



# 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.