Joint Meeting of the Board of Trustees and Investment Advisory Committee

August 20, 2013

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

December 5, 2013

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JOINT MEETING OF THE
BOARD OF TRUSTEES AND
INVESTMENT ADVISORY COMMITTEE
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

August 20, 2013
ERS Boardroom
ERS Building ~ 200 E. 18th Street
Austin, Texas 78701

COMMITTEE MEMBERS PRESENT

Robert Alley, Chair
Lenore Sullivan, Vice-Chair
James Hille, Member
Laura Starks, Ph.D., Member
Vernon Torgerson, Member

COMMITTEE MEMBERS NOT PRESENT

Ken Mindell, Member

TRUSTEES PRESENT

Cheryl MacBride, Chair
Brian Ragland, Vice-Chair
Cydney Donnell, Member
Yolanda Griego, Member
I. Craig Hester, Member
Frederick E. Rowe, Jr., Member

ERS STAFF PRESENT

Ann Bishop, Executive Director
Tom Tull, Chief Investment Officer
Paula Jones, General Counsel and Chief Compliance Officer
William Nail, Director of Governmental Relations
Marci Sundbeck, Manager of Enterprise Risk Management
Catherine Terrell, Director of Communications and Research
Michael Wheeler, Chief Financial Officer
Carolyn Anderson, Investments
Brannon Andrews, Legal Services
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Brad Demicco, Investments
Leah Erard, Government Relations
Lynne Fowler, Investments
Andrew Hodson, Investments
Lauren Honza, Investments
Sharmila Kassam, Investments
Robert Lee, Investments
Nick Maffeo, Investments
Betty Martin, Investments
Tim Reynolds, Investments
Tanna Ridgway, Investments

Robert Sessa, Investments
Leighton Shantz, Investments
Jim Sherwin, Investments
Richard Slaughter, Office of Management Support
Chris Tocci, Investments
Martha J. Wall, Communications and Research
Mary Jane Wardlow, Communications and Research

ALSO PRESENT
William Charleton, Altius Associates
John Claisse, Albourne America, LLC
Andrew Cuerington, Waterfall Investments
Kristen Doyle, Hewitt EnnisKnupp
Jenny Fenton, Altius & Associates
Meredyth Fowler, Office of Texas Speaker of the House of Representatives
Juan Garcia, Office of the Governor
Andrew Knapp, JP Morgan Asset Management
Reyno Norval, Altius Associates
Steve Voss, Hewitt EnnisKnupp
Jay Yoder, Altius Associates

Mr. Bob Alley, Chairman of the Investment Advisory Committee (IAC) of the Employees Retirement System of Texas called the meeting to order at 8:34 a.m. and read the following statement:

> "A public notice of the Joint Meeting of the Board of Trustees and Investment Advisory Committee meeting containing all items on the proposed agenda was filed in the Office of the Secretary of State at 11:22 a.m. on Friday, August 9, 2013 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

I. REVIEW AND APPROVAL OF THE MINUTES TO THE MAY 21, 2013 JOINT MEETING OF THE BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE

Mr. Bob Alley, Chairman of the IAC opened the floor for a motion on the approval of the minutes to the ERS Joint Meeting of May 21, 2013

MOTION made by Mr. Vernon Torgerson, seconded by Mr. Jim Hille and carried unanimously by the members present that the Investment Advisory Committee approve the minutes of the ERS Joint Meeting of May 21, 2013.

The Board of Trustees (Board) then took the following action:

MOTION made by Mr. Craig Hester, seconded by Ms. Cydney Donnell, and carried unanimously that the Board of Trustees approve the minutes to the ERS Joint Meeting of May 21, 2013.

II. REVIEW OF INVESTMENT PERFORMANCE FOR THE PORTFOLIO FOR THE SECOND CALENDAR QUARTER OF 2013 AND REVIEW OF EXTERNAL ADVISORS; BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC; OMEGA ADVISORS, INC., BARING ASSET MANAGEMENT, FISHER INVESTMENTS INSTITUTIONAL GROUP, FRANKLIN TEMPLETON INSTITUTIONAL, LAZARD ASSET MANAGEMENT, AND JP MORGAN ASSET MANAGEMENT

Mr. Steve Voss and Ms. Kristen Doyle of Hewitt EnnisKnupp (HEK), ERS' investment consultant, presented the ERS performance review for the second calendar quarter of 2013, the period ending June 30, 2013. Mr. Jim Sherwin, Director of Strategic Research, provided a review of the external advisors.

Ms. Doyle started by giving a brief overview of the financial markets, noting that markets were volatile, and the second quarter was difficult for the capital markets. The US equity market performed positively. There was weakness in the international equity markets, in particular the emerging markets, which were down about 8%.

Rates moved up dramatically, approximately 80 basis points (bps), over a six-week period of time in the US and that negatively affected the US bond market, which was down less than 2.5% for the quarter. Barclay US High Yield 2% Issuer Cap index was down even more, given their exposure to rate changes by about 6%. The high yield was only down 1.5% mainly due to the fact that that portion of the bond market is somewhat less affected by interest rate changes than the investment grade portion of the market.

Ms. Doyle noted that there is continued weakness in the US equity market in particular through August. Month-to-date the US equity markets were down about 1.7%, but overall year-to-date the US equity market is up approximately 19%.

Non-US equities are actually up about 2% month-to-date in August and over the year-to-date period up 7%. Of note, Japan has had very positive performance on the ERS global equity index which is something that has not been seen in a couple of years. There has also been positive performance from the European region, and that is up approximately 23% for the one-year period. Trailing for the quarter in particular was the Pacific region, the emerging markets, and Canada.

In the Fixed Income market the yields are up to 2.8% for 10 years and 3.9% for 30-years. The US bond market is down about 3% year-to-date. Investment grade corporate bonds, which are 22% of the index, were down the most for the second quarter. High yield bonds, non-investment grade bonds, outperformed investment grade bonds during the second quarter.

Mr. Voss reported that for the calendar quarter ending June 30, 2013, the total fund outperformed the policy benchmark of -0.5% by approximately 50 bps. Performance over the trailing periods has either outperformed or somewhat matched the performance of the policy benchmark.

Mr. Voss reviewed the asset allocation for the total fund. ERS' allocation is effectively tracking the strategic allocation policy very closely.

Mr. Voss noted that at the last meeting a question was asked about the peer universe data. The universe that HEK uses is of public funds that have assets in excess of a billion dollars. HEK is working with the investment team and looking at custom data to be able to better report on how ERS compares relative to some of the larger public funds in the country.

Mr. Voss reviewed the total fund attribution noting that for the quarter and the one-year period, there was slight outperformance of the absolute return hedge fund portfolio. This is a relatively new investment structure within ERS' asset allocation. It represents about 2.2% of the total fund.

Mr. Shad Rowe asked who calculates the benchmark, and how is it calculated. Mr. Voss explained that the benchmark is calculated by ERS' custodian, BNY Mellon. Ms. Doyle explained the calculation methodology and also referenced full descriptions of all the benchmarks in the large performance book appendix.

Ms. Doyle reported on the domestic equities asset class which tracked the performance of the domestic equity benchmark of 2.8%. Over the trailing periods, there was just slight underperformance relative to the benchmark, but strong positive absolute performance from the asset class consistently over the trailing periods. The ERS mid cap core and the small cap core portfolios added value this quarter.

The external advisor Barrow Hanley had strong positive performance and Omega, a newer advisor, detracted and offset the outperformance given by the internal portfolios.

Ms. Doyle reported on the international equities asset class which has outperformed the benchmark over all trailing periods. She noted even though the absolute return for the asset class was down about 2% for the quarter ending June 30, 2013; it outperformed its benchmark by about 1.1%. The outperformance has mainly been due to alpha generation from the active external advisors as well as the internal portfolio.

There have been two external advisors in particular that have underperformed: JP Morgan Asset Management, which has struggled to keep up with the benchmark over the quarter and the one-year period, and Baring Asset Management (Baring). HEK and staff have spent a lot of time actually discussing Baring and their underperformance. But in general, all other advisors and internal portfolios did a great job of outperforming their respective benchmarks.

Ms. Doyle explained that the positive benchmark effect is due to the international equity portfolio's relative underweight to emerging market equities. She pointed out that both Lazard Asset Management and Franklin Templeton Institutional portfolios have been the largest contributors to international equity over the trailing one-year. Fisher Investments has also been a strong outperformer.

Ms. Doyle then reported on the fixed income asset class. In the second quarter, rates went up, so that had a detrimental effect on the overall absolute performance of the US bond market. The fixed income asset class for the trust was down -1.9%, while the benchmark was down -2.4%, the trust outperformed.

Ms. Doyle noted that the internally-managed portfolio was the main contributor, and the reason for the outperformance was the lower duration positioning that was put on almost immediately after the final approval of the asset allocation as discussed at the May 21, 2013 meeting. Staff was allowed to move to an intermediate duration orientation for the fixed income asset class as the rates went up, that added to performance over the quarter ending June 30, 2013.

Ms. Doyle explained that the fixed income portfolio's underweight to lower credit quality securities has been a detractor over the one-year period. The high yield and emerging market ETF's and external advisor, Fountain Capital, underperformed their performance benchmarks during the second quarter period ending June 30, 2013.

Ms. Doyle reported on the public real estate performance. The portfolio was down about 3.5% for the quarter, outperforming the -3.6% benchmark by 10 bps. While negative for the quarter, the public and private real estate portfolios have produced strong nominal returns over longer trailing time periods. There was positive relative performance from both the internal public real estate portfolio and the external advisor, Center Square, formerly Urdang. Over the one-year period, there was underperformance relative to the benchmark by about 40 bps mainly due to the external advisor underperforming its benchmark, but the internal portfolio continued to have positive performance.

Lastly, Ms. Doyle touched on the private market component of the asset allocation. As of June 30, 2013, the private real estate program has completed three deals with about $249 million of capital committed. Within the Private Equity program, five deals have been completed as of June 30, 2013 with about $357 million of capital committed.

Mr. Sherwin then discussed external advisors in accordance with ERS' *Investment Policy*, which directs staff to review and report on advisor performance, adherence to style, investment process, and ERS policies and objectives. Mr. Sherwin presented staff reviews of Barrow, Hanley, Mewhinney & Strauss, Omega Advisors, Fisher Investments, JP Morgan Asset Management, Franklin Templeton Institutional, Baring Asset Management, and Lazard Asset Management.

Mr. Sherwin indicated that Baring's performance has been weak. Staff reduced exposure during the fourth quarter of 2012, and reviewed the performance of the strategy in January 2013, and again in July 2013. Staff is still troubled by their performance, but in consultation with HEK, will continue to monitor the situation closely. Staff recommends retaining the advisory services of Baring, but the advisor has been placed on review status and staff will adjust exposure to the strategy as appropriate.

Mr. Sherwin completed the reviews and stated that staff has concluded to retain all the other reviewed investment advisors. He also presented to the IAC and Board each of the external advisors' performance numbers for the quarter, one-year, five-year, and since inception.[1]

Mr. Tull noted for the record that staff is engaging the consultant, HEK, more diligently and aggressively, on feedback about managers. This will allow a better flow of information and more timely information, in conjunction with the due diligence that ERS staff does on a semi-annual basis.

Ms. Doyle wrapped up by reporting on an item that was addressed at the May 21, 2013 joint meeting, which was the use of leverage within the ERS portfolio. She clarified there is no use of leverage at the trust level and stressed that the use of leverage is really within the individual asset classes at the individual strategy level.

She noted that leverage is not allowed by policy at the trust level, except as expressly stated in the ERS *Investment Policy*. It is primarily restricted to risk management. Leverage at the trust level is reviewed and monitored by the Risk Committee, which is made up of senior members of the investment staff, in consultation with HEK, to monitor and mitigate risk and determine best practices.

Ms. Doyle reported that HEK views ERS' use of leverage as appropriate to gain market exposure, hedge risks, and control costs.

There were no questions or further discussion, and no action was required on this item.

III. REVIEW, DISCUSSION AND CONSIDERATION OF THE ERS PRIVATE EQUITY PROGRAM:

a. ***Program Overview and Market Update –*** Mr. Wesley Gipson, Director of Private Equity; Mr. Brad Demicco, Private Equity Portfolio Manager; Ms. Jenny Fenton, COO of Altius & Associates, and Mr. Bill Charleton, Partner and US Head of Altius Associates, presented the Private Equity program overview and market update.

Mr. Gipson reviewed the Private Equity team, noting there have been no changes since last year. He noted that Mr. Demicco and he have been on the team for over four years and Mr. Davis Peacock has been with the team since October of 2011. They are all generalists with various pockets of specialization. Mr. Demicco specializes in Asia, distressed debt, and venture capital. Mr. Gipson specializes in Latin American secondaries, and Mr. Peacock has supported the entire program.

Mr. Gipson reported that prior to fiscal year 2013, the portfolio had made commitments in 39 funds of $3 billion. Staff has made five new commitments for $402 million during the fiscal year-to-date through June 30, 2013, bringing the total portfolio to 43 funds with a total of $3.4 billion commitments.

The net asset value (NAV) was $1.5 billion on June 30, 2013, which is 6.3% of the global portfolio, right on the path to the 8% expected by 2015. The fiscal year to date internal rate of return (IRR) is 12.6% and since inception the IRR of 8.4%, are both ahead of schedule versus the original transition plan adopted with the prior asset allocation.

Mr. Gipson noted that by the close of this fiscal year, staff expects to close with six fund commitments and four co-investments for a total of $500 million. This is within the range of $425 - $825

[1] Exhibit A – Pages 18 - 19

million that was approved in the tactical plan. There was a revised target once the asset allocation was adopted on February 26, 2013, from 8% to 10%.

Mr. Gipson reviewed the evolution of the program, noting both geography and strategy of the Private Equity program from August 2008 to June 30, 2013. He also discussed the portfolio diversification by strategy, geography, sector, fiscal year and general partner.

Mr. Demicco then presented the review of ERS' co-investment program and savings. He noted that the approval to launch the co-investment program was at the beginning of fiscal year 2012. As of March 31, 2013, there have been seven co-investments for $17 million and three co-investments in infrastructure for $150 million. Mr. Demicco explained that $17 million in co-investments represent 5% of the NAV of ERS' private equity portfolio. The program is still being built out and will be discussed in a later agenda item.

Mr. Demicco reviewed the projected fee and carry savings of co-investments. He noted that staff negotiates the savings at the fund level and addresses these terms with funds early when they hit the market so that ERS can be the anchor investor driving terms. Staff has had good success and projects savings in the program to be $127 million over the life of the existing investments.

Mr. Tull thanked the Board for their approval and support of policies and procedures that allow staff the flexibility and responsiveness to drive better economic terms.

Mr. Gipson explained the most important part of the co-investment program is the primary underwriting. It is also a big limitation on the program because ERS only does co-investments with our existing relationships. The due diligence has already been done on the funds, and this is a large mitigant to the adverse selection issue of co-investments. The rest of risk mitigation is diversification. ERS has not placed any large single bets in the Private Equity co-investment program. In fact, the motto for the co-investment program has been, no deal is too small.

Mr. Gipson finished the program overview by reviewing the Private Equity fiscal year 2014 goals and objectives, noting that the private equity team will focus on existing managers coming back to market and building out the co-investment program. Staff will continue to develop a secondary strategy which out of the gate will probably involve co-investing with some of our secondary fund managers.

Another goal for 2014 is to hire another Portfolio Manager to the private equity team. Lastly, the team will continue to make enhancements to reporting. He noted a long term goal of hitting the 10% asset allocation target by fiscal year end 2016.

At this point, Ms. Jenny Fenton and Mr. Billy Charlton of Altius presented a private equity market overview. Ms. Fenton started by giving an update on the ERS private equity portfolio. She explained that ERS has committed approximately $3.1 billion to 41 funds and 4 co-investments. There are more than 387 underlying portfolio companies with headquarters in 41 countries. Lastly she noted that as a young portfolio, it is maturing well and has not experienced any major disruptions.

Mr. Charlton reported on the private equity environment. He noted that the private equity industry continues to gather momentum since the recession and the investment and divestment pace will likely continue to improve. The manager selection is key in the private equity program. He recommended looking for a longer term balanced portfolio and experienced managers. Lastly he touched on creating alpha through allocations to specialized and differentiated strategies.

There were no questions or further discussion, and no action was required on this item.

b. ***Proposed Revisions to the Private Equity Policies and Procedures*** – Mr. Wesley Gipson presented staff's proposed revisions to the Private Equity Policies and Procedures as Addendum I to ERS *Investment Policy*.

Mr. Gipson reported on two areas of the policies and procedures that relate to the investment amount the Private Equity Investment Committee is authorized to approve. These include two approval limit increases consistent with the approval limit increase approved for Private Real Estate at the May 21, 2013 meeting. Staff is proposing to increase the limit of individual limited partner investments to lesser of $200 million or 0.75% of the system assets. It is currently $150 million or 0.75% of the systems assets. This is symbolic of the increased allocation as well as the increase in the overall plan size.

The second request is to increase the upper limit of an individual co-investment to $50 million. It is currently at $20 million. This is in part representative of the growing program, and also representative of staff's desire to participate in deals that ERS simply does not have access at the $20 million limit.

Lastly, Mr. Gipson requested the formal addition of the Chief Investment Officer to the Private Equity Investment Committee.

There being no further discussion the Investment Advisory Committee took the following action:

MOTION made by Ms. Lenore Sullivan, seconded by Ms. Laura Starks, and carried unanimously by the members present that the Investment Advisory Committee recommends that the Board of Trustees of the Employees Retirement System approve the ERS Private Equity Policies and Procedures as presented in Exhibit A of this agenda item.

The Board of Trustees then took the following action:

MOTION made by Ms. Cydney Donnell and seconded by Mr. Craig Hester, and carried unanimously by the members present, that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Private Equity Policies and Procedures as reflected in Exhibit A of this agenda item.

c. ***Proposed Private Equity Annual Tactical Plan for Fiscal Year 2014*** - Mr. Wesley Gipson presented staff's proposed Private Equity Annual Tactical Plan for Fiscal Year 2014 as Addendum I to ERS *Investment Policy*.

Mr. Gipson reported that staff proposed to invest in six to ten funds with commitments totaling $1.25 billion, including co-investments. This includes a range of plus or minus 25% from $940 million to $1.56 billion. Staff will continue to be selective establishing new relationships, and the focus again will be on "re-ups" and co-investments. He noted that achieving that number will in large part be dependent upon the managers that come back to market this year.

There being no further discussion the Investment Advisory Committee took the following action:

MOTION made by Mr. Vernon Torgerson, seconded by Ms. Lenore Sullivan, and carried unanimously by the members present that the Investment Advisory Committee recommends that the Board of Trustees of the Employees Retirement System approve the ERS Private Equity Annual Tactical Plan for Fiscal Year 2014 as shown in Exhibit A of this agenda item.

The Board of Trustees then took the following action:

MOTION made by Ms. Cydney Donnell and seconded by Mr. Craig Hester, and carried unanimously by the members present, that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Private Equity Annual Tactical Plan for Fiscal Year 2014 as shown in Exhibit A of this agenda item.

IV. REVIEW, DISCUSSION AND CONSIDERATION OF THE ERS HEDGE FUND PROGRAM:

a. ***Program Overview and Market Update*** – Mr. Robert Lee, Hedge Fund Portfolio Manager; Mr. Anthony Curtiss, Hedge Fund Analyst and Mr. John Claisse of Albourne America, ERS' Hedge Fund Consultant, presented the hedge fund program overview and market update.

Mr. Lee started by reporting on the objective and constraints of the Hedge Fund Program. The objective of the hedge fund program is to provide portfolio diversification to the fund through incorporation of low-correlated strategies. The objective is an absolute return, as well as the benchmark of a CPI rate plus 400 bps. It is a component of the risk reducing portion of the trust. He explained the constraints are 4–8% annualized monthly standard deviation with a maximum 0.4 beta relative to the trust with strategy exposure limits.

Mr. Lee introduced the two new hires for the year. Anthony Curtiss joined in December 2012 and has six years of hedge fund experience. And Nick Maffeo joined in November 2012 and also has six years of hedge fund experience.

Mr. Lee touched on the industry overview and noted trends for the past year. There have been some common threads in regards to performance. There has been an increase in reach for exotic yield that is to be expected in the yield-seeking environment over the last several quarters. Directional beta has worked well over the last year. It has been a difficult micro environment as policy has really driven a lot of the market.

Mr. Lee reported that the HFRI Fund of Fund Index has delivered lackluster performance of 5.56% so far for fiscal year 2013 ending June 30, 2013. The HFRI Fund of Fund Conservative Index fared better with a performance of 6.48%.

Mr. Lee noted that inflows remain very strong with $30 billion inflows into hedge funds in only the first two quarters of 2013 and $2.4 trillion estimated in total industry assets. Direct hedge fund investing is predominant among those inflows at the expense of fund of funds. ERS has a direct hedge fund investing program. Lastly he noted that staff continues to see over 1,000 new hedge fund launches a year at the current pace.

Mr. Lee gave an update of performance of the program since inception of August 1, 2012. The portfolio has returned 8.27% as of June 30, 2013. The target return of CPI plus 400 bps has returned 3.61% over this same time period. He also noted that correlation remains low, 0.50 to the trust since inception and the beta remains low at 0.32 to the trust since inception, which is below the 0.40 limit.

Mr. Lee explained the breakdown of performance by strategy. The portfolio has an overweight to relative value and event driven, which is exactly the way staff likes to position the portfolio given ERS' mandate. The portfolio is within strategy limits. An additional allocation was done in July to another event driven manager. That exposure is now at 39%.

Mr. Lee stated that total allocation through June 30, 2013 is $492 million and the expected total allocation through the end of fiscal year 2013 is $670 million. This is shy of the $1.2 billion allocation for fiscal year 2013 but still on target to reach full funding in fiscal year 2014.

Mr. Lee reported on the following select pool chart. He noted that the select pool represents managers that have made it all the way through the due diligence process and have received approval from ERS' Internal Investment Committee for allocation.

Current Select Pool	Strategy	IIC Approval	Amount Approved	Date Allocated	Allocation Amount	Period Return	Current NAV
Arrowgrass	Multi	10-May-12	$ 80,000,000	1-Aug-12	$ 80,000,000	8.20%	$ 86,556,993
	(RV, ED)	17-Apr-13	$ 20,000,000	1-May-13	$ 20,000,000	1.24%	$ 20,247,541
Claren Road	RV	10-May-12	$ 80,000,000	1-Aug-12	$ 80,000,000	8.57%	$ 86,853,271
Southpaw	ED	10-May-12	$ 80,000,000	1-Aug-12	$ 80,000,000	11.56%	$ 89,245,463
Aspect	Macro	10-May-12	$ 35,000,000	1-Dec-12	$ 30,000,000	-0.21%	$ 29,937,214
~~Walker Smith~~	ELS	7-Jun-12	$ 50,000,000				
MKP	Macro	7-Jun-12	$ 80,000,000	1-Aug-12	$ 60,000,000	7.33%	$ 64,399,280
Conatus	ELS	9-Jan-13	$ 80,000,000	1-Mar-13	$ 40,000,000	5.00%	$ 42,000,312
MW TOPS	ELS	9-Jan-13	$ 80,000,000	1-Mar-13	$ 40,000,000	3.06%	$ 41,224,770
~~Carlson MN~~	ELS	25-Jan-13	$ 80,000,000				
MW Eureka	ELS	25-Mar-13	$ 80,000,000				
Senator**	ED	25-Mar-13	$ 100,000,000				
Pentwater	ED	25-Mar-13	$ 80,000,000	1-Jun-13	$ 30,000,000	-1.50%	$ 29,550,000
Stone Lion*	Opp	14-May-13	$ 100,000,000	1-Jun-13	$ 16,000,000	-1.31%	$ 31,582,400
				1-Jul-13	$ 16,000,000		
				1-Aug-13	$ 24,000,000*		
				1-Sep-13	$ 24,000,000*		
Relative Value*	RV	14-May-13	$ 100,000,000	1-Aug-13	$ 80,000,000*		
Merger Arbitrage*	ED	13-Jun-13	$ 100,000,000	1-Aug-13	$ 50,000,000*		
Total			**$ 1,225,000,000**		**$ 492,000,000**		**$ 521,597,244**

Return and Total figures are time-weighted and based on July estimates of June 30, 2013 NAVs.

* expected allocations through FY2013 as of June 30, 2013, not included in Total

** allocation awaiting launch of institutional share class, not included in Total

He noted the new managers that have been added this fiscal year. He explained that staff is being tactical on how we use Marshall Wace Eureka, which has a lot of equity beta particularly to Europe. For Senator, staff is waiting on them to launch a new asset class. Stone Lion is an opportunistic investment. The structure is through capital calls similar to what you see in private equity. They are drawing down over a six-month period. They have drawn $32 million of the total $80 million that staff committed.

He further explained the strike throughs on the above chart. Walker-Smith is rolling off for next year. They have returned capital so there is no allocation opportunity. Staff had received approval to fund Carlson, but unfortunately in the last stage of the legal negotiations staff were unable to reach an agreement on fees and chose not to allocate.

The merger arbitrage manager noted in the chart above now has made an allocation and the firm is Glazer Capital. It is a vanilla merger arbitrage exposure, part of the core strategy.

Lastly, Mr. Lee went over the following drawdown chart. The chart provides insight into the composition of the portfolio by manager through analysis of the managers' worst drawdowns. Each of the columns provides the worst peak-to-trough drawdown of the manager and also shows the corresponding performance of other managers during the same time period.

	Arrowgrass	Aspect	Claren Road	Conatus	Glazer	MKP	Magnetar	MW Eureka	MW TOPS	Pentwater	Senator	Southpaw	Stone Lion
	May 11 Sep 11	Mar 04 Jan 05	Dec 11 Mar 12	Jul 08 Dec 08	Nov 07 Dec 07	Jan 10 Feb 10	Jul 08 Nov 08	Nov 07 Oct 08	Nov 07 Feb 09	Nov 07 Dec 08	May 11 Sep 11	Aug 07 Dec 08	Jun 11 Sep 11
Arrowgrass	(4.40%)	-	0.80%	1.00%	-	3.50%	0.60%	-	-	-	(4.40%)	-	(3.90%)
Aspect	1.20%	(21.50%)	3.10%	7.90%	(1.00%)	(0.40%)	3.90%	13.30%	25.70%	24.20%	1.20%	31.50%	6.80%
Claren Road	4.30%	-	(4.00%)	3.60%	1.80%	2.60%	4.10%	9.60%	16.30%	10.50%	4.30%	10.20%	3.30%
Conatus	(12.10%)	-	11.10%	(20.20%)	-	(1.70%)	(16.00%)	-	-	-	(12.10%)	-	(11.40%)
Merger Arb	1.20%	3.30%	2.10%	3.30%	(2.50%)	1.60%	(0.30%)	1.10%	7.30%	5.70%	1.20%	12.10%	0.10%
MKP	10.40%	5.50%	1.80%	10.80%	1.40%	(3.70%)	6.90%	7.00%	17.20%	11.30%	10.40%	24.60%	10.00%
Rel.Value	(3.90%)	-	5.60%	(10.70%)	7.70%	2.80%	(11.80%)	8.70%	2.90%	2.70%	(3.90%)	20.90%	(4.10%)
MW Eureka	3.60%	5.00%	1.70%	(17.40%)	(3.80%)	(0.80%)	(18.50%)	(23.40%)	(20.40%)	(22.30%)	3.60%	(20.10%)	3.80%
MW TOPS	(3.80%)	-	3.70%	(18.80%)	(1.50%)	(0.90%)	(18.70%)	(21.60%)	(22.60%)	(21.90%)	(3.80%)	(19.40%)	(3.50%)
Pentwater	(11.80%)	-	12.80%	(32.30%)	(4.40%)	5.70%	(30.70%)	(36.20%)	(39.00%)	(40.10%)	(11.80%)	-	(12.80%)
Senator	(10.10%)	-	8.00%	0.50%	-	4.20%	(1.70%)	-	-	-	(10.10%)	-	(8.70%)
Southpaw	(3.60%)	-	1.50%	(6.40%)	0.70%	2.90%	(4.60%)	(0.90%)	(5.30%)	(6.30%)	(3.60%)	(9.10%)	(3.70%)
Stone Lion	(8.70%)	-	5.40%	-	-	6.30%	-	-	-	-	(8.70%)	-	(8.70%)

Mr. John Claisse then presented a market update for the hedge fund program. He gave an outlook for hedge fund allocation and the role of hedge funds in overall portfolios. He touched on the relationship between fund size and performance and lastly noting that more pension plan investors are negotiating more favorable terms with hedge fund managers, seeking to improve their alignment of interest.

There was no further discussion, and no action was required on this agenda item.

b. ***Proposed Revisions to the Hedge Fund Policies and Procedures*** – Mr. Robert Lee and Mr. Anthony Curtiss presented the proposed revisions to the Hedge Fund Policies and Procedures. Broadly speaking, the requested changes are proposed to be made for consistency with changes made to the ERS *Investment Policy* as approved by the Board and IAC at the February 26, 2013 meeting, specifically as it affects the hedge fund program. He also noted that the discussion from here on out is going to be about the hedge fund program across all portfolios rather than just the absolute return portfolio.

Mr. Lee explained the objectives and philosophy of the hedge fund program. The objectives include capital preservation, better risk adjusted returns, diversification and reduced volatility. The underlying philosophy of the program will be to attain risk adjusted returns that are aligned with the objectives.

Mr. Lee noted that there is new language within the policies and procedures to specifically address that hedge funds may be utilized within individual portfolios, including the global equity, global credit, real assets, special situations portfolios, and specifically utilized within the absolute return portfolio.

Mr. Lee touched on the fact that program management has not changed. The Board still approves policies and procedures and the tactical plan. Hedge fund staff still vets and sources hedge funds and manages the hedge fund exposure. Staff utilizes the resources of a hedge fund consultant, Albourne, and the Internal Investment Committee (IIC) provides approval for all investment decisions. Language was added to clarify the composition of the IIC to expressly include the CIO.

Going forward, the hedge fund team is expected to support the other classes if they utilize hedge funds, and manage the absolute return portfolio.

There being no further discussion the Investment Advisory Committee took the following action:

MOTION made by Mr. Jim Hille, seconded by Mr. Vernon Torgerson, and carried unanimously by the members present that the Investment Advisory Committee recommends that the Board of Trustees of the Employees Retirement System approve the recommended changes to ERS' Hedge Fund Policies and Procedures as presented in Exhibit A of this agenda item.

The Board of Trustees then took the following action:

MOTION made by Mr. Craig Hester, seconded by Ms. Cydney Donnell, and carried unanimously by the members present that the Board of Trustees of the Employees Retirement System of Texas approve the recommended changes to ERS' Hedge Fund Policies and Procedures as presented in Exhibit A of this agenda item.

c. ***Proposed Hedge Fund Annual Tactical Plan for Fiscal Year 2014*** – Mr. Robert Lee and Mr. Anthony Curtiss presented the proposed Hedge Fund Annual Tactical Plan for fiscal year 2014. Mr. Lee noted that he will be presenting a funding schedule for the hedge fund portfolio as well as the other asset classes.

He presented the following table of the proposed funding schedule with anticipated hedge fund allocations both within the absolute return portfolio and generally by asset class.

Asset Class	**Existing Allocations***		**Proposed Funding for Fiscal Year 2014**		
	Number	Amount	Number	Amount	Range
Global Equity	1	$300,000,000	0 - 4	$600,000,000	0 - $800,000,000
Global Credit	0	$0	0 - 2	$100,000,000	0 - $200,000,000
Real Assets	0	$0	0 - 2	$50,000,000	0 - $100,000,000
Special Situations	0	$0	NA	NA	NA
Hedge Fund Portfolios	11	$670,000,000	4 - 8	$600,000,000	$400,000,000 - $800,000,000
Total	**12**	**$970,000,000**	**4 - 16**	**$1,500,000,000**	**$800,000,000 - $1,900,000,000**

*expected FY2013-end totals as of June 30, 2013

He noted that staff will be targeting 4-16 new commitments, with a target commitment of $1,500 million, with a range of $800 million to $1,900 million.

For the breakdown on the absolute return portfolio staff is targeting a 5% allocation. The total allocations made through June 30, 2013 is $492 million and portfolio NAV as of June 30, 2013 is $524 million. Staff will continue to implement the schedule to reach full funding by the end of fiscal year 2014. The majority of the dollars allocated will be to core managers, but in fiscal year 2014 staff will slow down that allocation, and increase the work on satellite managers. Staff is looking for managers that will help increase volatility opportunistically.

Mr. Lee touched on the other asset classes under consideration in the tactical plan. Global Equity has one current hedge fund structure allocation to Omega and staff will consider activism strategies. Also within Global Credit, emerging market credit is being considered and for real assets long/short REITs is under consideration. Lastly special situations will be considered as they crop up.

There being no further discussion the Investment Advisory Committee took the following action:

MOTION made by Ms. Laura Starks, seconded by Mr. Jim Hille, and carried unanimously by the members present that the Investment Advisory Committee recommends that the Board of Trustees of the Employees Retirement System approve ERS' Hedge Fund Annual Tactical Plan for fiscal year 2014 as presented in Exhibit A of this agenda item to be added as Appendix A of the Hedge Fund Policies and Procedures.

The Board of Trustees then took the following action:

MOTION made by Ms. Yolanda Griego, seconded by Mr. Craig Hester, and carried unanimously by the members present that the Board of Trustees of the Employees Retirement System of Texas approve ERS' Hedge Fund Annual Tactical Plan for fiscal year 2014 as presented in Exhibit A of this agenda item to be added as Appendix A of the Hedge Fund Policies and Procedures.

V. REVIEW, DISCUSSION AND CONSIDERATION OF THE ERS INFRASTRUCTURE PROGRAM:

a. ***Program Overview and Market Update*** – Ms. Lynne Fowler, Infrastructure Portfolio Manager, Mr. Brad Demicco, Private Equity Portfolio Manager, Mr. Jay Yoder and Mr. Reyno Norval of Altius Associates (Altius), presented the Infrastructure program overview and market update.

Ms. Fowler noted that the Infrastructure program will be supported by members of Private Equity and Real Estate teams. ERS is utilizing its relationship with the private equity consultant Altius for the Infrastructure allocation.

The Board and IAC adopted a 4% commitment of the trust's assets to infrastructure at the February 26, 2013 meeting. This will consist of a 25% portfolio allocation target of the global listed securities or 1% of the trust's assets, benchmarked to the Macquarie Global Infrastructure Index. The private infrastructure investments will consist of a 75% portfolio allocation target and will be benchmarked to CPI plus 450 bps.

She explained that two investments that originated in private equity have been transferred to infrastructure, and Mr. Demicco will review these investments.

Mr. Demicco reminded the Board and IAC of the co-investment that ERS did with Panda Power in April of 2012. It was in total $150 million co-investment in three greenfield combined cycle natural gas power plants in Temple and Sherman, Texas, with total expected generating capacity of 2200 megawatts of power which should come on line in June or July of 2014.

Mr. Demicco noted that ERS recently completed an investment in Actis Energy 3. Actis is a manager that develops power and distribution networks in the emerging markets. ERS has committed $125 million, $75 million of this will go into the fund as a fund investment; $50 million will go into a co-investment vehicle that will have no carry or management fees and invest alongside the main fund.

Mr. Yoder presented the infrastructure market overview noting that it is estimated about $40 trillion worth of infrastructure investment is required globally through 2030. Europe remains the dominant area for deal flow. There has been slow and erratic progress in the United States over the last few years. There is continuing demand in the emerging markets, especially in Asia, and energy and utilities still remain the dominant sectors.

Mr. Yoder noted that infrastructure performance has performed similarly to private equity. He also discussed infrastructure fundraising, the market outlook for 2014 and the challenges it faces. He ended the presentation with a recommended approach to infrastructure in the current environment.

There were no questions or further discussion, and no action was required on this item.

b. ***Proposed ERS Investment Policy Addendum XIII: Infrastructure Policies and Procedures*** – Ms. Lynne Fowler and Mr. Brad Demicco presented the proposed ERS *Investment Policy* Addendum XIII, Infrastructure Policies and Procedures. Ms. Fowler noted that these policies and procedures were designed with the objective of preserving the trust capital, enhancing risk adjusted returns, further diversifying the trust, reducing volatility, and providing a hedge against inflation.

Ms. Fowler explained that the allocation to infrastructure will be 4%, and 25% of this will be allocated to the listed securities and 75% will be focused on the private infrastructure assets. Private infrastructure will be benchmarked against CPI plus 4.5%, while the public side will be benchmarked against the Macquarie Global Infrastructure Index.

Ms. Fowler touched on the portfolio construction. She noted that staff will be investing in institutional quality and have a diverse portfolio with respect to risk return, regulatory jurisdiction and structure, geography, industry, and investment sponsor. The public portfolio will be invested in publicly listed infrastructure, and the private portfolio will be focused on commingled funds in the form of limited partnerships and special purpose vehicles as well as fund-of-funds including a fund-of-one separate account and lastly, co-investments to reduce fees.

Ms. Fowler reported on the industry sectors of infrastructure, which include energy, transportation, water and waste, social infrastructure, communication, and natural resources. Given the high barriers to entry and that large and long term capital requirements are highly regulated, it is the regulatory environment of an investment, rather than the industry that determines the risk reward characteristics.

Ms. Fowler explained the risk return strategies table below. She noted that core infrastructure is typically highly regulated assets that have stable profits and cash flows, and limited economic exposure. They provide a lot of protection in times of difficult economic periods, but offer lower returns. The value added assumes a more economic risk and volumetric risk, such as in the case of a revenue-based toll road, or taking on the construction risk. Opportunistic has even more economic risk, more development risk, or political risk associated with emerging markets.

	% of Infrastructure Allocation	% of Private Infrastructure
Core	25% +/- 10%	33% +/- 13%
Value Added	30% +/- 10%	40% +/- 13%
Opportunistic	20% +/- 10%	27% +/- 13%
Public Securities	25% +/- 10%	N/A

Ms. Fowler discussed the diversification strategies designed to reduce risk. Staff will use geographic diversification, with a 50% allocation for each emerging and developed markets. Manager diversification will also be used by proposing a maximum fund exposure of 20% to any particular manager, and limit ERS' ownership of a particular fund to 25%, with the exclusion of a fund-of-fund which would be in the form of a separate account. These parameters are similar to Private Equity and Private Real Estate.

Ms. Fowler noted that staff will invest over time so that there is not exposure of a particular vintage year, and also have regulatory diversification.

Ms. Fowler explained that the Infrastructure Investment Committee is charged with ensuring the proper implementation of the policies and procedures in the tactical plan. The committee is comprised of the Executive Director, Chief Investment Officer and other staff. The proposal is for the committee to have the ability to approve commingled fund commitments up to $200 million, or 75 bps of the fund. This is consistent with Private Equity and Private Real Estate as well.

Lastly, Ms. Fowler noted that she will be supported by members of the Private Equity and Private Real Estate teams in conducting due diligence, preparing the Annual Tactical Plan, reviewing and maintaining records, screening candidates, conducting due diligence, preparing formula investment recommendations to be presented to the committee, and negotiation of terms in monitoring existing investments.

There being no further discussion the Investment Advisory Committee took the following action:

MOTION made by Ms. Laura Starks, seconded by Ms. Lenore Sullivan, and carried unanimously by the members present that the Investment Advisory Committee recommends that the Board of Trustees of the Employees Retirement System approve the ERS Infrastructure Policies and Procedures as presented in Exhibit A of this agenda item.

The Board of Trustees then took the following action:

MOTION made by Mr. Craig Hester, seconded by Ms. Cydney Donnell, and carried unanimously by the members present that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Infrastructure Policies and Procedures as presented in Exhibit A of this agenda item.

c. ***Proposed Infrastructure Annual Tactical Plan for Fiscal Year 2014*** – Ms. Lynne Fowler and Mr. Brad Demicco, Private Equity Portfolio Manager, presented the proposed Infrastructure Annual Tactical Plan for fiscal year 2014. Ms. Fowler noted that the tactical plan is a guideline and will change depending on market opportunities and market conditions.

Ms. Fowler noted the current net asset value of the portfolio is $167 million, plus commitments of $125 million. Staff is proposing an annual commitment of $235 million. This will be a more concentrated portfolio because there are a limited number of managers in this new asset class. The breakdown for the annual commitment is noted in the following chart.

Proposed		
Category	**Number of Investments**	**Commitment (range)**
Core	0 - 1	$78 ($0 - $125)
Value Added	1 – 2	$94 ($60 - $150)
Opportunistic	0 – 1	$63 ($0 - $75)
Total	**2 – 3**	**$ 235 ($176 - $294)**

Ms. Fowler explained that staff is expecting to be fully committed by the end of fiscal year 2015, and fully invested by the end of fiscal year 2019.

Ms. Fowler discussed the near term strategy, noting that staff will continue investing in commingled funds with the potential for co-investments in an effort to reduce our fees and focus on funds with prudent use of leverage within the developed markets. Staff likes the value added strategies. US mid-stream provides nice inflation protection and growing opportunity. Also, the international energy agency expects oil and gas production in the United States to continue to grow to 2022, so staff believes this is a key area within the United States. Lastly, staff will be looking at emerging markets.

There being no further discussion the Investment Advisory Committee took the following action:

MOTION made by Ms. Laura Starks, seconded by Ms. Lenore Sullivan, and carried unanimously by the members present that the Investment Advisory Committee recommends that the Board of Trustees of the Employees Retirement System approve ERS' Infrastructure Annual Tactical Plan for fiscal year 2014 as presented in Exhibit A of this agenda item to be added as Appendix A of the Infrastructure Policies and Procedures.

The Board of Trustees then took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Ms. Yolanda Griego, and carried unanimously by the members present that the Board of Trustees of the Employees Retirement System of Texas approve ERS' Infrastructure Annual Tactical Plan for fiscal year 2014 as presented in Exhibit A of this agenda item to be added as Appendix A of the Infrastructure Policies and Procedures.

VI. CHIEF INVESTMENT OFFICER REPORT

Mr. Tom Tull presented the Chief Investment Officer Report noting the objective is for investment division staff to continue to work with the Executive Director, Board of Trustees and Investment Advisory Committee to build a premier and competitive investment organization for the best interest of the trust and its beneficiaries.

Mr. Tull explained the philosophy of investments is to position the trust for the future for the sole benefit of members and retirees, but also establish investment policies, objectives, and strategies for the purpose of obtaining the optimum risk-adjusted return.

Mr. Tull reported that since the last meeting, there have been a number of changes to staffing. The division has gone through a reorganization that is complete. There have been eight promotions, one new hire and some adjustments in the reorganization process. The new hire, Mr. Peter Ehret, will be working on high yield for the Fixed Income team.

He noted that Mr. Jim Sherwin has been very instrumental in bringing the trust to where it is today. He has accomplished a number of things in structure and infrastructure and putting together an excellent staff. Given that he's done such a tremendous job, he will now be responsible as Director of Strategic Research. In this capacity Jim will now assist in taking the Trust to the next level with respect to risk management, external advisors, emerging managers, as well as the various quant and index portfolios. Mr. Tull explained a team of four individuals have replaced Jim Sherwin in Global Equities. The four individuals are John Streun, Chris Tocci, Andrew Hodson, and Tim Reynolds. This was done in conjunction with Human Resources as part of our career path development, succession, and leadership planning.

Mr. Tull discussed the successful internship program. There were three summer interns: one undergraduate and two graduate students. Staff is looking forward to continued development of this program.

Mr. Tull reported that the compensation study is completed by CBIZ. This study will give staff within the division and others within the agency, a compensation philosophy and career path development, which will be up for approval this afternoon at the Board of Trustees meeting.

Mr. Tull noted that for the Investments FY 2014 budget, staff will continue to run the division more as a business with the objective of better returns and development as a means to benefit the agency. He also explained that thanks to the Board, a lot of infrastructure spending was done from 2006 – 2008 that has proven beneficial. Bottom line is as the head count grows, there is more productivity based on the fact that a lot of infrastructure has already been spent in the past.

Mr. Tull explained that the emphasis on managing money internally continues, and that staff can manage money internally at about one-third the cost of what it costs externally. Also, staff will continue to work hard at getting good business terms and not doing fund of funds for the most part given the layers of fees. This will be seen going forward, not only on savings of fees but also negotiation of fees and deals and business issues overall.

He further noted it is important to acknowledge that there are a number of folks in ERS Legal, Accounting, Internal Audit, Information System, and Human Resources assisting Investments through the overall development of the division. And finally, the Board and IAC have been instrumental in helping accomplish all of this to this point. Staff appreciates all that has been done and looks forward to constantly calling on all these folks as we continue to grow and develop.

The incentive compensation plan, which will be discussed this afternoon at the Board of Trustees meeting, has been a tremendous asset in attracting and retaining qualified personnel for ERS relative to our peers. ERS is competing everyday with the peers within the city, state and throughout the country.

Going forward staff will continue to work very diligently to maximize each dollar invested in personnel and infrastructure. Staff will also, continue to expedite the transition process under the new asset allocation program and accelerate the J curve effect to see bottom line results.

Staff is generating tremendous economies of scale on the process side. As an example, since the beginning of this fiscal year, just through fee negotiations, there has been in excess of $3 million saved by not taking face value of what has been offered by the various firms trying to do business with ERS. Also, as you heard early today ERS will be saving in excess of $100 million dollars over the life of some of the partnerships and relationships. This will also be reflected in the bottom line numbers of the trust.

Another initiative is evaluating ways in which investments can help other parts of the agency. Investments is looking at every pool of capital that can be found throughout the agency and assisting in any way so that ERS can generate better rates of return within the process.

The Risk Committee will be presenting at the December Workshop bringing the Board and IAC up to date with the terms of the latest risk management monitoring and tactical asset allocation. This will add a little more detail and perspective on active risk by large funds.

Staff is working hard to brand the ERS agency and product, so everyone can appreciate our process. This is being done through conference sponsorship as well as speaking engagements.

Lastly, Mr. Tull noted that staff, along with HEK, is concentrating on earning an appropriate risk adjusted rate of return, net of fees, at a reasonable administrative cost, and considering and evaluating, ways to reduce ERS' unfunded pension liability.

There were no questions or further discussion, and no action was required on this item.

VII. REVIEW, DISCUSSION AND CONSIDERATION OF APPOINTMENT OF ERS INVESTMENT ADVISORY COMMITTEE MEMBER

Mr. Tull presented the discussion and consideration of the appointment of ERS Investment Advisory Committee member, Mr. Ken Mindell. Unfortunately, Mr. Mindell was unable to be present for this meeting and asked Mr. Tull to send his regrets.

Mr. Tull reported that ERS currently has seven investment professionals serving on the IAC, and the conventional term is three years for each member. Mr. Mindell's term expires on August 31, 2013, and he has expressed a desire to continue his relationship on the IAC. Accordingly, staff would recommend that the Board reappoint Mr. Mindell for a three-year term ending August 31, 2016.

There being no further discussion the Board of Trustees took the following action:

> **MOTION** made by Mr. Brian Ragland, seconded by Ms. Yolanda Griego, and carried unanimously by the members present that the Board of Trustees of the Employees Retirement System of Texas reappoint Mr. Ken Mindell to the Investment Advisory Committee for a three-year term ending August 31, 2016. I further move that the Executive Director be authorized to execute and administer contracts in connection with the reappointment of Mr. Mindell.

VIII. ELECTION OF CHAIR AND VICE-CHAIR OF THE ERS INVESTMENT ADVISORY COMMITTEE FOR FISCAL YEARS 2014 AND 2015

Mr. Tom Tull presented the election of Chairman and Vice-Chairman of the ERS IAC for fiscal years 2014 and 2015. He noted that on August 23, 2011, the IAC elected Mr. Bob Alley as Chairman and Ms. Lenore Sullivan as the Vice-Chairman of the committee to serve a two year term ending August 31, 2013. Their time, effort and commitment to this responsibility have been greatly appreciated by all.

Accordingly staff recommends the Board approve electing a Chairman and Vice-Chairmen from the IAC to fill the two year term beginning September 1, 2013 and ending August 31, 2015.

There being no further discussion the Board of Trustees took the following action:

> **MOTION** made by Mr. Craig Hester, seconded by Ms. Yolanda Griego, and carried unanimously by the members present that the Board of Trustees of the Employees Retirement System of Texas elect Ms. Lenore Sullivan to serve as Chairman and Mr. Jim Hille to serve as Vice-Chair of the IAC for a two year period beginning September 1, 2013 and ending August 31, 2015.

IX. ADJOURNMENT OF THE INVESTMENT ADVISORY COMMITTEE AND RECESS OF THE BOARD OF TRUSTEES

The August 20, 2013, joint meeting of the ERS Investment Advisory Committee and the Board of Trustees adjourned at 12:55 p.m.

Barrow, Hanley, Mewhinney & Strauss, LLC
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (04/11)
Barrow Hanley*	5.46%	25.02%	n/a	11.29%
Benchmark**	3.36%	25.04%	n/a	11.17%
Excess Return	2.09%	-0.02%	n/a	0.12%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
* Net of Fees*
*** S&P 500 Value Index*

Omega Advisors
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (02/12)
Omega*	1.95%	22.52%	n/a	17.21%
Benchmark**	3.36%	25.04%	n/a	20.23%
Excess Return	-1.41%	-2.53%	n/a	-3.02%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
* Net of Fees*
*** S&P 500 Value Index*

Baring Asset Management
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (10/11)
Baring*	-0.43%	10.94%	n/a	6.84%
Benchmark**	-0.98%	18.62%	n/a	12.78%
Excess Return	0.54%	-7.68%	n/a	-5.94%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
* Net of Fees*
*** MSCI EAFE*

Fisher Investments Institutional Group
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (07/06)
Fisher*	-1.92%	14.18%	0.78%	3.38%
Benchmark**	-3.11%	13.63%	-0.46%	1.50%
Excess Return	1.20%	0.55%	1.23%	1.89%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
* Net of Fees*
*** MSCI ACWI exUS*

Franklin Templeton Institutional
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (04/03)
Templeton*	1.10%	19.96%	0.70%	10.89%
Benchmark**	-3.11%	13.63%	-0.46%	9.44%
Excess Return	4.22%	6.32%	1.16%	1.46%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
** Net of Fees*
*** MSCI ACWI ex-US*

Lazard Asset Management
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (12/11)
Lazard*	0.62%	25.16%	N/A	19.99%
Benchmark**	-0.98%	18.62%	N/A	12.78%
Excess Return	1.60%	6.54%	N/A	7.21%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
** Net of Fees*
*** MSCI EAFE*

JP Morgan Asset Management
Performance as of 6/30/13

	2nd Calendar QTR 2013	1 Year	5 Year	Since Inception (07/06)
JPM*	-1.54%	16.89%	1.21%	2.54%
Benchmark**	-0.98%	18.62%	-0.63%	1.37%
Excess Return	-0.57%	-1.73%	1.84%	1.17%

Performance through 06/30/2013 *Source: BNY Mellon Performance & Risk Analytics, LLC*
** Net of Fees*
*** MSCI EAFE*