated value of investment (as of 12/31):

Teacher Retirement System of Texas
Key Employee Financial Disclosure Form

DECLARATION

My name is

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the _____ day of _____.

Signature: _____

Print Name:

Exhibit F



December 12-13, 2013

Teacher Retirement System of Texas

Board of Trustees

Resolution Approving Certain Changes to the Employee Ethics Policy and Related Forms

Whereas, In October 2009, the Board of Trustees of the Teacher Retirement System of Texas (the "Board") adopted the Employee Ethics Policy and last revised the Policy in April 2012; and

Whereas, It is now necessary and prudent to adopt certain changes to the Employee Ethics Policy to implement changes made possible by 2013 amendments to TRS' ethics statute, Gov't Code § 825.212, and to make other prudent revisions, including to forms related to the Employee Ethics Policy; and now, therefore be it

Resolved, That the Board hereby adopts the revisions to the Employee Ethics Policy, the Ethics Compliance Statement for Employees and Certain Contractors, and the Key Employee Enhanced Disclosure Form, as presented by the staff to the Policy Committee. [with the following changes, if any, to the recommended revisions:

- _____
- _____]

[optional language bracketed]

Exhibit G



~~April 19 – 20, 2012~~ December 12-13, 2013

Teacher Retirement System of Texas

Board of Trustees

Resolution Adopting Revised TRS Key Employee Determinations

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 authority to determine ~~previously determined~~ employees who exercise significant ~~decisionmaking or~~ fiduciary authority (“key employees”); and

Whereas, The Board desires to adopt the following determinations of key employees; now, therefore be it

Resolved, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

Title
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer
General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Director of Health Care Policy and Administration
<u>Director of Strategic Initiatives</u>
Manager of General Accounting
Manager of Investment Accounting

Further resolved, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;

Further resolved, That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who hold authority during a reporting period under the Board's Authority Resolution (TRS 477) ~~or Voucher Authority Resolution~~ either through direct delegation from the Board or otherwise are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations;

Further resolved, That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, are effective for the 201~~2~~⁴ reporting year and shall remain effective until modified by the Board.

Exhibit H



December 12-13, 2013

Teacher Retirement System of Texas

Board of Trustees

Resolution Adopting Revised TRS Key Employee Determinations

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 authority to determine employees who exercise significant fiduciary authority (“key employees”); and

Whereas, The Board desires to adopt the following determinations of key employees; now, therefore be it

Resolved, That the following positions are determined to be key employees and their current and future incumbents subject to all applicable requirements for key employees:

Title
Executive Director
Deputy Director
Chief Investment Officer
Deputy Chief Investment Officer
Chief Benefit Officer
Chief Financial Officer
General Counsel
Chief Audit Executive
Chief Information Officer
Deputy Chief Information Officer
Director of Health Care Policy and Administration
Director of Strategic Initiatives
Manager of General Accounting
Manager of Investment Accounting

Further resolved, That all employees who hold a voting position on the Internal Investment Committee at any time during a reporting period are determined to be key employees subject to all applicable requirements for key employees;

Further resolved, That all Investment Management Division employees who hold the working title of Director or higher during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who have authority to approve or execute securities trades in the TRS order management system during a reporting period are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That all employees who hold authority during a reporting period under the Board's Authority Resolution (TRS 477) either through direct delegation from the Board or otherwise are determined to be key employees and subject to all applicable requirements for key employees;

Further resolved, That the Executive Director is authorized to designate, upon notice to the General Counsel, an employee not identified above to be a supplemental key employee if the Executive Director determines that it would be prudent for TRS to have the employee subject to the key employee requirements because of the influence the employee exercises, the nature of the employee's job, the information to which the employee has access, or another appropriate reason; at the next meeting of the Board after any supplemental key employee designations, the Executive Director shall notify the Board of the designations for the Board to consider ratification of the designations;

Further resolved, That the foregoing resolutions and all applicable key employee requirements, including submitting enhanced disclosures required by the Employee Ethics Policy, are effective for the 2012 reporting year and shall remain effective until modified by the Board.