



INVESTMENT POLICY





EMPLOYEES RETIREMENT SYSTEM OF TEXAS
INVESTMENT POLICY STATEMENT

Adopted March 6, 2019

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Executive Summary

This Executive Summary is not intended to replace, and must be read in conjunction with, the Investment Policy Statement (the Policy). In the event of a conflict between the Executive Summary and the Policy, the Policy shall govern.

1 INTRODUCTION AND BACKGROUND

The overall objective of the Employees Retirement System of Texas' (ERS) Investment program is to prudently invest in securities in order to maximize the probability that members, retirees, and beneficiaries are provided the benefits they have been promised at a reasonable and predictable cost.

This Policy was created as a framework for the management of the Trust and the statements contained in this document are intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that prudence and care are maintained in the execution of the Trust.

For purposes of this Policy, "Staff" will refer to ERS Investment Staff and non-Investment Staff will be specifically referenced within this Policy.

2 INVESTMENT PHILOSOPHY AND PERFORMANCE OBJECTIVES

The investment beliefs of the Board of Trustees (Board) and Staff are based on the mission of ERS to support the retirement income security of its members, retirees and beneficiaries. As institutional investors with significant liability duration, the Board and Staff take a long-term perspective. These statements represent the core values and beliefs that form the basis of the investment program.

- The single most important decision the Board makes is the long-term asset allocation decision. Staff is tasked with implementation through prudent and sound strategic decisions.
- The Board seeks to achieve the objectives of the investment program by supporting a culture that builds upon the input, skills and talents of Staff to focus on consistent positive performance over the long-term.
- Portfolio construction should focus first on the allocation and balancing of risk; it is the allocation of risk that drives portfolio returns.
- Portfolio diversification is critical because the future is uncertain.
- Costs matter and need to be effectively managed.

The performance objective is to obtain overall investment returns over rolling five-year periods in excess of the adopted benchmark, and to achieve investment results commensurate to the amount of active risk (tracking error or other appropriate risk measurement metric) assumed.

3 GOVERNANCE AND DELEGATION OF AUTHORITY

The Board is responsible for formulating, adopting, and overseeing the investment policies of the Trust.

Staff is employed by ERS and authorized by the Executive Director to provide professional investment analysis and support. Responsibilities include the development, recommendation and implementation of this Policy and prudent execution of the asset allocation.

The Board will retain certain responsibilities, including approving alternative investments over 0.6% of the total market value of the System's assets as reported in the most recent ERS Comprehensive Annual Financial Report pursuant to Texas Government Code Section 815.3016. The Board relies on recommendations from Staff, independent external advisors that are appointed by the Board (Investment Advisory Committee) and consultants hired by the Board.

ASSET ALLOCATION

The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the Trust for investment purposes. The Board has adopted the asset allocation reflected in this Policy to improve the long-term expected return and the return relative to the risk taken (information ratio) of the Trust. This framework for the asset allocation between return seeking and risk reduction/liquidity assets provides broader diversification and improved returns in disparate economic regimes. This framework is segregated into asset classes that are geared to seek returns and those that provide both risk reduction and liquidity as needed.

In addition to the board asset class categories illustrated above, the Board has established specific sub-targets with minimums and maximums around target allocations.

4 RISK MANAGEMENT

The Board and Staff recognize there are many types of investment risks. As institutional investors with significant liability duration, the Board and Staff take a long-term perspective. These statements represent the core values and beliefs that form the basis of the risk philosophy for the Trust.

- The ERS investment program is structured to address systematic risk (or market risk) and non-systematic risk (risks associated with an asset class or portfolio).
- Risk management recognizes that some risks are quantitative or statistically measurable while others are not.
- Risk reporting should be timely, relevant, and understandable.

Risk management is a primary responsibility for the Staff and investment results will be reviewed in the context of risk-adjusted returns. The Risk Management framework is established through (1) the adoption of this Policy and the strategic asset allocation, (2) adoption of individual asset class benchmarks, and (3) reasonable risk limits within this Policy for the implementation of the investment program. The goal is not to eliminate risk but to strive to achieve a balance between risk and return. The CIO is responsible for reporting and effectively communicating risk management results to the Board on a regular basis.

5 TRUST MONITORING AND REPORTING

The delegation by the Board of certain duties to the Executive Director, Staff, and ERS non-investment staff relies upon the principles of responsibility, accountability, and transparency. Transparency comes from accurate, timely, and clear reporting to the Board of the Trust's assets, investment returns and risks, portfolio costs, and portfolio implementation decisions made by Staff.

Chapter I: Legal Authority and Fiduciary Responsibilities

A. Introduction

The overall objective of the Employees Retirement System of Texas' (ERS) investment program is to prudently invest in securities in order to maximize the probability that members, retirees, and beneficiaries of the Trust Funds managed by ERS (Beneficiaries) are provided the benefits they have been promised at a reasonable and predictable cost.

This Investment Policy Statement (Policy) applies to the funds of the retirement plans administered by ERS and described in the Legal Authority and Obligations section of this policy (Trust). As the purpose of this Policy is to provide guidelines to fiduciaries responsible for investment decisions, this Policy:

- I. Defines the legal authority and fiduciary responsibility;
- II. Defines the Trust's investment philosophy and objectives;
- III. Describes the governance structure;
- IV. Describes the investable assets and risk management;
- V. Discusses the Trust's asset allocation strategy and implementation, including asset class allocation targets as well as liquidity and rebalancing policies;
- VI. Describes the monitoring and reporting process; and
- VII. Includes a Code of Ethics.

This Policy was created as a framework for the management of the Trust and the statements contained in this document are intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that prudence and care are maintained in the execution of the investment program. The ERS Board of Trustees (Board) may, at its discretion, amend this Policy.

For purposes of this Policy, "Staff" will refer to ERS Investment Staff and non-Investment Staff will be specifically referenced within this Policy.

B. Legal Authority and Obligations

ERS is a constitutional trust fund established by Article XVI, Section 67 of the Texas Constitution. ERS is further organized pursuant to Title 8, Subtitle B, Texas Government Code, as well as Title 34, Texas Administrative Code, Part 4.

Pursuant to the Texas Insurance Code, the Board also administers all funds within the Texas Employees Group Benefits Program (TEGBP). In accordance with Texas Insurance Code §§ 1551.406 and 1551.407, ERS may manage, invest and reinvest the TEGBP along with the retirement funds so long as separate accounting is maintained. This Policy also applies to TEGBP funds managed by ERS (see Chapter VIII).

The ERS, the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOS) and the Judicial Retirement System of Texas Plan 2 (JRS 2) are the defined benefit pension plans managed by ERS. For investment purposes, as provided by Texas Government Code § 815.301, the pension plans are commingled but separate accounting records are maintained.

Pursuant to Texas Government Code § 815.509 the Board shall establish committees as necessary and prudent to fulfill its duties to the Trust.

The assets of ERS are held in trust for the exclusive benefit of the Trust's Beneficiaries and may not be diverted. This "exclusive benefit" rule must be followed when making any investment decisions. Moreover, the assets of ERS shall be invested and reinvested without distinction as to their source in accordance with Art. XVI, § 67, Texas Constitution. This "whole portfolio" approach, in addition to the exclusive benefit rule,

shall be the basis upon which investment decisions are made as provided in the Texas Constitution and Texas Government Code § 815.307.

Consistent with the foregoing requirements, the Board shall establish investment policies, objectives, and strategies for the purpose of obtaining the optimum return on the Trusts' portfolios in keeping with the assumption of prudent risk.

Investments shall be made in securities that are prudent as determined using a prudent person standard. Every investment will be subject to strict due diligence. The Board shall manage the Trust by taking into consideration all of the assets of the Trust in aggregate and not just focusing on any one single investment.

C. Fiduciary Responsibility

The Board and its officers and employees shall:

1. Manage the assets for the exclusive benefit of the Beneficiaries;
2. Adopt a long-term asset allocation;
3. Establish prudent investment policies defining investment objectives and strategies;
4. Seek to maximize investment returns while maintaining the safety of principal;
5. Diversify the assets to reduce risk of loss;
6. Monitor investment performance;
7. Efficiently manage the costs associated with implementation of the Trust; and
8. Exercise reasonable care consistent with ERS' fiduciary duty, and maintain the integrity of the investment program.

Investment decisions respecting individual assets will be evaluated not in isolation but in the context of the Trust as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Trust

D. Review of Policy

The Board, with the aid of Staff and the Investment Consultant, shall review this Policy at least annually to ensure that it continues to reflect the Board's objectives and meet the needs of the Beneficiaries. The Policy may be modified, in whole or in part, by the Board at any point in time.

E. Interpretation of Policy

This Policy shall be construed and administered to comply with all applicable federal and state laws and regulations. However, ERS' Executive Director is authorized to approve from time to time variances from this Policy as deemed to be in the best interest of ERS and consistent with both ERS' fiduciary responsibilities and the purpose and scope of this Policy. The Executive Director must report any variances to the Board at the next quarterly meeting. If the Executive Director believes any revisions to this Policy would be prudent in light of the variance(s) previously granted, the Executive Director shall inform the Board of such suggested revisions, and the Board may vote to amend this Policy accordingly.

Chapter II: Investment Philosophy and Performance Objectives

A. Investment Philosophy

The investment beliefs of the Board and Staff are based on the mission of ERS to support the retirement income security of its Beneficiaries. As institutional investors with significant liability duration, the Board and Staff take a long-term perspective, which is consistent with the duration of the financial obligations of the retirement program. These statements represent the core values and beliefs that form the basis of the investment program.

The single most important decision the Board makes is the long-term asset allocation decision. Staff are tasked with implementation through prudent and sound strategic decisions. Asset allocation studies should focus on the Trusts' liabilities, risk tolerance and the probability of achieving its long-term return goals. However, the cyclical nature of the economy means asset classes or investment strategies may be more or less attractive relative to each other in given economic environments. Staff should have defined flexibility with the asset allocation to preserve Trust assets and capitalize on this cyclical within prudent risk constraints.

The Board seeks to achieve the objectives of the investment program by supporting a culture that builds upon the input, skills and talents of staff to focus on consistent positive performance over the long-term. The success of the investment program benefits by leveraging the competitive advantages of the investment program, including the use of internal management for a portion of Trust assets. Performance differences in asset classes, strategies, styles and managers will occur and staff should focus on long-term investment horizons despite potential short-term underperformance.

Portfolio construction should focus first on the allocation and balancing of risk; it is the allocation of risk that drives portfolio returns. While investment returns receive a lot of attention, understanding and balancing risks across asset classes improves the consistency of returns for a given level of risk. Returns are the end product, where risks are the inputs. Investment risk cannot be avoided, but can be managed and it is necessary to assume a prudent level of risk to achieve a desired level of return. The management of investment risk is an important part of the investment program but, because of its complexity, a more robust discussion is provided below under the Risk Philosophy Statement.

Portfolio diversification is critical because the future is uncertain. Effective portfolio diversification requires a fundamental understanding of the economic drivers of risk and return. Therefore it is critical to construct a portfolio that is positioned for various economic conditions, including preserving Trust assets during market downturns.

Costs matter and need to be effectively managed. Decisions to invest cannot be made without considering costs, and costs must be actively and prudently managed whenever possible to maximize investment returns.

B. Trust Performance Objectives

The performance objective is to obtain overall investment returns over rolling five-year periods in excess of the adopted benchmark, and to achieve investment results commensurate to the amount of active risk (tracking error or other appropriate risk measurement metric) assumed. At a minimum, active returns are expected to exceed benchmark returns net of fees and costs.

Asset Classes

The performance objective in each asset class is to obtain overall investment returns over rolling five-year periods in excess of the adopted benchmark returns or stated return objective. Active returns over the

adopted benchmark returns are expected to exceed the cost of management (including external advisors and managers) and be proportionate to the amount of active risk (tracking error) assumed at the asset class level. The expected excess returns for the public market investments are a function of the active return expected per unit of active risk established in the Active Risk Budget detailed further in Chapter V, Active Risk. Private market investments are evaluated over rolling 10-year periods or other specified time periods using realized internal rates of return (IRR) and gross realized multiples.

Special Situations

The performance objective of Special Situations is to improve the risk-adjusted returns in the best interest of the Trust and adopt new prudent investment strategies regarding applicable Trust investments. Each investment strategy used in Special Situations will have an explicit benchmark used for performance evaluation of relevant securities. The total Special Situations performance objective is to achieve a rate of return in excess of the weighted average return of the benchmarks of the underlying investment strategies.

Chapter III: Governance

A. Roles and Responsibilities

The Board of Trustees

The Board is responsible for formulating, adopting, and overseeing the investment policies of the Trust. The Board shall (i) invest the funds as a single Trust without distinction as to their source and (ii) hold securities purchased with such funds collectively for the proportionate benefit of ERS, LECOS and JRS 2. The Board's responsibilities are further outlined in the Delegation of Authority and Oversight section of this Policy. Separate investment objectives, investment guidelines, investment strategy and accounting will be used for TEGBP assets.

The Board will approve alternative investments over 0.6% of the total market value of the System's assets as reported in the most recent ERS Comprehensive Annual Financial Report (CAFR) pursuant to Texas Government Code Section 815.3016.

The Executive Director

In accordance with Texas Government Code § 815.301(b), the Executive Director is delegated full authority and responsibility by the Board to perform the responsibilities of the Board and in the implementation and administration of the Trust subject to Board policies, rules, regulations, and directives consistent with constitutional and statutory limitations.

The Executive Director will establish procedures and controls for efficient implementation of the Trust by Staff.

The Executive Director may delegate to another employee of ERS any right, power or duty assigned to the Executive Director pursuant to Texas Government Code § 815.202(f). Any reference to Staff responsibilities in this Policy, including any addendum to this Policy, should be construed to mean that the Chief Investment Officer (CIO) has supervisory and oversight authority of such delegated responsibilities.

The Investment Advisory Committee

The Investment Advisory Committee (IAC) assists the Board in carrying out its fiduciary duties with regard to the investment of the Trust and related duties. The IAC reviews investment strategies and related policies of ERS to provide comments and recommendations to assist the Board in adopting prudent and appropriate investment policies. In addition, from time to time, together with the Staff and investment consultants or advisors, they recommend to the Board asset mix, portfolio strategy, investment policies, and eligible securities. Certain IAC members will be designated as members of Asset Class Investment Committees (further described below) from time to time as determined by the CIO, in consultation with the Executive Director.

The IAC was established at the discretion of the Board pursuant to Texas Government Code § 815.509 and Texas Administrative Code § 63.17(b) with the committee composed of at least five and not more than nine members. IAC membership is further described in Texas Government Code § 815.5091.

IAC members serve at the pleasure of the Board for staggered terms of three years at a compensation and reasonable reimbursement as determined by the Board. The IAC members select a chair and vice chair, for a two-year term, to serve as liaison to the Board and to preside over IAC meetings. A quorum of the IAC will be a majority of eligible members at the time of the meeting.

The Board shall at least annually review the eligibility status of IAC members pursuant to Texas Government Code §§ 815.5092 and 815.5093.

It is grounds for removal from the IAC if the person is (a) not qualified for appointment to the IAC under Texas Government Code §§ 815.5091 and 815.5092; (b) unable to discharge duties because of illness, disability or other personal circumstances; or (c) absent for more than half of the scheduled meetings of the IAC; The Board may adopt a process for removal and cure for a cause for removal. At the discretion of the Board, any member of the IAC notified of a grounds for removal may be given an opportunity to cure the ground for removal if such cause may be cured and the member of the IAC attests in good faith his/her attempt to cure.

The Asset Class Investment Committees

Each asset class will have an Asset Class Investment Committee (ACIC), as referred in Addendum VI, to review the respective asset class' prospective investments to ensure that they conform to the investment objectives outlined in this Policy and are prudent given current and anticipated market dynamics. Each ACIC will be comprised of the Executive Director, the CIO, an IAC member, and either the Deputy Chief Investment Officer or another senior member of Staff. In addition, there will be at least three non-voting members with one staff member from each of the Office of General Counsel (OGC), Internal Audit and Investment Compliance. Attendance by these non-voting members is not compulsory; however, Investment Compliance must certify prior to the vote that the pending investment is in compliance with the Policy.

Each ACIC will review investment recommendations prepared by Staff and, if applicable, the consultant. Each ACIC will approve or deny the investment decision based on information provided as well as investment information available to ACIC members based on their respective professional expertise. If the investment amount is under the dollar amount of the Board approval authority, which for alternative investments is over 0.6% of the total market value of ERS' assets as reported in the most recent ERS CAFR, pursuant to Texas Government Code Section § 815.3016, then the ACIC will approve or deny the decision.

ERS Investment Staff

In accordance with Texas law, the Staff is employed by ERS and authorized by the Executive Director to provide professional investment analysis and support. Responsibilities include portfolio management; company and investment analysis and research; review and monitoring of external investment consultants and advisors and their recommendations; trade execution; voting of proxies and maintenance of the ERS Proxy Voting Guidelines; and the development, recommendation and implementation of this Policy, asset allocation, portfolio structure, advisor/consultant selection, and custodian selection.

Compliance

The Board views adherence to this Policy and the Investment Compliance function as important components of the investment process and to achieving the overall objectives of the Trust. Staff are responsible for ensuring that investment activities comply with this Policy. ERS Investment Compliance is responsible for the overall monitoring, testing and reporting related to compliance with this Policy and each of the Asset Class tactical plans, which is an annual report submitted by each asset class detailing guidance for investment implementation. Investment Compliance will notify Staff, the CIO, the Executive Director and the Board of any violations of the Policy or intent of the Policy. On a periodic basis not less than annually, Investment Compliance will present to the Board the results of compliance activities performed during the review period and any material compliance issues. Investment Compliance will also develop and maintain internal policies and procedures related to the ERS compliance program.

Investment Consultants

ERS may retain from time to time, professional investment consultants to assist and advise the Board and Staff in connection with the investment of Trust assets. The Investment Consultant will advise the Board on the management of the Trust. This may include, but is not limited to, recommending appropriate strategic Policy and implementation structure, conducting manager due diligence, and assisting with manager searches and selection. The Investment Consultant will also aid the Board in its oversight function and

adhering to the guidelines of this Policy and making recommendations regarding changes should they be deemed to be prudent.

Retirement Actuary

The Board selects and retains an actuary for the purpose of forecasting asset and liability growth and the many complex factors included in estimating future pension costs. These factors include, but are not limited to, interest rates, inflation, investment earnings, mortality rates, and employee turnover. The actuary will also assist the Board in setting the discount rate. These actuarial assumptions are reviewed every four years during the actuarial experience study, and they are used as inputs for the asset allocation study.

Custodian

The Board selects the Trust's custodian with the primary function to hold custody all the assets of the Trust, except for commingled funds, mutual funds, and certain funds of one as appropriate, which may be held elsewhere in accordance with applicable law and the particular investment's requirements. The custodian will also calculate investment performance and benchmark comparisons.

Investment Strategies (Internal and External)

Staff has the responsibility for managing the Trust in the best interest of the Beneficiaries by making prudent investment decisions for investment strategies and reporting investment results to the Board. Staff will both internally manage assets and also elect to use external management when appropriate.

External management in public asset classes will be through using External Advisors where discretion for managing assets is maintained by Staff. Private asset classes will use external managers that may exercise full investment discretion with respect to buying, managing and selling assets within the terms of the applicable securities and the approved guidelines to achieve the pertinent objectives. In this Policy when the term, Investment Managers is used, it is intended to include both internal and external managers unless otherwise specified.

Investment Managers and External Advisors shall act as fiduciaries of the Trust and exercise prudence, care, skill, and due diligence in the course of selecting investments to buy or sell for the Trust. Investment Managers and External Advisors are responsible for adhering to the written guidelines and being in compliance with all applicable laws, rules, and regulations.

Staff will monitor all Investment Managers and External Advisors for compliance with this Policy and strategy investment guidelines.

External Advisors/Select Pool

In public asset classes, External Advisors will be selected by the appropriate ACIC to be in a Select Pool and Staff will recommend External Advisors from the Select Pool to fund. Funding, de-funding, or removal of an External Advisor in the Select Pool will be recommended by Staff for action by the CIO, in consultation with the Executive Director. Staff will report to the Board and IAC the status of funding and report significant changes to the Board and IAC at least quarterly.

Emerging Managers

In selecting managers, advisors, consultants, and other financial service providers, the Board shall make a good faith effort to evaluate qualified emerging firms as candidates to award contracts to or acquire services from when acquiring private financial services as set forth in Texas Government Code § 815.301 (g), (h), and (i). An emerging fund manager is defined as a private professional investment manager with assets under management of not more than \$2 billion.

ERS has established an emerging manager program to find smaller managers that can benefit the Trust by enhancing risk-adjusted returns, net of fees. Staff have determined that, over the long term, inclusion of emerging managers as part of external investment management should enhance and diversify the Trust's

expected investment returns, serving to complement the Trust's internal investment management. ERS emerging manager program is integrated within each asset class.

ERS seeks to provide open access to all managers and ensure an inclusive approach when investing the Trusts' capital. ERS' philosophy is that broadening the investment opportunity set of external managers to include smaller, newer, and diverse managers is expected to have many benefits for the Trust.

- First and foremost, smaller managers have proven in research to deliver competitive risk-adjusted investment returns.
- Second, employee-owned firms tend to have a stronger alignment of interest with investors.
- Third, these entrepreneurial managers can provide ERS with unique investment strategies and diversity of thought.
- Fourth, this program can provide the Trust with long-term access to the next generation of talent.

Staff will report to the Board how the emerging manager program has fulfilled the expected benefits to the Trust.

B. Delegation of Authority and Oversight

The Board performs its fiduciary responsibility to invest the Trust through delegation of authority to Staff for execution of the investment strategy according to this Policy. The Board maintains oversight of the investment of Trust assets.

CHART 1 – ROLES AND RESPONSIBILITIES

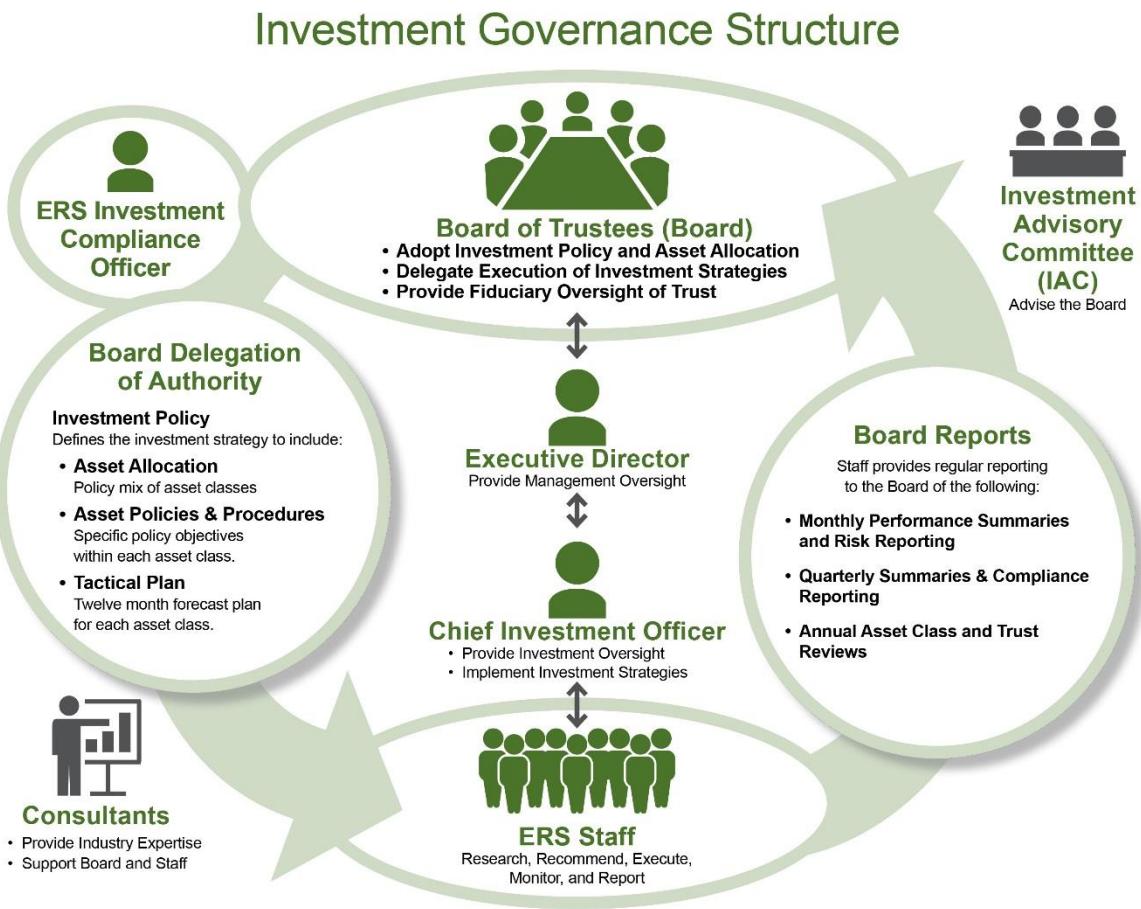


TABLE 1 – POLICY LEVEL INVESTMENT RESPONSIBILITIES

Investment Responsibility	Board of Trustees	IAC	Executive Director	CIO/Investment Staff	Consultant / Actuary (as applicable)
Investment policy statement	A*	R	R	R	R
Asset allocation and establish risk tolerance*	A	R	R	R	R
Permissible asset classes	A	R	R	R	R
Performance benchmarks	A	R	R	R	R
Decisions about deviations from policies	A	R	A**	R	R
Selection of general plan consultant*	A	N/A	R	R	N/A
Selection of asset class consultants	A	N/A	R	R	N/A
Selection of custodian bank*	A	N/A	R	R	R
Selection of securities lending agent*	A	N/A	R	R	R
Selection of actuarial discount rate	A	N/A	R	R	R
Proxy voting policy	A	R	R	R	R
Selection of proxy agent	--	--	A	R	N/A
Selection of IAC member	A	N/A	N/A	N/A	N/A

A = Approval Authority, R = Provides Recommendation,

* Approval authority is statutory.

** Approval in circumstances when timing does not allow presenting to the Board and such action is in the best interest of ERS. Followed by reporting to the Board and IAC.

TABLE 2 – IMPLEMENTATION RELATED INVESTMENT RESPONSIBILITIES

Investment Responsibility	Board of Trustees	IAC	ACIC	Executive Director	CIO/Investment Staff	Consultants (as applicable)
Approval of Alternative Investments Over Statutory Threshold ^{1*}	A	R	R	R	R	R
Approval of External Advisors	O	O	A	R	R	R
Approval of Discretionary Managers and Alternative Investments Under Statutory Threshold	O	O	A	R	R	R
Funding and Defunding of External advisors	O	O	O	O	A	R
Contract Execution*	O	N/A	N/A	A	R	N/A
Rebalancing/Asset Overlays	O	R	N/A	O	A	R
Derivatives – Internally Managed	O	O	N/A	O	A	R
Derivatives – External Managed	O	O	A	O	R	R
Risk Management	O	R	R	O	A	R
Proxy Voting	O	O	O	O	A	R

A = Approval Authority, R = Provides Recommendation, O = Provides Oversight

* Approval authority is statutory and/or regulatory.

+ - Pursuant to Texas Government Code Section 815.3016, the ERS Board approve alternative investments over 0.6% of the total market value of the Trust's assets as reported in the most recent ERS CAFR.

C. Proxy Voting

The right to vote proxies for securities held by the Trust has economic value, and is part of Staff's role as a fiduciary. In voting proxies, ERS shall consider only those factors that relate to the economic value of the Trust, and such votes shall be cast in accordance with the Trust's economic best interest as further detailed in the ERS Proxy Voting Policy attached as Addendum I.

D. Scrutinized Investments

The Board has a fiduciary duty to manage and invest the assets of the Trust for the exclusive benefit of the Beneficiaries. This fiduciary responsibility does not allow investment decisions to be made solely on non-economic or collateral considerations. Therefore, decisions to make investments will be evaluated on their investment merits without consideration of any secondary objectives. All investments shall be evaluated as

part of the Trust's overall strategy and structure and must meet the Policy guidelines. To this end, Staff shall review investments to ensure compliance with federal and state laws by following the Scrutinized Investment Policy (attached as Addendum II) consistent with Texas Government Code Chapters 2270 and 808. Staff have a responsibility to follow the Scrutinized Investment Policy to determine the most prudent method to invest the Trust's assets. In the event Staff determine that compliance with the Scrutinized Investment Policy presents a potentially unique investment risk to the Trust, then Staff shall present the issue to the Board for its consideration.

E. Securities Litigation

As a large institutional investor with a diversified portfolio, the Trust frequently holds securities that may be the subject of individual and class action securities litigation. The Board recognizes that in those events when litigation appears to have merit, there are a number of litigation options available. Staff shall manage the Trust's interest in securities litigation matters as an asset of the Trust and shall review the materiality of the financial loss, if any, that resulted in litigation. Staff will consider the cost and benefits of the litigation options available in adherence with the fiduciary obligation to act for the exclusive benefit of the Beneficiaries.

In most cases, the Trust's interest in securities litigation claims will be adequately addressed solely through ERS' participation as a class member, rather than taking a lead plaintiff role in such litigation. In such event, the filing of any claim shall be prepared, processed and managed by the Trust's custodian on behalf of ERS, at the direction and with the oversight and approval of Staff.

In securities class action cases where the materiality of the financial loss to the Trust is exceptional and/or where it is determined that the Board's fiduciary obligation requires active participation or separate prosecution of claims, after consulting ERS OGC, the case may be referred to appropriate legal counsel approved by ERS for evaluation and recommendation to the Board.

Chapter IV: Asset Allocation

A. Asset Class Allocations, Ranges, and Update Cycle

The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the Trust for investment purposes. The Board shall set long-term asset allocation targets that are expected to prudently meet the needs of the Beneficiaries. The targets and associated ranges are outlined in the table below. The Board has set the ranges with an expectation that Staff will be tactical in its implementation decisions in an effort to prudently manage risk and maximize the expected return given that risk.

Formal asset allocation studies will be conducted at least every four years in connection with the actuarial experience study. The actuarial experience study will be conducted every four years pursuant to Texas Government Code § 815.206(c). There will be ongoing annual reviews of the adopted asset allocation based on updated capital market assumptions.

Within each asset class, the CIO, in consultation with the Executive Director, shall adopt portfolio implementation strategies and investment styles to meet the overall investment objective of each asset class. Staff for each asset class will present to the Board at least annually an overview of their program, including the forecasted 12-month plan for the asset class as a tactical plan.

TABLE 3 – ASSET CLASS ALLOCATIONS AND RANGES

Asset Class	Long-Term Target	Min	Max
Return Seeking Assets:	83%	--	--
Global Equity	50%	--	--
Public Equity	37%	27%	47%
Private Equity ¹	13%	8%	18%
Global Credit	11%	1%	21%
Real Assets	19%	--	--
Public Real Estate	3%	0%	13%
Private Real Estate	9%	4%	14%
Private Infrastructure ¹	7%	2%	12%
Special Situations	0 - 5%	--	--
Opportunistic Credit	3%	0%	8%
Risk Assets: Reduction/Liquidity	17%	--	--
Fixed Income - Rates	11%	--	--
Cash (approximately)	1%	--	--
Hedge Funds/Absolute Return	5%	0%	10%
Global Total	100%	--	--

¹The premium is cumulative over rolling 10-year periods.

B. Transition Period for Asset Allocation

Recognizing that the illiquid asset class exposures cannot be implemented immediately, illiquid asset classes will be implemented over time at the discretion of Staff, in order to minimize risk and maximize expected return. The implementation of any asset allocation decisions by the Board (Long Term Target shown above) is always a work-in-progress and will prudently be executed.

Given the early stage of the private infrastructure and opportunistic credit portfolios, the Policy weight of each asset class for Total Fund benchmark calculation purposes will be the actual weight of the asset class at the end of the prior month. The difference between the target and actual weight of the infrastructure and opportunistic credit portfolios will be added to the Rates Policy weight for Total Fund benchmark calculation purposes.

During any asset allocation implementation period Staff will regularly present to the Board and IAC views on the tactical aspects of implementation based on current market environments and will manage based on the opportunities that arise and the liquidity needs of the Trust. Staff will prudently implement the asset allocation with the flexibility allowed within this Policy.

C. Rebalancing

The purpose of rebalancing is to maintain the Board-approved asset allocation and risk/return profile. Staff will ensure conformance with the asset allocation set by the Board. In conducting rebalancing activities, the Board expects Staff to operate under the following principles:

- Staff must initiate rebalancing transactions to bring all percentages to values within the allowable ranges of the Board-approved asset allocation or promptly seek Board approval to remain outside the ranges.
- To implement the investment strategy, Staff will manage the asset allocation nearer to or away from the targets, but within allowable Policy ranges.
- Less liquid private assets, such as real estate, private equity, and infrastructure, may not be able to be managed within rebalancing ranges at all times, but will be prudently managed to the targets over time through distributions and strategic new investments. Any assets outside of the Board-approved asset allocation will be reported to the Board.
- The intent of this Policy is to implement investment strategies within the targets and asset allocation ranges at a reasonable cost, recognizing that overly precise management of asset exposures can result in transaction costs that are not economically justified.

Chapter V: Asset Classes, Leverage, Risk, and Securities Lending

A. Permissible Investments

The Board will consider investment instruments appropriate for the Trust and deemed to be prudent based on:

- a) Compliance with the definition of "securities" set forth in Texas Government Code § 815.301(f) as listed in Addendum III;
- b) their consistency with Policy and portfolio objectives;
- c) their application to the portfolio's diversification;
- d) Staff and/or advisor competency in evaluating, managing and trading the securities;
- e) consideration of their liquidity within the portfolio; and
- f) the costs.

Securities will be screened by Staff to ensure that they meet the above standards, and any non-routine transactions will be reviewed by ERS OGC.

B. Asset Classes

Overarching Asset Allocation Expectations

The Trust will be managed in accordance with the mandate outlined during the most recent asset liability study. Each asset class will be structured with the fundamental assumptions utilized in determining the risk return profile utilized during the asset liability study, as well as the risk return profile of the overall investment program. The following section provides a description of the return seeking/risk reduction framework used during the asset liability study, as well as a table providing a high level description of each asset class, the primary benchmark, a description of the asset class' role within the portfolio, the primary risk control, and the management style. Further details on the particular investible guidelines are included for each asset class as part of its tactical plan and will be presented for approval by the Board on an annual basis.

Return Seeking/Risk Reduction Framework

The Board has adopted the asset allocation reflected in this Policy to improve the long-term expected return and information ratio of the Trust. This framework for the asset allocation between return seeking and risk reduction/liquidity assets provides broader diversification and improved returns in disparate economic regimes. This framework is segregated into asset classes that are geared to seek returns and those that provide both risk reduction and liquidity as needed.

Policy Benchmarks

Staff and consultants will review policy benchmarks with the Board periodically to confirm that the original reason for adopting benchmarks is still valid. Policy benchmarks shall be specified in advance, reflective of the portfolio, measureable, unambiguous, investable, and reflective of current investment conditions. Benchmarks for private market asset classes are not always easy to determine and do not always represent the desired characteristics of a benchmark, so Staff will recommend for Board adoption the best suited benchmarks in those asset classes based on the portfolio construction and strategy for the asset class. In all instances, Staff and the applicable Investment Consultant will provide the Board with objective information reflecting that benchmarks are both prudent and appropriate for the applicable asset class and overall Trust.

TABLE 4 – ASSET CLASSES, LEVERAGE, RISK, AND RISK BUDGET
Return Seeking Asset Classes:

Public Equity	
Benchmark -	MSCI ACWI IMI (M1WDW\$GI)
Reference Indices* -	Domestic Portfolio S&P 500; International Portfolio MSCI ACWI IMI ex-US
Role -	Growth, Alpha
Primary Risk Control -	150 bps Tracking Error Target / 300 bps Tracking Error Limit
Benchmark Description -	A capitalization-weighted index of large, mid and small cap stocks representing developed and emerging market countries. The index is the broadest measure of the aggregate global stock market, covering approximately 99% of the global equity investment opportunity set.
Management Style -	Active and Passive
Expected Information Ratio	0.25
Private Equity	
Benchmark -	MSCI ACWI IMI + 300 bps (over a 10-year period) (M1WDW\$GI)
Reference Indices* -	Wilshire Trust Comparison, Public Market Equivalent (PME), Burgiss Peer Universe, TUX Peer Universe
Role -	Growth, Enhanced Returns, Illiquidity Premium
Primary Risk Control -	Pacing, Regional Diversification, Strategy Diversification
Benchmark Description -	The portfolio will target a return premium of 300 bps over public equities (MSCI ACWI IMI) with a similar level of overall risk.
Management Style -	Active
Additional Information -	The portfolio will be implemented with diversification across partners, strategies, geography and industry. Strategy exposures include Venture Capital, Buyouts, Distressed Debt, Mezzanine, Natural Resources, and Secondaries.
Global Credit	
Benchmark -	Bloomberg Barclays US HY 2% Issuer Capped Cash Pay (LF89TRUU)
Role -	Yield, Diversification
Primary Risk Control -	200 bps Tracking Error Target / 300 bps Tracking Error Limit
Benchmark Description -	An index composed of non-investment grade corporate debt denominated in U.S. dollars. The issues have to have an outstanding par value of \$150 million or greater and at least one year of maturity remaining.
Management Style -	Active
Additional Information -	May tactically allocate to loans, emerging market debt, and riskier investment grade bonds to enhance returns
Expected Information Ratio (High Yield)	0.35

Public and Private Real Estate (Real Assets)	
Benchmark -	Private: 75% NCREIF – ODCE; Public: 25% FTSE EPRA/NAREIT (RUGL)
Role -	Diversification, Yield, Potential to Hedge Inflation, Enhanced Returns, Illiquidity Premium
Primary Risk Control -	-- Public real estate - 200 bps Tracking Error Target / 300 bps Tracking Error Limit -- Private real estate - Pacing, Regional Diversification, Strategy Diversification, Property type Diversification
Benchmark Description -	-- The NCREIF ODCE Net Index, an index comprised of open-end Core commingled funds focusing primarily on equity ownership of institutional properties. -- The FTSE EPRA/NAREIT Index, real estate assets mostly in the four primary property types: apartments, industrial, office, and retail. Free float adjusted, market capitalization weighted index of Global equity real estate investment trusts (REITs) and real estate operating companies (REOC).
Management Style -	Active
Additional Information -	The portfolio will be implemented with a level of diversification across partners, strategies, geography and industry. Investments include core, non-core, and REITs with U.S. and non-U.S exposures. Private Real Estate Portfolio will have a limit of 65% Loan to Value.
Expected Information Ratio (Public)	0.30
Private Infrastructure (Real Assets)	
Benchmark -	CPI + 400 bps (CPURNSA)
Role -	Diversification, Income-Orientation, Inflation Hedging, Illiquidity Premium
Primary Risk Control -	Pacing, Regional Diversification, Strategy Diversification
Benchmark Description -	Real return target over inflation.
Management Style -	Active
Additional Information -	The portfolio will be implemented with a level of diversification across partners, strategies, geography and industry. Includes non-core and emerging market investments.
Opportunistic Credit	
Benchmark -	S&P LTSA Leveraged Loan Index (SPBDAL) + 150 bps
Role -	Yield, Diversification, Illiquidity Premium
Primary Risk Control -	Pacing, Regional Diversification, Strategy Diversification
Benchmark Description -	An index designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market (senior secured floating rate bonds).
Management Style -	Active

***Reference Indices are used for comparison purposes to assess performance against other benchmarks that are not the policy benchmark.**

Risk Reduction/Liquidity Asset Classes:

Fixed Income - Rates	
Benchmark -	Bloomberg Barclays Intermediate Treasury Index (LT08TRUU)
Role -	Downside Protection, Diversification, Liquidity
Primary Risk Control -	50 bps Tracking Error Target / 100 bps Tracking Error Limit
Benchmark Description -	All publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have \$250 million or more of outstanding face value.
Management Style -	Active
Expected Information Ratio	0.20

Hedge Funds/Absolute Return	
Benchmark -	U.S. 3-Month Treasury bill + 400 bps (G0O1)
Reference Indices* -	HFR Indices;
Role -	Downside Protection, Diversification, Low Correlation to Trust
Primary Risk Control -	Strategy Selection and Diversification
Benchmark Description -	Real return target over inflation.
Management Style -	Active
Additional Information -	Diversified hedge fund portfolio with allocations across many strategy types. Targeted net return beyond cash/short-term instruments. Objective of portfolio to have a low beta and limited directionality to the overall market.

Cash	
Benchmark -	91 Day Treasury bill (G0O1)
Role -	Liquidity
Tracking Error Target -	Not Applicable
Benchmark Description -	An index that measures the average return of the last three-month U.S. Treasury Bill issues.
Management Style -	Active

***Reference Indices are used for comparison purposes to assess performance against other benchmarks that are not the policy benchmark.**

C. Special Situations

The Special Situations asset class exists to promote prudent innovation and facilitate improving risk-adjusted returns of the Trust with new investment strategies and mandates. Special Situations encompass a broad range of investment strategies that may fall outside of traditional asset classes. This category is intended to comprise a small portion of the Trust, and it will grow as suitable investments are identified based on extensive due diligence and a high level of comfort and knowledge on the part of the Staff and Board. Any potential investment not aligned with an asset class included in this Policy shall require approval by the Board. Special Situations investments may be considered for permanent inclusion in an established asset class upon the recommendation of the CIO and approval by the Board.

D. Leverage

Financial leverage is restricted at the Trust level except for risk management as described further in this Policy. Financial leverage is implicit in certain investments and many derivative transactions is not strictly prohibited so long as activities do not materially increase the risk level of the ERS portfolio as a whole. In addition to gross notional exposure, net exposure levels will be monitored at the asset class level and at the Trust level.

E. Risk Philosophy

The Board and Staff recognize there are many types of investment risks. As institutional investors with significant liability duration, the Board and Staff take a long-term perspective. These statements represent the core values and beliefs that form the basis of the risk philosophy for the Trust.

The ERS investment program is structured to address systematic risk (or market risk) and non-systematic risk (risks associated with an asset class or portfolio). The investment program addresses long-term systematic risk by focusing on expected returns, volatility, correlation of asset classes and correlation with Trust liabilities within the asset liability study and the adopted asset allocation. In the shorter-term, Staff utilizes active risk management to address systematic risk and tactical allowances to the asset allocation and portfolio construction as allowed by this Policy. The investment program limits non-systematic risk with a broadly diversified asset allocation mix and diversified portfolios as well as investment guidelines focused on prudently managing inherent risks specific to asset classes and portfolios.

Risk management has a recognition that some risks are quantitative or statistically measurable while others are not. For the risks that are measurable, Staff will consider the various methods for estimating them and incorporating relevant methodologies in the risk management framework to manage and report these risks. For the risks that are not measurable (political, headline, qualitative), Staff will be mindful to consider these risks in risk management and report to the Board as appropriate.

Risk reporting should be timely, relevant and understandable. Investment risk can be difficult to understand because it is multi-faceted. The Board has delegated to Staff investment responsibility, in consultation with the IAC and consultants, to produce risk-adjusted returns consistent with the asset allocation adopted by the Board and maintain sufficient liquidity to make beneficiary payments. As a result, the IAC, consultants and Staff will educate and report to the Board on risk management at the Trust and asset class levels so the Board can maintain its oversight of the investment program and make strategic decisions as needed. This collaborative effort of all parties working together to understand and manage risks of the investment program will establish a discipline in different market cycles and a resilience during difficult market events.

F. Active Risk Allocation

ERS has adopted a risk budgeting and allocation framework for active risk. The purpose of this framework is to define a risk budget for active risk at the Trust level and to provide a transparent and measurable methodology for allocating that risk to active strategies in an optimal way.

The primary risk metric for measuring active risk for the public asset classes will be targeted tracking error, while risk will be managed across the private asset classes through consistent investment pacing, regional diversification, strategy diversification, manager concentration and other metrics particular to each private asset class.

The Board will approve the Active Risk Budget for the public market asset classes, which includes the tracking error for these asset classes. Tracking error is calculated as the standard deviation of the difference between the Trust's return and the benchmark's return. It is recognized that statistical measures, such as tracking error, are in fact estimates and do not guarantee that observed performance will occur as expected.

The Board uses Board approved guidelines included in the respective asset class tactical plans like strategy weights, geographic diversification, manager, fund concentration, and other metrics to establish suitable risk parameters for asset classes.

G. Risk Committee

A Risk Committee has been established to consider relevant information regarding risk of the Trust and to recommend actions that will either minimize negative outcomes or enhance positive outcomes. A second but equally important function of the Risk Committee is to assure that risk constraints, established by the

Board in this Policy, are being observed. The Risk Committee is comprised of the CIO and senior Staff. The Risk Committee looks both within and across the asset classes to develop a comprehensive view of Trust risk. The Risk Committee is charged with investigating best practices in the area of risk management and developing methods and tools necessary to implement strategic decisions, which is further detailed in the Risk Committee Charter.

H. Liquidity

ERS pays more in benefits each year than it receives in contributions, so the investment program must have an emphasis on liquidity to maintain the timely payment of these benefit payments. The liquidity needs remain regardless of the performance of the Trust, so the asset allocation adopted by the Board takes into consideration liquidity needs by maintaining a liquid segment of the asset allocation known as the Rates portfolio.

Staff prudently and actively manages liquidity within the other asset classes and specifically reports back to the Board in the case of private market asset classes in quarterly asset class reporting. Liquidity risk is managed as part of risk management at the Trust level.

I. Use of Derivatives

Authorized types of derivatives include futures contracts, options, options on futures contracts, forward contracts, and any other instrument considered to be a security and commonly used by institutional investors to manage portfolios, except that most derivative transactions that would be considered either "swaps" or "security-based swaps" may not be entered into directly by the Trust (i.e., on behalf of internally managed portfolios). Investment managers and external advisors may be permitted to utilize derivatives to implement their approved investment strategies. Each investment manager or external advisor's investment guidelines will generally specify the permitted amount and type of derivative usage. Staff will not allow derivative usage by investment managers that introduces leverage to the Trust because the underlying leverage will be segregated and limited to the underlying portfolio in which the derivatives are approved. Staff will establish prudent risk management procedures to monitor compliance by both internal and external managers with this Policy and to require prudent investment practice regarding derivative usage. Such procedures will, among other things, include taking into account any operational risks associated with various derivatives strategies.

J. Risk Measurement and Management

Risk management is a primary responsibility for the Staff, and investment results will be reviewed in the context of risk-adjusted returns. The Risk Management framework is established through (1) the adoption of this Policy and the strategic asset allocation, (2) adoption of individual asset class benchmarks, and (3) reasonable risk limits within this Policy for the implementation of the investment program. The goal is not to eliminate risk but to strive to achieve a prudent balance between risk and return.

Risk management monitors the following aspects of the portfolio:

- 1) Assuring appropriate diversification of the Trust's assets;
- 2) Limiting the volatility of the Trust to tolerable levels based on projected volatility and correlation of asset classes;
- 3) Protecting the Trust from a drawdown greater than can be managed to maintain sufficient liquidity in order to meet ERS' fiduciary responsibility to prudently manage the Trust;
- 4) Managing the liquidity of the Trust such that the Trust has both the ability to meet its liquidity needs and to take advantage of market downturns to buy securities when valuations are desirable; and
- 5) Stress testing the portfolios under different market conditions.

The primary risk measurement for the Trust is based on:

- 1) Managing the exposures of the Trust within allowable ranges around the adopted asset allocation process;
- 2) Managing tracking error and monitoring information ratio (risk-adjusted measure of portfolio active risk management) of the Trust;
- 3) Reviewing other risk-adjusted measures that address limitations of information ratio, including Sharpe Ratio¹; and
- 4) Reviewing qualitative and other characteristics demonstrating portfolio diversification of the private market asset classes.

The CIO is responsible for reporting and effectively communicating risk management results to the Board on a regular basis.

K. Securities Lending

The Board may contract with an entity to act as agent in the lending of the Trust's securities, provided the securities lending agent meets and maintains compliance with the requirements set forth in Texas Government Code § 815.303. The securities lending agent will implement the program in accordance with the contract and written guidelines. The primary objective of the securities lending program will be to capture the premium associated with the lending of securities (intrinsic value) and to minimize the re-investment risk associated with the collateral pool.

¹ Sharpe Ratio is a risk-adjusted return measure that takes the average return minus the risk-free rate divided by the standard deviation (measure of volatility).

Chapter VI: Trust Monitoring and Reporting

The delegation by the Board of certain duties to the Executive Director, Staff and ERS Non-Investment Staff relies upon the principles of responsibility, accountability, and transparency. Transparency comes from accurate, timely, and clear reporting to the Board of the Trust's assets, investment returns and risks, portfolio costs, and portfolio implementation decisions made by Staff. This chapter delineates the schedule and content of the core reporting that the Board will rely upon to fulfill its fiduciary duties.

A. Reporting Schedule

Information reported to the Board with regard to the Trust's assets includes, but is not limited to, the following:

- a) **Monthly Reports.** The Executive Director or designee shall report to the Board in writing on a monthly basis:
 - i. a summary of the Trust's investments, including the balance of all externally advised portfolios;
 - ii. risk metrics for public asset classes; and
 - iii. other information as requested by the Board from time to time.
- b) **Quarterly Reports.** The Executive Director or designee shall provide to the Board in writing or present at a meeting on a quarterly basis:
 - i. a summary of investment performance as described in part B of this Chapter (Performance Evaluation);
 - ii. risk metrics at the Trust level;
 - iii. summary reports on each private market asset class;
 - iv. summary of any exceptions to the ERS Proxy Voting Policy; and
 - v. a report on any violations of or exceptions to this Policy.
- c) **Annual Reports.** The Executive Director or designee shall provide to the Board in writing or present at a meeting on an annual basis:
 - i. a listing of all investment holdings in the Trust;
 - ii. a year-to-year comparison of the Trust's investments;
 - iii. a summary, by broker, of the commissions on all stock transactions, the volume of directed commission activity and services funded and a summary, by broker, of all fixed income transactions;
 - iv. a summary of securities lending performance;
 - v. a report on the Trust's liquidity levels;
 - vi. a report on ERS' methods, efforts and results in hiring emerging investment service providers, including data disaggregated by race, ethnicity, gender, and fund size;
 - vii. a summary of the proxy voting process for the year;
 - viii. asset class reporting and related tactical plans; and
 - ix. a report on this Policy including any recommended changes to this Policy by Staff, consultants and/or the IAC.

B. Performance Evaluation

Performance evaluation of the Trust is designed to monitor the asset allocation implementation plan and the investment managers and external advisor selection decisions. The purpose is to test the continued validity of these decisions and to trigger an analysis of underperformance or undue volatility.

Performance objectives have been established for the Trust and each asset class in order to perform proper due diligence in monitoring and evaluating and it is clearly understood that these objectives are to be viewed over the long-term. Rates of return will be compared with

- a) The risk and return of an appropriate market index;
- b) The return of an appropriate style benchmark, where applicable; and
- c) The returns of a universe of comparable investment strategies, where applicable.

Staff, in consultation with the Executive Director, shall provide to the Board in writing, on a quarterly basis, a summary of the Trust's performance as calculated by an outside performance measurement service. This report is prepared by the General Plan Consultant and shall include the return analysis noted above. It is expected that reporting for private equity, private infrastructure, and private real estate will lag public markets reporting by one or more quarters.

C. Investment Monitoring (Internal and External)

The Board, through Staff and with assistance provided by General Plan Investment Consultant as appropriate, will monitor the performance of each investment strategy quarterly, while retaining a long-term focus. Monitoring the performance relative to benchmarks will be an ongoing requirement for Staff. Recommendations for termination of an investment strategy will be made by Staff to the CIO, who will make the decision in consultation with the Executive Director. A termination of an investment strategy could result from many potential scenarios, including but not limited to:

- a) Substantial changes in assets under management (external advisors);
- b) Material changes to the Policy and objectives as previously approved by the Board;
- c) Performance relative to assumed risk (benchmark comparison over five years);
- d) Investment holdings consistent with style;
- e) Stability of the organization and personnel turnover; and
- f) Performance relative to peer group over three years).

D. Trade Execution and Commission Sharing

Staff shall allocate trades for the benefit and the best interest of the Trust based on the relative ability of broker/dealers to add value to the Trust through: (A) products or services of benefit to the investment program, such as research products or portfolio analytics that are used in ERS' investment decision-making process; (B) trade execution; or (C) a commission sharing agreement.

Trades allocated strictly for execution purposes must be executed at discounted commission rates acceptable to ERS. All currency and security trade orders must be placed with firms that meet all of the requirements listed below. In order for a firm to be approved or remain approved, all information submitted by a firm must be satisfactory to ERS and must be provided to ERS upon request.

- a) Firms must be in good standing with the Securities and Exchange Commission (SEC);
- b) Firms and their designated agents must be members in good standing with the Financial Industry Regulatory Authority (FINRA);
- c) Firms must be registered and in good standing with the Texas State Securities Board; their designated agents may not have to be registered so long as such designated agents are in good standing with the Texas State Securities Board;
- d) Firms must demonstrate a proven and effective execution platform for institutional investors that has been utilized by the firm for a minimum of three years;
- e) The firm or its executing broker and the clearing agent must each have minimum excess net capital of \$2,500,000; and
- f) Firms must demonstrate an ability to add value to the investment process.

Firms used strictly as crossing networks may be exempt from these requirements with the approval of the CIO. Notwithstanding the above, orders to effect currency exchanges may also be placed with a banking

institution that has at least a five-year history of serving institutional clients in this capacity and short-term debt that is highly rated by at least two nationally recognized statistical rating organizations such as Moody's Investor Services (Moody's), Standard & Poor's, or Fitch Ratings (NRSROs).

Chapter VII: Code of Ethics

Code of Ethics and Personal Investment Activities

High ethical standards are essential for the success of ERS and to maintain its fiduciary duty to its Beneficiaries. Therefore, all “Covered Persons” (which includes all ERS Investment-Related Staff and any other ERS non-investment Staff who the Executive Director determines have access to confidential ERS investment trading information, all members of the Board and the IAC, the Executive Director and the Deputy Executive Director) shall be governed in their personal investment activities by the Standards of Professional Conduct established by the CFA Institute (CFAI) and applicable state statutes, and each such person shall sign a yearly affirmation of compliance with this Policy and with the Code of Ethics of the CFAI. The broad purposes of this section are to maintain integrity in the management and oversight of ERS investments and prevent the misuse of material, non-public information. In addition, ERS Covered Persons are subject to the ERS Insider Trading and Confidentiality Policy.

The personal transactions provisions do not apply to Trustees and IAC members because they do not participate in the selection of individual securities, which are instead selected by ERS Staff; however, the Insider Trading and Confidentiality Policy does apply to Trustees and IAC members. To the extent Board and IAC members participate in the evaluation, review and approval of private market investments, Board and IAC members must certify that they will not, either for themselves or on behalf of any person or entity, participate in private market investment transactions in which ERS has invested or for which they received confidential information regarding such investment.

Pursuant to Texas Government Code § 815.210, except for an interest in the Trust as a Beneficiary, a Trustee or employee of the Board may not have a direct or indirect interest in the gains or profits of any investment made by the Board and may not receive any pay or emolument for services other than the person’s designated compensation and authorized expenses.

A. Personal Transactions

The personal transaction requirements included in this Code of Ethics apply only to the Executive Director, Deputy Executive Director, ERS Investment-Related Staff and any other staff designated as “Restricted Persons”. A current list of Restricted Persons will be maintained by the Investment Compliance Officer. In addition to the annual affirmation, each Restricted Person shall submit a quarterly affirmation of compliance with the personal trading requirements of this Code of Ethics.

All Restricted Persons shall obtain the approval of the CIO or a designee appointed by the CIO prior to making personal trades in securities in which ERS is invested or is considering investment. Similarly, the CIO, the Deputy Executive Director, and the Executive Director shall obtain pre-trade approval from the Investment Compliance Officer. Such trade approval is only valid for the trading day on which the approval is requested.

For purposes of the pre-clearance requirement described above, the term “security” is defined as publicly traded stocks, bonds, and certain derivative instruments but does not include:

- a) open-end mutual funds, closed-end funds or exchange traded funds (ETFs) that are based on broad-based securities indices, or
- b) derivatives linked to the performance of such closed-end funds or ETFs.

Furthermore, the pre-clearance requirement described above does not apply to any acquisitions or dispositions of any security that are not deliberate or willful on the part of the Restricted Person, including, without limitation:

- a) the purchase or sale of any security that is effected in an account over which a Restricted Person has no direct or indirect influence or control;

- b) the acquisition of any security pursuant a dividend reinvestment program; or
- c) the acquisition of any security through a stock dividend, stock split, reverse stock split, merger, consolidation, spin-off, or other similar corporate reorganization or distribution that is generally applicable to all holders of the relevant class of securities.

For purposes of the foregoing paragraph, a securities index will be considered "broad-based" if it satisfies the criteria adopted by both the U.S. Securities and Exchange Commission and the U.S. Commodity Futures Trading Commission; namely:

1. if it has more than nine component securities;
2. none of its component securities comprises more than 30% of its weighting;
3. no group of five of its component securities together comprise more than 60% of its weighting; and
4. the lowest weighted component securities comprising, in the aggregate, 25% of the index's weighting have an aggregate dollar value of average daily trading volume (ADTV) of more than \$50 million (or in the case of an index with 15 or more component securities, \$30 million).

"Personal Trades" mean:

- a) transaction for a Restricted Person's own account, including a retirement or self-directed account (e.g., an IRA), in which the Restricted Person has direct or indirect influence or control over the timing of the trade of the security or derivative on a security, or
- b) a transaction for an account in which a Restricted Person has indirect beneficial ownership as recommended by Standard VI (A) of the CFAI Standards of Practice Handbook and/or direct or indirect influence or control or discretion over the timing of the trade of the security or a derivative on a security. Indirect beneficial ownership applies to accounts held by immediate family members. "Immediate family member" means a Restricted Person's spouse, minor children, and adults residing with such Restricted Person, and any trust or estate in which such Restricted Person or any other member of his/her immediate family is a Trustee or has a substantial beneficial ownership interest, unless such Restricted Person or other member of his/her immediate family has fully delegated all authority over such accounts and, therefore, does not control or participate in the investment decisions of such trust or estate.

Front running is prohibited. For purposes of this section of the policy, "front running" occurs when a Restricted Person buys or sells a security or a derivative on a security for personal financial gain or the financial gain of a third party other than ERS with advance knowledge of an ERS decision or recommendation to buy or sell a security or a derivative on a security. The preclearance requirements for a personal trade are intended to prevent front running.

Obtaining preclearance for a personal trade does not prevent the transaction from constituting front running under this Policy if the Restricted Person knows or should have known that a recommendation or decision for ERS to trade a security or a derivative on the security is pending or has been made but an order to trade has not yet been communicated to the ERS trading desk. All Restricted Persons assume the risk of a conflict or violation of this Policy by initiating any personal transactions that may be covered under this Policy despite any lack of intent by the individual to violate this Policy. A determination that this Policy was violated may be based on circumstantial evidence of such intent.

It is a violation of this Policy for a Restricted Person to delay, hinder, modify, or cancel any internal ERS recommendation, decision or trading order with the intent to facilitate a personal trade.

Restricted Persons shall also not personally participate in private market investment transactions that benefit from action taken by ERS.

All ERS Restricted Persons shall report to the Investment Compliance Officer on a quarterly basis regarding all personal investment activities. Similarly, the Investment Compliance Officer shall report to the Internal Auditor on a quarterly basis regarding all personal investment activities. An internal investigation will be

promptly conducted into any questionable trade for violations of trading Policy. If it is determined that a Restricted Person violated this Policy, then any personal transactions at issue may be reversed, at the expense of the individual, he/she may be required to disgorge all profits, and he/she is subject to the full range of disciplinary actions under the ERS Personnel Policy and Procedure Manual and/or may be reported to applicable regulatory or law enforcement agencies when appropriate.

B. Gifts, Benefits, or Favors

Covered Persons shall not solicit, accept, or agree to accept any gifts, personal benefits, or personal favors. The terms "gifts," "personal benefits" and "personal favors" include, without limitation, anything reasonably regarded as pecuniary gain or pecuniary advantage, including gifts or other economic benefits to any other person in whose welfare the Covered Person has a direct and substantial interest.

This prohibition does not apply to the following which may be accepted:

- i. gifts of books, pamphlets, articles or other such materials that contain information directly related to and used in performing the official ERS duties of the individual (provided that such items are less than \$50 in value);
- ii. gifts of nominal value (non-cash items of less than \$50.00 in value), modest items of food and refreshments on infrequent occasions so long as the donor is present, unsolicited advertising or promotional material and other items of nominal intrinsic value;
- iii. a fee prescribed by law to be received by an individual or any other personal benefit to which the individual is lawfully entitled or which is given as legitimate consideration in a capacity other than the individual's position with ERS; and
- iv. a gift or other personal benefit conferred on account of kinship or a personal, professional, or business relationship independent of the official status of the individual's position with ERS.

Notwithstanding the foregoing, absolutely no gifts, personal benefits, or personal favors may be accepted from Placement Agents, as defined in Addendum IV.

C. Attendance at Business Meetings/Functions

Covered Persons are prohibited from accepting invitations to functions, the costs of which will be borne by brokers, dealers, corporations, or the Trust's master trust custodian, consultants or external advisors (donors) except as provided herein.

- i. Covered Persons may accept invitations, including meals, transportation, and lodging to seminars and conferences when such event has a presentation or discussion of topics pertinent to the investment of the Trust's assets or relates to the official ERS duties of the individual and is not otherwise prohibited by law. This exception applies only where the services rendered by Covered Persons are more than merely perfunctory as in accordance with applicable laws, such as when ERS Investment Related Staff speak at or actively plan the seminar or conference with specific approval from the CIO.
- ii. Covered Persons may accept invitations, including meals and ground transportation, to receptions and business meals when the donor or a representative of the donor is present and such event has a presentation or discussion of topics pertinent to the investment of the Trust's assets or relates to the official ERS duties of the individual and is not otherwise prohibited by law.
- iii. This prohibition also does not apply to the acceptance of meals, transportation and lodging in connection with private market advisory committee meetings, seminars, and conferences, where the services rendered by ERS Investment-Related Staff are more than merely perfunctory as in accordance with applicable laws.
- iv. Attendance by Covered Persons at events sponsored by donors that may incidentally involve entertainment or recreation may in some cases be in the best interest of ERS. However, those ERS Investment-Related Staff must obtain specific approval of their attendance at such events from the

- CIO. The CIO must obtain such approval from the Deputy Executive Director for attendance at such events. This approval will not be given for elaborate or expensive entertainment events.
- v. All persons to whom this Policy applies shall use reasonable care and judgment not to place themselves in a situation that might cause, or be perceived to cause, a loss of independence or objectivity.

D. Conflict of Interest

All Covered Persons who become aware of a personal conflict of interest that affects their duty owed to ERS have an obligation not only to disclose that conflict, but to cure it. Conflicts of interest may include, but not be limited to the following:

- i. Covered Persons may not under any circumstances accept offers, by reason of their service, relationship or employment with ERS, to trade in any security or other investment on terms more favorable than those available to the general investing public or, in the case of private market investments, a similarly situated investor.
- ii. Covered Persons may not participate in outside employment and/or business activities where the activity interferes with the efficiency of the individual's performance of, or could be considered to be in conflict with, the individual's service, relationship or employment with ERS, unless such outside employment and/or business activities have previously been disclosed and approved. The Executive Director will provide such approval in the case of ERS Investment-Related Staff, the Deputy Executive Director and IAC members, and the Board will provide such approval in the case of the Executive Director or a Trustee.
- iii. In accordance with Texas Government Code § 572.054, Trustees and the Executive Director may not for two years after ceasing to be in their respective positions at ERS (Former ERS Official) make any communication to, or appearance before, an officer or employee of ERS, on behalf of the Former ERS Official or on behalf of any other person or entity, with the intent to influence agency action to benefit the person seeking such action. This restriction does not apply to the Former ERS Official merely providing information to ERS so long as such communication is done without the intent to influence any actions by ERS. A violation of this prohibition is a Class A misdemeanor.
- iv. Furthermore, ERS may not enter into a contract with a former ERS Executive Director for four years after such former ERS Executive Director leaves ERS, or with a person or entity that employs such former ERS Executive Director, unless the Board approves the contract and otherwise complies with Texas Government Code § 669.003.
- v. In accordance with Texas Government Code § 572.054, Covered Persons may not at any time represent any person or entity, or receive compensation for services rendered on behalf of any person or entity, regarding a "particular matter" after such individual leaves his/her position at ERS. This prohibition applies if, during such individual's tenure at ERS, that individual "participated" in the particular matter, either through personal involvement or because the particular matter was within such individual's official responsibility. This prohibition does not prevent an individual from working on similar matters after leaving ERS that are not the exact matter on which an individual worked during his/her tenure at ERS.

For purposes of clarification of this prohibition, (1) "participated" means to have taken action as an officer or employee through making a decision, providing approval or disapproval, making a recommendation, giving advice, investigating, or similar action; and (2) "particular matter" means a specific investigation, application, request for a ruling or termination, rulemaking proceeding, contract, or judicial or other proceeding.

The Board, or the Executive Director in the case of ERS Investment-Related Staff, IAC members or the Deputy Executive Director, may provide an exception to this prohibition if not doing so would be imprudent on the part of ERS and such exception is not a violation of state law. A violation of this prohibition is a Class A misdemeanor.

- vi. A person may cure a conflict of interest by promptly addressing it in the following manner. If the person may prudently withdraw from action on a specific issue in which a conflict exists, he/she may cure the conflict in that manner provided that:
 - a) the person may be and is effectively separated from influencing the action taken;
 - b) the action may properly be taken by others; and
 - c) the nature of the conflict is not such that the person must regularly and consistently withdraw from decisions that are normally his/her responsibility with respect to ERS. Trustees and IAC members must disclose any conflicts regarding matters that are before the Board or IAC and not vote on the matter.

E. Use of Placement Agents.

See Addendum IV for Placement Agent and Political Contributions Policies and Procedures.

F. Insider Trading and Confidentiality

See Addendum V for the Insider Trading and Confidentiality Policy.

G. Ethics Training

All Covered Persons shall receive periodic ethics training at least annually.

H. Compliance and Enforcement

- i. The Board will enforce this Policy through the Executive Director, who is responsible for its implementation with respect to ERS Investment-Related Staff, the Deputy Executive Director and IAC members.
- ii. The full range of disciplinary options under the ERS Personnel Policy and Procedure Manual may be used with respect to employees of ERS who violate this Policy, up to and including termination.
- iii. The Board is responsible for the enforcement of this Policy with respect to violations by individual Trustees or the Executive Director through resolutions of reprimand, censure, or other appropriate parliamentary measures, including requests for resignation.
- iv. Any Covered Person with knowledge of a violation of this Policy must report such violations to the General Counsel and the Investment Compliance Officer. No retaliatory action will be taken for any such report made in good faith.
- v. A violation of this Policy may be reported to applicable regulatory or law enforcement agencies when appropriate.
- vi. Anyone scrutinizing a transaction or issue for compliance with this Policy and applicable laws and regulations will be undertaking such review after the fact, with the benefit of hindsight. As a practical matter, before engaging in any transaction, an individual should carefully consider how the Executive Director, General Counsel, Investment Compliance Officer and Internal Auditor and state and federal enforcement authorities and others might view the transaction or issue in hindsight.

Chapter VIII: Texas Employees Group Benefits Program Funds (TEGBP)

Investment Objectives and Guidelines for TEGBP

This section defines the investment objectives and guidelines for the assets of TEGBP (for both active members and retirees) within the TEGBP (Participants) administered by ERS.

Primary Investment Goal. The goal of the investment program related to management of TEGBP is to earn a return consistent with the investment assumptions used to set insurance premiums at a reasonable cost to the Participants while providing liquidity and minimal principal risk.

- A. **Liquidity.** The emphasis on liquidity shall be an investment consideration to provide for the timely payment of all claims and projected cash flow needs. Managing liquidity to meet the TEGBP needs will be met by structuring the investment portfolio for TEGBP to maintain a sufficient allocation of assets in highly liquid, short-term instruments.
- B. **Minimal Principal Risk.** The emphasis on minimizing principal risk shall be governed by the prudent management of interest rate risk, credit risk and liquidity of the investment holdings.

Return Objectives. The return objective is to earn an appropriate risk-adjusted return pursuant to the Investment Guidelines below while ensuring adequate liquidity to meet cash flow needs.

TEGBP Investment Guidelines. The allocation among different mandates set forth below will be determined by ERS Staff considering the investment goals and return objectives of TEGBP.

- A. **Short-term Cash and Cash Equivalents.** A portion of TEGBP will be invested in short-term cash and cash equivalents.
- B. **Interest Rates Portfolio.** A portion of TEGBP will be invested in the Interest Rates portfolio as further discussed in the Fixed Income Policies and Procedures and benchmarked against the Barclays Intermediate Treasury Index.
- C. **Credit Portfolio.** A portion of TEGBP will be invested in the Credit portfolio as further discussed in the Fixed Income Policies and Procedures and benchmarked against the Barclays U.S. High Yield – 2% Index.
- D. **True Up.** If losses impact short-term investment pools, including securities lending pools, such that the portfolio may experience realized losses, or otherwise “break the buck,” ERS may determine it is prudent to make an allocation from TEGBP into the pool to make that fund or pool whole for any losses within TEGBP. This is intended to reinforce the conservative nature of these portfolios.

Following are the asset allocations and expected real returns with inflation for TEGBP.

Asset Class	Active Members			Retirees		
	Target Allocation	Expected Real Return	Weighted Expected Real Return	Target Allocation	Expected Real Return	Weighted Expected Real Return
Short-Term Fixed Income	30.00%	2.40%	0.72%	100.00%	2.40%	2.40%
Intermediate Treasuries (Rates)	50.00%	2.60%	1.30%			
Global Credit	20.00%	5.20%	1.04%			
Totals	100.00%		3.06%	100.00%		2.40%
Inflation			2.40%			4.80%
Expected Nominal Rate of Return			5.46%			

**EMPLOYEES RETIREMENT SYSTEM OF TEXAS
PROXY VOTING POLICY
(Effective: 2/22/2011)**

OBJECTIVE

The right to vote proxies for securities held by the Employees Retirement System of Texas (ERS) has economic value, and the fiduciary act of prudently managing ERS' securities includes the management of voting rights appurtenant to those securities. In voting proxies, ERS shall consider only those factors that relate to the economic value of ERS' investment, and such votes should be cast in accordance with the Trust's economic best interest. In the case of overlapping or conflicting interests within the fund (e.g., ERS ownership of both equity and debt securities), Staff will consider *all* holdings and seek to maximize the expected value of the combined position.

The objective of this policy is to provide direction in voting proxies in a manner that gives the most benefit to the Trust Beneficiaries of ERS and is consistent with the stated goals and objectives of ERS.

The objective of this policy will be accomplished by voting proxies:

- To ensure that management and boards of directors are acting in the best interest of ERS as a shareholder;
- To ensure compliance with all local laws and regulations of countries in which the company does business; and
- To ensure accountability to shareholders, board responsiveness, board independence and director competence.

SCOPE

The *ERS Proxy Voting Policy* is designed primarily to cover publicly traded securities. Other investment forms, such as privately held equity, limited liability corporations, privately held REITs, and bond indentures, are not specifically covered by this policy; although, broad application of this policy can be used for these more specialized forms of equity and debt investments when needed.

ERS may retain an independent third party proxy administrator to assist in voting proxies.

ERS maintains voting authority for proxies of both the internally managed public equity portfolios and the externally advised public equity portfolios in the External Advisor Program, which will be voted in accordance with the *ERS Proxy Voting Policy* and *ERS Proxy Voting Guidelines*. Voting authority for proxies of the public equity portfolios that are investments of a limited partnership in which ERS is the sole limited partner will be specified in the governing documents of the respective limited partnerships.

Because ERS conducts a securities lending program, securities may be on loan when proxies must be voted. Lent securities will be recalled for purposes of voting proxies only when it is determined that the proxy requires a vote on a merger, an acquisition, a reorganization or an issue that will significantly affect the rights of ERS as a shareholder. Recalling lent securities for proxy voting purposes is expected to represent the exception rather than the general rule.

Proxy voting policies will be applied to the fullest extent possible for companies domiciled in foreign countries, recognizing that differences in jurisdiction may make it impossible to follow this policy exactly.

PROXY VOTING STRATEGIES

The policy classifies management and shareholder proposals included in proxies into the following six strategies: Routine/Miscellaneous; Board of Directors; Shareholder Rights and Defenses; Capital/Restructuring; Compensation; and Social/Environmental Issues. The *ERS Proxy Voting Guidelines* are consistent with the strategies outlined below and provide further detail on voting proposals most likely to be presented in a proxy.

1. ROUTINE/MISCELLANEOUS

Routine and miscellaneous items concern company standard operating procedures including, but not limited to, the following: routine bylaw amendments, changes to the company name, and changes in the date, time and location of the annual meeting, auditor ratification, adjournment of the meeting and “other business.”

Operational issues proposed by management will be supported unless ERS’ review of proposals reveals attempts to limit shareholder rights, increase takeover protections or reduce shareholder value.

Auditor independence from client firms is essential to achieve an objective and impartial review of financial statements. Independence of other professional service providers, such as actuaries and law firms, is also essential to companies receiving objective and impartial service and advice. Proposals to indemnify or limit the liability of auditors or other similar service providers will be opposed. Proposals to limit non-audit services will be supported.

2. BOARD OF DIRECTORS

The composition and structure of the board of directors of a public company (board) have a direct impact on its effectiveness.

Votes on the composition of the board, including director nominees and slates of directors, will be evaluated on a case-by-case basis considering the following important elements of an effective board:

- **Board Accountability:** The board should be accountable to shareholders. Policies that promote accountability include transparency of governance practices, annual board elections, shareholder ability to remove problematic directors and shareholder vote on takeover defenses and other charter/bylaw amendments.
- **Board Responsiveness:** The board should be responsive to shareholders, particularly in regard to shareholder proposals that receive a majority vote and to tender offers where a majority of shares are tendered.
- **Director Independence:** The board should be independent from management and should be, therefore, willing and able to effectively set company strategy and scrutinize performance and executive compensation. The audit, compensation and nominating/corporate governance committees should be composed entirely of independent directors.
- **Director Competence:** Directors should have specific skills or expertise that add value to the board and should devote sufficient time and resources to oversight of the company. Directors who are unable to attend board and committee meetings or who are overextended (i.e., serving on too many boards) raise concern as to their ability to effectively serve shareholder interest. Arbitrary limits such as age or term limits may not be effective measures of director performance or competence.

Votes on management and shareholder proposals regarding board structure will be cast to promote board accountability, responsiveness to shareholders, board independence and director competence.

3. SHAREHOLDER RIGHTS AND DEFENSES

Shareholder rights and defenses items pertain to anti-takeover devices and the proxy voting process.

The majority of historical evidence regarding individual corporate anti-takeover devices indicates that companies with management teams more accountable to shareholders and the market outperform companies with heavily entrenched management teams. Proposals designed to instate or increase takeover protection or that eliminate, restrict or inhibit shareholder rights will be opposed.

Proposals that promote a one-share, one-vote standard and the equal treatment of all shareholders will be supported.

The integrity of the proxy voting process depends on a voting system that protects voters from potential coercion and reduction of voting power. Proposals that provide a shield against management pressure, re-solicitation and fraudulent vote tabulation will be supported.

4. CAPITAL/RESTRUCTURING

Proposals involving capital raises, debt restructurings, spin-offs, asset sales and purchases and mergers and acquisitions will be evaluated on a case-by-case basis.

Financing decisions can have a significant impact on shareholder value when they involve the issuance of additional common stock, preferred stock or debt facilities. Financing proposals will be opposed that dilute investment value or include potential anti-takeover measures.

Restructuring proposals where the disadvantages of dilution of future earnings and/or change of control outweigh the prospective survival of the company will be opposed.

Proposals relating to real or potential mergers and acquisitions, asset sales and purchases, spin-offs and tender offers will be scrutinized to determine if they are detrimental to ERS. Any proposal, response by management or outside interests deemed to be detrimental to ERS will be opposed. Those management proposals where existing shareholders receive fair remuneration or shareholder value is increased will be supported.

5. COMPENSATION

Proposals involving executive and director compensation programs will be evaluated on a case-by-case basis for adherence to the following five global principles:

- **Maintain appropriate pay-for-performance alignment, with emphasis on long-term shareholder value.** Compensation should be designed to attract, retain and appropriately motivate key employees. The link between pay and performance, the mix between fixed and variable pay, performance goals and equity-based plan costs should all be considered.
- **Avoid arrangements that risk “pay for failure.”** Long or indefinite contracts, excessive severance packages and guaranteed compensation should be avoided.
- **Maintain an independent and effective compensation committee.**
- **Provide shareholders with clear, comprehensive compensation disclosures.**

- **Avoid inappropriate pay to non-executive directors.** Excessive compensation could potentially compromise an outside director's independence and ability to make appropriate judgments with respect to management pay and performance.

Management and shareholder proposals that fail to meet these guiding principles will be opposed.

6. SOCIAL/ENVIRONMENTAL ISSUES

Intangible factors such as social and environmental issues are increasingly being incorporated into valuation models to better quantify the risks and opportunities of long-term investing in a company.

ERS' voting of social and environmental proposals will be based solely on enhancing or protecting long-term value to ERS and not on establishing or endorsing social policy. As part of its fiduciary duty, ERS shall consider only those factors that relate to the economic value of ERS' investment and shall not subordinate the interests of ERS' Trust Beneficiaries to unrelated objectives.

SCRUTINIZED INVESTMENT PROGRAM PROCEDURES**A. Introduction**

This policy addresses investment by ERS in securities or companies in which investment may be prohibited and divestment may be required pursuant to applicable state or federal law (“Scrutinized Investments”). As of the date of this policy, Scrutinized Investments include investments in:

- i. companies with scrutinized business activities in Iran¹,
- ii. companies with scrutinized business activities in Sudan²,
- iii. scrutinized companies with ties to designated foreign terrorist organizations³, and
- iv. companies that boycott Israel⁴.

This policy applies to all investments designated as Scrutinized Investments while this policy is in effect.

ERS staff will follow this policy, and any internal procedures related to this policy. This policy will be maintained by Investment Compliance with cooperation from the Office of the General Counsel, Investment Operations and Staff.

B. Identification of Scrutinized Investments

Statutes relating to Scrutinized Investments provide that a designated state or federal government agency (“Applicable Agency”) will prepare and publish a list of companies in which investment may be prohibited, and divestment may be required, pursuant to the applicable statute on a periodic basis in (the “Listed Companies”). The Applicable Agency generally will make such lists publicly available and update them on at least an annual basis.

C. Procedures for Scrutinized Investments

- a) Promptly upon receipt, ERS will review each list of Listed Companies against its internal holdings to determine if any Listed Company is owned either directly or indirectly by ERS. This review will be completed by Investment Compliance, Operations and Investments, in accordance with internal procedures reviewed by the Office of the General Counsel and approved by the Executive Director.
- b) To the extent ERS identifies portfolio holdings that are Listed Companies, Investment Compliance will coordinate notification of applicable government officials and agencies in accordance with statutory requirements.
- c) In addition, to the extent that the relevant statute directs ERS to engage with a Listed Company regarding its scrutinized business activities, Investment Compliance and Staff will coordinate engagement with such Listed Companies, in accordance with internal procedures reviewed by the Office of the General Counsel and approved by the Executive Director.

¹ Chapter 2270, Texas Government Code

² Chapter 2270, Texas Government Code

³ Chapter 2270, Texas Government Code

⁴ Chapter 808, Texas Government Code

D. Analysis of Scrutinized Investments

- a) Following ERS' engagement, if any, with a Listed Company held in ERS' portfolio, ERS will review and analyze the facts and circumstances surrounding each Listed Company. ERS will assess whether the Listed Company has clarified its business activities in prohibited counties, ceased such scrutinized business activities, or been removed as a Listed Company by the Applicable Agency during the engagement period
- b) If ERS determines that the Listed Company has not ceased active scrutinized business activities within the required time frames, ERS will analyze whether divestment of the Listed Company is required, consistent with its fiduciary duties to the Trust.

Staff must determine whether an equal or superior alternative investment can be identified, when judged solely on the basis of its economic value, considering ERS' Investment Policy, the Board of Trustees' constitutional fiduciary duty and exclusive benefit rule, the transaction costs associated with the divestment and alternative investment, and other relevant criteria including, but not limited to the role of the scrutinized investment in the Trust, the relative risk characteristics of the scrutinized investment as compared to an alternative investment, and the economic impact to the Trust of substituting an alternative investment for the scrutinized investment ("Suitable Replacement"). In the event a Suitable Replacement is determined, ERS will proceed with divestment of the Listed Security. Divestment will be executed in a prudent manner in compliance with ERS' fiduciary duty and applicable regulations so as not to adversely affect the Trust.

- c) ERS may rely on certain statutory exemptions that allow delaying or ceasing divestment of the Listed Company if it would adversely impact the trust. Staff will thoroughly analyze, document and justify any recommendation not to divest of any scrutinized investments that statute would otherwise require to be divested. Any such recommendation will be presented in a timely manner for review and potential approval to Investment Compliance, the Office of the General Counsel and the Executive Director.
- d) In the event Staff reasonably believes that it would be in the best interests of the Trust to purchase a scrutinized investment, and determines that no Suitable Replacement for such scrutinized investment exists, Staff will thoroughly analyze, document and justify any recommendation to purchase such scrutinized investment. Any such recommendation will be presented in a timely manner for review and discussion to Investment Compliance, the Office of the General Counsel and the Executive Director.

E. Ongoing Monitoring and Reporting

ERS will follow all requirements related to ongoing monitoring and reporting of its holdings in Listed Companies. Such requirements may include periodic engagement with Listed Companies regarding their active scrutinized business activities, providing notice of Listed Company holdings to all relevant government agencies and officials in accordance with relevant statutes, and reporting to ERS senior Staff and the Board of Trustees the status of holdings in Listed Companies

STATUTORY DEFINITION OF “SECURITIES”

Pursuant to Texas Government Code Section 815.301(f), the term “securities” means any investment instrument within the meaning of the term as defined by Section 4, The Securities Act (Article 581-4, Vernon’s Texas Civil Statutes)¹, 15 U.S.C. Section 77b (a) (1) – 1933 Act², or 15 U.S.C. Section 78c (a) (10) – 1934 Act³, which includes:

- any limited partner interest in a limited partnership,¹
- share,¹
- transferable share^{2 3}
- stock,^{1 2 3}
- treasury stock,^{1 2 3}
- stock certificate under a voting trust agreement,¹
- voting trust certificate^{2 3}
- collateral trust certificate,^{1 2 3}
- equipment trust certificate,¹
- preorganization certificate or receipt,¹
- preorganization certificate or subscription^{2 3}
- subscription or reorganization certificate,¹
- certificate of deposit for a security^{2 3}
- note,^{1 2 3}
 - bond,^{1 2 3}
 - debenture,^{1 2 3}
 - security future,^{2 3}
 - any put, call, straddle, option or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof)^{2 3}
 - or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a “security”, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, [guarantee of,]² or warrant or right to subscribe to or purchase, any of the foregoing;² [but shall not include currency or any note, draft, bill of exchange, or banker’s acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace or any renewal thereof the maturity of which is likewise limited]³
- certificate of interest^{2 3} or
 - mortgage certificate¹ or
 - other evidence of indebtedness,^{1 2}
 - any form of commercial paper, certificate in or under a profit sharing or participation agreement,¹
 - participation in any profit-sharing agreement^{2 3}
 - certificate or any instrument representing any interest in or under an oil, gas or mining lease,¹
 - fractional undivided interest in oil, gas, or other mineral rights²
 - participation in any oil, gas or other mineral royalty or lease³
 - fee or title, or any certificate or instrument representing or secured by an interest in any or all of the capital, property, assets, profits or earnings of any company,¹
 - investment contract,^{1 2 3}
 - or any other instrument commonly known as a security, whether similar to those herein referred to or not.

The term applies regardless of whether the "security" or "securities" are evidenced by a written instrument. Provided, however, that this definition shall not apply to any insurance policy, endowment policy, annuity contract, optional annuity contract, or any contract or agreement in relation to and in consequence of any such policy or contract, issued by an insurance company subject to the supervision or control of the Texas Department of Insurance when the form of such policy or contract has been duly filed with the Department as now or hereafter required by law.¹

¹ Section 4, The Securities Act (Article 581-4, Vernon's Texas Civil Statutes)

² 15 U.S.C. Section 77b (a) (1) - 1933 Act

³ 15 U.S.C. Section 78c (a) (10) – 1934 Act

PLACEMENT AGENT AND POLITICAL CONTRIBUTIONS POLICIES AND PROCEDURES

Purpose and Scope

ERS recognizes that Placement Agents work to establish dialogue and facilitate communication between private investment funds and investors. However, ERS requires transparency and accountability of the roles Placement Agents play in sourcing investment opportunities for ERS. To this end, ERS' Placement Agent and Political Contributions Policies and Procedures (these "Policies and Procedures") require (a) the broad, timely, and updated disclosure, by both ERS' consultants and by Funds in which ERS invests, of all Placement Agent relationships and Placement Fees and (b) certain practices by Funds with respect to Placement Fees.

Furthermore, these Policies and Procedures also apply to attempts to influence ERS investment decisions through contact with members of the Board of Trustees or IAC or contact with, or Contributions made for the benefit of, Texas Elected Officials.

The goals of these Policies and Procedures are to help ensure that ERS investment decisions are made exclusively on the merits of the investment opportunity by individuals who owe a fiduciary duty to ERS and to ensure that all investment decisions and recommendations are free from improper influence or the appearance thereof. Any capitalized terms used but not defined herein have the meanings ascribed to such terms in the ERS Investment Policy.

Required Disclosures

Consultants: These Policies and Procedures apply to all third party consultants assisting in the diligence on any Fund in which ERS invests or is considering investing. Prior to performing any substantive business diligence on a Fund to make an investment recommendation to ERS, a consultant must submit to ERS a disclosure statement regarding any business arrangements such consultant has with such Fund or with any Placement Agents used by such Fund, including Placement Fees that are paid or payable, services that are performed, and any other pertinent information about such business arrangements. The disclosure statement shall include, but not be limited to, any arrangement under which a Fund compensates the consultant or under which a Placement Agent compensates the consultant. If any such business arrangement is described in the disclosure statement, the consultant must also provide ERS access to a copy of any written agreement governing such business arrangement or, in the event there is no written agreement, a written summary of the material terms of the business arrangement.

The disclosure statement shall further state whether the consultant has compensated or has any agreement or arrangement to compensate any ERS officer, director, member of the Board of Trustees or IAC, or employee with respect to any investment recommendation made by the consultant, and any such compensation, agreement or arrangement will bar the consultant from performing any services for or on behalf of ERS and from receiving any further compensation from ERS.

The disclosure statement shall also include information regarding any payment of or the incurrence of an obligation to pay by the consultant any Contribution to any Texas Elected Official during the prior two years or the engagement in any Bundling with respect to any Texas Elected Official during the prior two years. The disclosure statement must also contain information regarding any communications relating to any recommendation that ERS invest in the Fund that the consultant had with any Texas Elected Official or any member of the Board of Trustees or IAC during the prior two years.

With respect to the disclosures described above, the disclosure statement shall cover the consultant and the consultant's affiliates and their respective officers, directors, principals, partners, managers, members, shareholders, employees, and consultants, as well as any political action committee controlled by any of the foregoing. Further, the disclosure statement shall include any actions taken indirectly which, if taken directly, would be required to be disclosed under these Policies and Procedures.

Funds: These Policies and Procedures also apply to all Funds in which ERS invests. Any Fund in which ERS is considering investing must submit to ERS a disclosure statement regarding the payment of or the incurrence of an obligation to pay any Placement Fees. If the disclosure statement states that any Placement Fees were paid or are payable, the Fund must also provide ERS access to a copy of any written agreement under which the Fund has agreed to pay such Placement Fees or, in the event there is no written agreement, a written summary of the material terms of the agreement, including at least the name of the person receiving the Placement Fee (including the names of its principals if an entity), the amount of the Placement Fee, the anticipated date of payment of the Placement Fee, and the services to be rendered to receive the Placement Fee. The disclosure statement must further state whether the Fund and/or its Placement Agent is or has been subject to any present or past civil or criminal litigation, administrative proceeding, or, to the Fund's knowledge, inquiry or investigation related to the payment of or the incurrence of an obligation to pay any Placement Fees.

Any Fund in which ERS is considering investing must also submit to ERS a disclosure statement regarding (a) any payment of or the incurrence of an obligation to pay any Contribution by the Fund and/or its Placement Agent to any Texas Elected Official within the two year period prior to ERS' investment in the Fund or (b) the engagement in any Bundling with respect to any Texas Elected Official within the two year period prior to ERS' investment in the Fund. Such disclosure statement must also contain information regarding any communications regarding ERS' potential investment in the Fund that the Fund and/or its Placement Agent had with any Texas Elected Official or any member of the Board of Trustees or IAC during the two year period prior to ERS' investment in the Fund. The disclosure statement must further state whether the Fund and/or its Placement Agent is or has been subject to any present or past civil or criminal litigation, administrative proceeding, or, to the Fund's knowledge, inquiry or investigation related to the payment of or the incurrence of an obligation to pay any Contribution to, or any Bundling with respect to, any Texas Elected Official or any public pension official in any other state.

Staff will provide each Fund in which ERS may invest a copy of these Policies and Procedures at the commencement of due diligence. A Fund must make the disclosures described above to ERS promptly thereafter. The disclosures must be made again, with any relevant updates since the time of the initial disclosures, contemporaneously with ERS' investment in such Fund. Further, all disclosure statements must include any actions taken indirectly which, if taken directly, would be required to be disclosed under these Policies and Procedures. ERS hereby notifies Funds and Placement Agents that ERS is subject to the Texas Public Information Act, and they should be aware that information provided to ERS under these Policies and Procedures may not be confidential.

Placement Agent Registration, Compliance with Laws, and Relationships

Placement Agents used by Funds must register with the SEC or the Financial Industry Regulatory Authority in accordance with applicable law, and a copy of such registration must be delivered to ERS along with the disclosures described above. A Placement Agent that is not so registered may not receive a Placement Fee in connection with an investment in a Fund by ERS. If a Placement Agent is registered as a lobbyist with any state or federal governmental agency, such registration must be disclosed as well, and such Placement Agent must certify that it is in compliance with all applicable state and federal laws regulating lobbyists.

Funds and Placement Agents must certify that they are in compliance with all applicable laws and regulations, including, but not limited to, the Investment Advisers Act of 1940 and any rules or regulations promulgated thereunder,¹ as such may be amended from time to time.

A Fund must further disclose whether any person or entity included in the definition of Placement Agent herein is a current or former member of the Board of Trustees or IAC; employee of ERS; officer, director, principal, partner, manager, member, shareholder, employee, consultant, or affiliate of an ERS consultant; or member of the immediate family of any such natural person.

¹ Such rules or regulations to include, but not be limited to, 17 C.F.R. 275.206(4)-5, 17 C.F.R. 275.204-2, and 17 C.F.R. 275.206(4)-3, as such may be amended from time to time.

Placement Fee and Contribution Practices by Funds

Unless such amounts are completely offset by reductions to management fees or other fees payable by ERS to a Fund, neither ERS nor any ERS investment in a Fund may be burdened with or liable for any Placement Fee or any expenses or other amounts paid, payable, reimbursed, or reimbursable to a Placement Agent (including with respect to indemnification of a Placement Agent for any reason).

No ERS investment may be made in a Fund if it is determined by ERS that:

- a) any contacts with any Texas Elected Official or member of the Board of Trustees or IAC,
- b) any Contributions to any Texas Elected Official, either directly or through Bundling, or
- c) any payments to or relationships with an ERS consultant assisting ERS with the investment in such Fund have created an unacceptable risk to, or the appearance of impropriety with respect to, the integrity or reputation of ERS or its investment program or have been made in violation of these Policies and Procedures or applicable laws or regulations.

Violations

All Funds in which ERS invests shall agree in writing upon ERS' admittance to such Fund that, should any of the disclosures made by the Fund be found to be materially false or misleading or should any aspect of these Policies and Procedures be materially violated by the Fund or its Placement Agent (any such occurrence, as determined by ERS, being a "Violation"), ERS shall have the option to exercise any or all of the following remedies, which shall be cumulative rather than exclusive and which shall be in addition to any other remedies available pursuant to applicable law:

- a) ERS shall have the right to withdraw without penalty from the Fund;
- b) ERS shall have the right to cease making any further capital contributions to the Fund (including for management fees, expenses, investments, and recalls of previously distributed amounts) without penalty; and/or
- c) ERS shall have the right to require the Fund to repay to ERS the aggregate amount of management fees paid by ERS to the Fund for the two-year period preceding either the Violation or the discovery by ERS of the Violation, whichever is greater, along with any carried interest payable to the Fund for investments made during the two-year period.

In addition to ERS' remedies set forth above, any Fund or Placement Agent that ERS determines has committed a Violation shall not solicit new investments from ERS for a period of five years after such Violation is discovered by ERS.

If at any time after initial disclosures are made pursuant hereto, any consultant, Fund, or other party subject to these Policies and Procedures discovers or reasonably should have discovered that there has been a Violation, such party shall immediately deliver written notice of such Violation to ERS. For purposes of this paragraph, "Violation" shall refer to a materially false or misleading disclosure or a material violation of these Policies and procedures by any consultant, Fund, Placement Agent, or other party subject to these Policies and Procedures.

Policy Interpretation

It is intended that these Policies and Procedures be construed and administered so that they comply with all applicable federal and state laws and regulations, as such may be amended from time to time. ERS' Executive Director is authorized to approve from time to time variances from the disclosures and procedures set forth above in furtherance of such compliance or as he/she deems to be in the best interest of ERS, consistent with both ERS' fiduciary responsibilities and the purpose and scope of these Policies and Procedures.

All parties responsible for complying with and making disclosures pursuant to these Policies and Procedures should consider the spirit as well as the literal text hereof. In cases where uncertainty exists as to whether a particular disclosure should be made to ERS, these Policies and Procedures should be interpreted to require disclosure.

Definitions

Bundling means to coordinate Contributions from one or more persons, entities, or political action committees or to solicit any person, entity, or political action committee to make any Contribution.

Contribution means any payment, gift, subscription, loan, advance, or deposit of money or anything of value made for the purpose of influencing any election for any federal, state, or local office; paying a debt incurred in connection with any such election; or paying the transition or inaugural expenses of a successful candidate for office. The size of a Contribution shall not be taken into account when determining whether a disclosure of a Contribution must be made, and the entitlement of the contributor to vote for a Texas Elected Official likewise shall not be taken into account. Any Contribution that has been returned by a Texas Elected Official shall be included in disclosure statements as well.

Fund means a private equity fund, a private real estate fund, private infrastructure fund, private credit fund, a separate account, a hedge fund, or any other type of private investment vehicle and, with respect to the disclosures to be made pursuant hereto, also refers to any such Fund's general partner, sponsor, manager, and affiliates, and the respective officers, directors, members, principals, partners (other than unaffiliated limited partners who are investors only), employees who perform policy-making functions or who solicit ERS for business, and managers of each, as well as any political action committee controlled by any of the foregoing. Any time periods set forth herein applicable to any person or entity described in this definition of "Fund" shall fully apply to such person or entity, even if such person or entity was not associated with the private investment vehicle for the entire time period.

Placement Agent means any placement agent, finder, or other party, whether or not affiliated with a Fund, that receives a Placement Fee or that is a party to an agreement or arrangement, written or oral, to receive a Placement Fee. The term Placement Agent also includes affiliates of the Placement Agent and the officers, directors, principals, partners, managers, members, and shareholders of both the Placement Agent and such affiliates. The term Placement Agent also includes any employees of any such entities who solicit ERS for investment in a Fund. Any party that shares in any amount of a Placement Fee or that has an agreement or arrangement, written or oral, to share in any amount of a Placement Fee, and such party's officers, directors, principals, partners, managers, members, and shareholders, is also included in the term Placement Agent. Any person or group of people who become employees of a Fund or an affiliate of a Fund for a temporary period during such Fund's fund-raising period and who would be a Placement Agent under these Policies and Procedures if not so hired are included in the term Placement Agent as well.

Placement Fees means placement fees, finder's fees, brokerage fees, retainer fees, success fees, commissions, incentive compensation, or any other compensation or consideration, or any obligation or liability, contingent or otherwise, for any such compensation or consideration.

Texas Elected Official means:

- a) any elected official of the State of Texas, including, but not limited to, the Governor, the Lieutenant Governor, the Comptroller of Public Accounts, the Attorney General, any member of the Texas Supreme Court, or any member of the Texas Legislature (or any candidate for any such office),
- b) any election committee, campaign fund or political action committee for any person described in subsection (a) that funds or is eligible to fund such person's candidacy for any political office (federal, state, or local), or any political party, to the extent any contributions thereto are earmarked for such person's candidacy for any political office (federal, state, or local),
- c) any spouse, ex-spouse, parent, child (including by adoption or in a step-relationship), sibling, niece, nephew, aunt, or uncle of any person described in subsection (a), or
- d) any person employed under any Texas state political office named in subsection (a).

INSIDER TRADING AND CONFIDENTIALITY POLICY

Applicability

All Covered Persons and other persons designated as having access to any ERS Information or any other Material, Non-public information are subject to this Insider Trading and Confidentiality Policy.

Definitions

"ERS Information" means any Material, Non-public information regarding specific ERS investment transactions or proposals and related activity; potential ERS contracts with outside consultants, advisors, contractors, or vendors; or any other Material, Non-public information arising out of a person's work for ERS.

"Material." with respect to any information, means any information that a reasonable investor would consider important in making a decision to buy, hold, or sell securities. For purposes of this policy, any information that could be expected to affect the price of a security, whether it is positive or negative, should be considered Material.

"Non-public." with respect to any information, means information that is not widely available to the public. In the event that there is any question about whether or not information is considered Non-public, such question should immediately be brought to the attention of the General Counsel and Investment Compliance Officer. The General Counsel in consultation with the Investment Compliance Officer, upon review of applicable facts, laws, regulations, and/or after consultation with outside counsel or other appropriate persons, shall make the determination of whether the information is Non-public for purposes of this policy.

"Covered Persons" with regard to the Insider Trading Policy means all members of the ERS Board of Trustees, IAC members, ERS Investment-Related Staff (and any other non-investment staff who have access to non-public ERS Information), the Executive Director, and the Deputy Executive Director.

Insider Trading and Confidentiality Policy

Any information that is Non-public and whose premature disclosure could affect ERS, an actual or potential business opportunity or relationship of ERS, or a company the securities of which ERS owns or is considering buying shall be confidential. Covered Persons should assume that all Non-public information gained as a result of association with ERS is confidential. Covered Persons must safeguard this Non-public information whether generated internally or acquired from outside sources and must use it only for ERS-related matters. In order to control access to this Non-public information, business-related communications between ERS Investment-Related Staff and other employees in different divisions of ERS should be kept to a minimum. ERS employees should generally be highly sensitive to the potential for disclosure of any Non-public information when discussing ERS matters with persons outside of their own divisions.

Each Covered Person having access to any ERS Information or any other Material, Non-public information:

- 1) shall consider the information to be proprietary to ERS and confidential in nature and must safeguard that information as such person would any other property of ERS;
- 2) must be aware that:
 - a) any purchase or sale
 - i) by ERS of securities as a result of such person's actions while he/she is aware of Material, Non-public information relating to those securities or
 - ii) by such person of securities while aware of Material, Non-public information relating to those securities, and
 - b) any disclosure of that information to others ("tippees") who may then trade in those securities is prohibited by the federal securities laws as "insider trading" and punished severely by both civil (money) and criminal penalties, including:

- i.) for Covered Persons (or their “tippees”) who trade or cause ERS to trade on Material, Non-public information, a civil penalty of up to three times the profit gained or loss avoided, a criminal fine of up to \$1,000,000 (no matter how small the profit), and a jail term of up to ten years; and
- ii.) for ERS and its supervisory personnel, if applicable, if any such person fails to take appropriate steps to prevent insider trading, a civil penalty of up to \$1,000,000 or, if greater, three times the profit gained or loss avoided as a result of the Covered Person’s violation; and a criminal penalty of up to \$2,500,000.

A Covered Person who tips information to a person (“tippee”) who then trades is subject to the same penalties as the tippee, even if the Covered Person did not trade and did not profit from the tippee’s trading.

No Covered Person having access to ERS Information or any other Material, Non-public information related to particular securities may, directly or through family members or other persons or entities:

- a) use that information in making decisions related to buying or selling securities, or engaging in other actions, on behalf of ERS,
- b) buy or sell those securities or engage in any other action to take personal advantage of that information, or
- c) pass that information on to others outside ERS, including family and friends, in each case until the information is no longer Non-public or is no longer Material.

The use of Non-public information is also restricted by Texas Penal Code § 39.06 in the following ways:

- 3) A person commits an offense if such person, in reliance on Non-public information to which he/she has access by virtue of his/her state office or state employment:
 - a) acquires or aids another to acquire a pecuniary interest in any property, transaction, or enterprise that may be affected by the information;
 - b) speculates or aids another to speculate on the basis of the information; or
 - c) as a public servant, coerces another into suppressing or failing to report that information to a law enforcement agency.
- 4) A person commits an offense if, with intent to obtain a benefit or with intent to harm or defraud another, he/she discloses or uses Non-public information for a nongovernmental purpose that he/she has access to by means of such person’s state office or state employment.
- 5) An offense described in Texas Penal Code § 39.06 is a felony of the third degree, provided that a public servant coercing another into suppressing or failing to report information to a law enforcement agency is a Class C misdemeanor.

Compliance and Enforcement

The General Counsel and Investment Compliance Officer are responsible for enforcement of this policy, including oversight of training for Covered Persons and periodic review of this policy to determine its effectiveness and the adequacy of its implementation. In the event the General Counsel or Investment Compliance Officer has any conflict or appearance thereof in enforcing or administering any aspect of this policy, the Internal Auditor shall perform any act that they are required to perform.

At the time of hiring or other association with ERS, each Covered Person shall be provided with a copy of this policy, and each such Covered Person shall sign a certification that he/she has received and read the policy and has agreed that he/she is responsible for compliance. Thereafter, on a yearly basis, each Covered Person will be required to re-certify that he/she has read and will comply with this policy. In addition, the Investment Compliance Officer shall conduct or arrange for training sessions to discuss compliance with this policy no less than once per year.

ERS' Internal Audit division shall also maintain the following records:

- 6) updated and historical archival copies of this policy as amended and supplemented from time to time;
- signed acknowledgements of receipt of this policy by all Covered Persons;
- records of any violations of this policy by Covered Persons and the corrective action taken in response;
- complaint files containing complaints from employees or others having dealings with ERS Covered Persons related to this policy and
- any other records in connection with the maintenance or enforcement of this policy as may be deemed necessary by the Investment Compliance Officer.

The Investment Compliance Officer shall be responsible for ensuring that ERS and its Covered Persons are informed of their requirement to comply with this policy.

Any Covered Person or other ERS employee who has information that he/she believes tends to indicate a violation of this policy shall promptly bring this information to the direct attention of the General Counsel and Investment Compliance Officer, who may decide to enlist the aid of outside counsel or other appropriate person to further evaluate the circumstances and decide on any further action.

If, upon investigation, the General Counsel and/or Investment Compliance Officer determines that a Covered Person has violated any provision of this policy, the full range of disciplinary options under ERS' Personnel Policy and Procedure Manual may be used against such Covered Person, up to and including termination. The General Counsel may also refer the violation to the relevant state or federal enforcement authorities for civil or criminal prosecution.

Anyone scrutinizing a transaction for compliance with this policy and the securities laws will be undertaking such review after the fact, with the benefit of hindsight. As a practical matter, before engaging in any transaction, a Covered Person should carefully consider how the General Counsel or Investment Compliance Officer (or Internal Auditor, when applicable) and state and federal enforcement authorities and others might view the transaction in hindsight.

**Employees Retirement System of Texas
Asset Class Investment Committee Charter**
Approved as of 8/23/2017

Purpose: The purpose of the Internal Investment Committees (each, an Asset Class Investment Committee, also to be referred to as ACIC) is to act on behalf of the ERS Board of Trustees (Board), in accordance with the Investment Policy Statement (Policy) as part of an authorized delegation to Staff to review and approve investments proposed by each asset classes managed by the ERS Investment Division (Division). These asset classes include Private Equity, Private Real Estate, Global Credit, Private Infrastructure, Hedge Funds, Public Equity and Opportunistic Credit. Each of these asset classes will adopt a charter in this form as presented in this document as part of the respective asset class Standard Operating Procedures (SOPs). The provisions of this charter shall conform to the ERS *Investment Policy* and any policy approved by the Board.

Responsibilities: Each ACIC reviews proposed alternative investments and/or external advisors and votes to:

1. Approve as submitted;
2. Approve with contingencies with such approval taking effect once the ERS Chief Investment Officer (CIO) warrants in writing that all such contingencies are met; 3. Table or allow for resolution of specified issues; or
4. Reject.

The ACIC not consider any proposed investment that has not gone through the ERS investment and operational due diligence process.

Meetings: The ACIC will meet as needed when a proposed investment is ready for consideration. Committee members will get five business day notice of the meeting when possible.

Meeting Materials: Committee members will receive meeting materials at least 72 hours in advance of the meeting in most instances unless the timing of the deal does not permit. Meeting materials include a due diligence memorandum from Staff and from the appropriate investment consultant.

Minutes: Each meeting of an ACIC will have minutes documented of the members present and any actions taken.

Composition:

Voting Members: There will be at least four voting members. Permanent members of the ACIC include the Executive Director (ED) the CIO and a member of the Investment Advisory Committee (IAC) with expertise in the asset class to be considered as a standing member of that ACIC. In the event the appointed IAC member is not available for a particular ACIC meeting, the CIO will appoint another IAC member for that particular Committee meeting.

The CIO, in consultation with the ED shall appoint a fourth member. The fourth member shall be either the Deputy CIO or a member of the senior investment Staff from a different asset class than the asset class under review.

Consultant: A consultant for the asset class investment being reviewed will attend in person or via telephone or video conference, unless circumstances of the transaction do not require a consultant. In

the absence of a consultant, the CIO will provide justification to the ED as to the absence of the consultant.

Non-Voting Members: There will be at least three non-voting members with one Staff member from each of the Office of General Counsel, Internal Audit and Investment Compliance. Attendance by these nonvoting members is not compulsory; however, Investment Compliance must certify prior to the vote that the pending investment is in compliance with the Policy.

Quorum/Voting: At least a majority of the voting members, with the ED required, of the ACIC must be in attendance for a quorum. Members may attend via teleconference or video conference.

Approval: At least a majority of the voting members must approve the investment. An investment approval must include the approval of the ED.

Limitations: The ACIC shall not approve an investment that exceeds limits set by the Board in the Policy. Any investment exceeding policy limits will be presented by Staff to the Board at a regularly scheduled Board meeting or a meeting called for the express purpose of reviewing and approving said investment.

Amendment: The Board will review and approve this charter on at least an annual basis.



CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® [CFA®] designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including 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.
- Place 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 themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- 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.
- 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 client's 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 make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.
- D. Performance Presentation.** When communicating investment performance information, Members and 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, or
 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 ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

- 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 they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
 2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
 3. 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.
 4. 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 analyses, 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 Participants In CFA Institute Programs.** 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 Institute programs.
- 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.