



EMPLOYEES RETIREMENT SYSTEM OF TEXAS
INVESTMENT POLICY STATEMENT

Adopted August 23, 2023

Effective September 1, 2023

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Chapter I: Legal Authority and Fiduciary Responsibilities

A. Introduction

The Employees Retirement System of Texas (“ERS” or “the System”) was created by an amendment to the Texas Constitution in 1946 and is administered in accordance with the Constitution, as well as applicable laws and administrative rules. ERS provides retirement, disability, and survivorship benefits for state employees, law enforcement and custodial officers, elected state officials, and two classes of judges. The System administers trust funds, with a fiduciary obligation to the members and retirees of the System who are its beneficiaries.

The overall objective of the Investment program of ERS is to invest prudently in securities at a reasonable and predictable cost to deliver performance that supports the current and future provision of earned benefits for members, retirees, and beneficiaries (Beneficiaries) of the trust funds managed by the System.

This Investment Policy Statement (Policy) applies to the funds of the retirement plans administered by ERS and described in this section, which shall collectively be known as the “Trust.” As the purpose of this Policy is to provide guidance to fiduciaries responsible for investment decisions, this Policy:

- I. Defines legal authority and fiduciary responsibility;
- II. Defines the Trust’s investment philosophy and objectives;
- III. Describes the governance structure;
- IV. Discusses the Trust’s asset allocation parameters, as well as liquidity and rebalancing policies;
- V. Describes implementation, including permissible investments and risk management;
- VI. Describes the processes for monitoring and reporting; 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 Policy 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 amend this Policy at its discretion.

B. Legal Authority and Obligations

ERS is a constitutional trust fund established by the Texas Constitution and described in Article XVI, § 67, thereof. ERS is further organized pursuant to Title 8, Subtitle B, Texas Government Code, as well as Title 34, Part 4, Texas Administrative Code. Under Texas Government Code § 815.101, the Board is responsible for the general administration and operation of the Trust. The Board may establish committees as necessary to assist in performing its duties in accordance with Texas Government Code § 815.509.

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

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

The assets of ERS are held in trust for the exclusive benefit of the Beneficiaries and may not be diverted, as provided by Article XVI, § 67, of the Texas Constitution. This “exclusive benefit” rule must be followed when making all investment decisions. Moreover, Trust assets shall be invested and reinvested without distinction as to their source in accordance with Article XVI, § 67.

Investments shall be made in “securities,” as defined in Texas Government Code § 815.301(f), and evaluated using a prudent person standard as provided by Article XVI, § 67. Every investment is subject to thorough due diligence. Pursuant to Texas Government Code § 815.3016, Board approval is necessary for all alternative investments over 0.6% of the total market value of the Trust’s assets as reported in the most recent ERS Annual Comprehensive Financial Report, an amount that is known as the “Board Approval Threshold” for the purposes of this Policy.

The Texas Uniform Prudent Investor Act (UPIA), which is set forth in Texas Property Code Chapter 117, establishes fiduciary standards for the management of investment trusts broadly. In addition, Texas Government Code § 815.307 applies to ERS specifically. These statutes require a trustee to:

- Evaluate investment and management decisions at the trust level and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
- Diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying.
- Exercise its duty of care by considering all investments of the trust as a whole and not by considering the prudence of a single investment in isolation.

Were the Trustees to reasonably determine that, because of special circumstances, the purposes of the Trust would be better served by not maintaining a diversified portfolio, the total portfolio standard of care currently applicable to the Board’s administration of the Trust would no longer apply. In that the Board of Trustees has determined that no such circumstances currently exist with respect to the Trust, and since the Trust is required to balance long-term growth with the need to make significant distributions consistently, a diversified portfolio shall be maintained.

As described above, the UPIA and Texas Government Code § 815.307 provide that the determination of whether prudence has been exercised with respect to an ERS investment decision shall be made taking into consideration the investment of all assets of the Trust or all assets of the collective investment vehicle, as applicable, over which the Board has management and control, rather than considering the prudence of a single investment of the Trust. This statutory “whole portfolio” approach, in addition to the exclusive benefit rule, shall be the basis upon which ERS investment decisions are made prospectively.

Consistent with the foregoing requirements, the Board shall establish investment policies, objectives, and strategies for obtaining the optimal return on Trust portfolios in keeping with the assumption of prudent levels of risk.

C. Fiduciary Responsibility

The Board and its officers and employees shall:

- Manage Trust assets prudently for the exclusive benefit of the Beneficiaries;
- Define investment objectives and strategies;
- Adopt a long-term asset allocation;
- Seek to maximize investment returns while minimizing the risk of loss;
- Provide for short-term liquidity needs while investing for the long term;
- Diversify the Trust’s investments to reduce risk of loss;
- Diligently monitor investment performance;
- Efficiently manage the costs associated with investment of the Trust’s capital; and
- Adhere to the ethical standards set forth in Chapter VII of this Policy.

Investment decisions with respect to individual assets shall be evaluated not in isolation but in the context of the Trust as a whole and as a part of an overall investment strategy that has risk and return objectives

reasonably suited to the Trust. System assets shall not be used to take any action with a purpose of furthering social, political, or ideological interests.

D. Delegation

Under Texas Government Code § 815.202, the Board is responsible for the general administration and operation of the Trust. Subject to the limitations on approval of certain alternative investments contained in Texas Government Code § 815.3016, the Board may specifically delegate any right, power, or duty imposed or conferred on the Executive Director by law to another ERS employee. If not so specifically delegated and subject to the limitations on approval of certain alternative investments contained in Texas Government Code § 815.3016, the Executive Director may delegate to another ERS employee any right, power, or duty assigned to the Executive Director.

E. Review of Policy

This Policy may be modified, in whole or in part, by the Board at any time. The Board, with the aid of Staff, the IAC, and the General Investment Consultant, shall formally review this Policy at least annually to ensure that it continues to reflect the Board's objectives. Staff shall inform the Board of any suggested revisions to this Policy that are believed to be prudent, and the Board may vote to amend this Policy accordingly.

F. Interpretation of Policy

This Policy shall be construed and administered to comply with all applicable federal and state laws and regulations. The Executive Director is authorized to approve variances from this Policy as deemed to be in the best interest of the System and consistent with its fiduciary duties, the purpose and scope of this Policy, and applicable law. The Executive Director shall report any variance to the Board at the next quarterly meeting.

Chapter II: Philosophy and Objectives

A. Investment Philosophy

The investment beliefs of the Board are based on the mission of the System to offer competitive benefits that enhance the lives of Beneficiaries by contributing to their financial security and overall well-being. These statements represent the core values and principles that form the basis of the investment program.

- **The Board takes a long-term perspective.** Since ERS is an institutional investor with significant liability duration, such an approach is consistent with the duration of the financial obligations of the retirement plans. Even so, the Trust will experience significant net outflows for the foreseeable future such that maintaining adequate levels of liquidity to meet its near-term payment obligations shall also be a significant consideration.
- **The most important decision the Board makes is setting the parameters of the long-term asset allocation.** Asset/liability studies should regularly assess the trajectory of the Trust's liabilities, its risk tolerance and liquidity profile, and the probability of achieving its long-term return goals. However, the cyclical nature of the economy means asset classes and investment strategies may be more or less attractive relative to each other in given economic environments.
- **Staff is tasked with implementation through prudent and sound strategic decisions.** Staff has defined flexibility within Board-approved asset allocation parameters to preserve Trust assets and capitalize on market cyclicity within prudent risk constraints. Periods of significant negative asset returns reduce the likelihood of achieving the long-term funding objectives of the Trust. As such, short-term drawdown risk shall be attentively managed when developing the long-term asset allocation and when shifting or rebalancing the portfolio.
- **The Board supports a culture that builds upon the input, skills, and talents of Staff.** The success of the investment program benefits by leveraging the competitive advantages of the investment program, including the use of internal management for an appropriate portion of Trust assets. Short-term performance differences between asset classes, strategies, and managers will occur, and Staff should focus on achieving consistently positive long-term performance on long-term investment horizons while taking on appropriate levels of risk.
- **It is the allocation of risk that drives portfolio returns.** While returns receive a great deal of focus, they are in fact the result of this process for which risk-allocation decisions are the primary input. Understanding and balancing risks across asset classes as an integral part of the portfolio-construction process improves the consistency of returns for a given level of risk. Investment risk cannot be avoided, and it is in fact necessary to assume an appropriate level of risk to achieve a desired level of return.
- **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 and maintain a portfolio that is positioned for various economic conditions, including preserving Trust assets during deflationary downturns for equities and inflationary environments for bonds.
- **Costs matter and need to be managed actively and prudently.** Investment decisions shall carefully consider the potential to earn incremental returns that exceed the associated costs to maximize investment returns. The interests of the System are best served when alignment of interests and financial transparency exist in contractual relationships with investment managers.

B. Performance Objectives

The strategic objective of the Investment program is to deliver performance that supports the current and future provision of earned benefits for Beneficiaries. That is, the Investment program aims to provide for long-term obligations of the retirement plans while also fulfilling their short-term payment obligations. The first goal is achieved by delivering long-term investment returns that are consistent with the Assumed Rate of Return (ARR), while the second goal is achieved by maintaining sufficient liquidity to ensure that benefit payments are made regularly.

Within this context, the implementation objective for the Investment program as a whole is to obtain overall investment returns over rolling five-year periods in excess of the adopted benchmark. Such returns are expected to exceed benchmark returns net of expenses and to be commensurate with the amount of risk assumed. Value added by the investment program should be evaluated within a two-step process framework:

- **Strategy:** the Strategic Asset Allocation (SAA) process aims to select a set of parameters that will allow for superior long-term performance relative to a passive mix of publicly traded stocks and bonds. The expected and realized risk of such a passive mix can also serve as a useful proxy for the level of market risk implicit in the asset mix. As described in detail in Chapter IV, this process is overseen by the Board with collaborative input from the Investment Advisory Committee, Staff, Consultants, and other advisors as deemed appropriate by the Board.
- **Implementation:** the implementation process aims to select a portfolio of investments that will allow for superior long-term performance relative to a passive implementation of the SAA parameters. Such decisions will include allocation tilts (i.e., positioning the Trust within Board-approved ranges) and security selection (i.e., the identification of investments with superior risk/return characteristics). This process is overseen primarily by Staff within the context of this Policy.

The implementation objective within 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, with such performance typically measured using time weighted returns (TWR). Active returns relative to the adopted benchmark returns are expected to exceed the cost of management and be proportionate to the amount of active risk assumed. The expected excess returns for public market investments are a function of the active return expected per unit of active risk, as established in the Active Risk Budget that is detailed further in Chapter V. Private market investments are evaluated over rolling 10-year periods or other specified periods using realized internal rates of return (IRR) and gross realized multiples.

Chapter III: Governance

A. Roles and Responsibilities

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. Separate investment objectives, investment guidelines, investment strategy, and accounting are used for GBP assets. Pursuant to Texas Government Code § 815.3016, Board approval is required for alternative investments that exceed the Board Approval Threshold as defined in this Policy. The Board exercises its fiduciary responsibility to invest Trust assets by delegating authority to Staff to implement investment strategy according to this Policy while maintaining oversight of the investment of Trust assets.

Executive Director

As provided in Chapter 1, Section D, of this Policy and in accordance with Texas Government Code § 815.301(b), the Board has delegated to the Executive Director (ED) full authority and responsibility to invest and reinvest any of the Trust's assets, subject to Board policies, rules, regulations, and directives and consistent with constitutional and statutory limitations. The Executive Director shall employ professional investment staff, including a Chief Investment Officer (CIO), to provide expert advice and assistance for the purpose of prudently and efficiently executing the responsibilities set forth in this policy. For purposes of this Policy, references to the responsibilities of "Staff" in this Policy should be generally construed to mean that such responsibilities are further delegated to Investment Staff, or other relevant ERS staff as provided by the ED, subject to the procedures and controls established by the ED, as well as Board policies, rules, regulations, and directives and consistent with constitutional and statutory limitations.

Investment Advisory Committee

The IAC is established at the discretion of the Board pursuant to Texas Government Code § 815.509 and 34 Texas Administrative Code § 63.17(b). The role of the IAC and the requirements for membership are further described in Texas Government Code § 815.5091. IAC members serve at the pleasure of the Board and the functioning of the IAC is detailed in Appendix VI. The Board shall at least annually review the eligibility status of IAC members pursuant to Texas Government Code § 815.5093. It is grounds for removal from the IAC if a 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.

Asset Class Investment Committees

Each asset class shall have an Asset Class Investment Committee (ACIC), as detailed in Addendum VII, to review prospective investments within the respective asset class to ensure that they meet the investment objectives, requirements and guidelines outlined in this Policy. Each ACIC shall review investment recommendations prepared by Staff and, if applicable, the asset class consultant. ACICs shall approve or reject recommendations for investment amounts equal to or less than the Board Approval Threshold. Investment amounts above the Board Approval Threshold shall be presented to the Board for consideration, and the ACIC shall review the proposal and provide its recommendation, if any, to the Board.

Chief Investment Officer and Investment Staff

The Chief Investment Officer (CIO) reports to the Executive Director and directs the investment program consistent with this Policy, and within applicable state and federal laws. The CIO has supervisory and oversight authority over all investment staff in the implementation of this Policy. The CIO is accountable for the investment process in pursuit of strong performance, cost effectiveness, appropriate diversification,

and risk management for the overall portfolio. The CIO also advises and informs the Executive Director on investment matters and keeps the Executive Director apprised of situations that merit attention.

At the Trust level, Staff responsibilities include review and monitoring of external investment consultants and their recommendations, as well as maintenance of the ERS Proxy Voting Guidelines. Additional responsibilities will include the development, recommendation, and implementation of this Policy, as well as asset allocation, portfolio construction, advisor/consultant selection, and oversight of the custodian, General Investment Consultant, and other advisors/consultants with whom ERS contracts.

Within internal management, these responsibilities include portfolio management, investment analysis and research, monitoring of external advisors and their recommendations, trade execution, and voting of proxies. Within the context of externally advised mandates, these responsibilities include portfolio construction, performance measurement, and manager selection. Within private markets, these responsibilities include sourcing and underwriting opportunities in funds, co-investments, and secondaries; preparing investment memoranda; actively monitoring and managing existing portfolios; developing capital plans; and performing operational due diligence.

Investment Compliance

The Executive Director shall create an Investment Compliance function with responsibility for the overall monitoring, testing, and reporting related to compliance with this Policy and each of the asset class capital plans, which are annual reports submitted by each asset class detailing guidance for investment implementation over the medium term. Investment Compliance shall notify the Executive Director, the CIO, the General Counsel, and any other relevant staff of any suspected or actual violations of the Policy. All actual violations of the Policy shall also be reported to the Board. On a periodic basis not less than annually, Investment Compliance shall present to the Board the results of compliance activities performed during the review period and any material compliance issue(s). Investment Compliance also shall develop and maintain internal policies and procedures related to the ERS compliance program.

Investment Consultants

ERS may periodically retain professional investment consultants to assist and advise the Board and Staff in connection with the investment of Trust assets.

The General Investment Consultant selected by the Board provides independent review, analysis, and recommendations to the Board regarding the management of the Trust overall. 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 General Investment Consultant also aids the Board in performing its oversight function and adhering to the guidelines of this Policy, and makes recommendations regarding the prudence of proposed revisions, including the use of appropriate performance benchmarks. The General Investment Consultant also makes recommendations regarding the development and revision of policies to ensure overall consistency, use of best practices, a system-wide approach, and proper implementation of ERS policies.

Consultants also may be retained to provide industry expertise within specific asset classes. They may provide investment recommendations and conduct diligence on specific investments, including recommendations to the ACIC on proposed capital commitments and review of implementation benchmarks proposed by staff to the Executive Director.

At least annually, any such asset class consultants within private markets shall provide to the Board:

- An annual review of the program and any major sub-programs, including an opinion letter on performance, risk, fund selection and monitoring processes, internal controls, and staffing;
- Opinion letters on proposed capital plans and the appropriateness of asset class benchmarks;

- Regular reports on the outlook for asset class returns, valuation trends, market conditions, and macro level view of market opportunities; and
- Regular reports regarding investment performance, including relative returns, peer benchmarking, performance attribution analysis, portfolio risk, and policy compliance.

Consultants engaged by ERS must consider only those factors that relate to economic value and financial benefits to the Trust in carrying out their duties to ERS. The fiduciary interests of the Trust shall not be subordinated to unrelated objectives by any consultant in connection with their service to ERS.

Retirement Actuary

The Board selects and retains a pension actuary for the purpose of forecasting asset and liability growth and assessing the many complex factors included in estimating future pension costs. These factors include interest rates, inflation, salary growth, mortality rates, employee turnover, and other relevant factors. The actuary also assists the Board in setting the assumed rate of return (ARR), which is informed by the asset allocation parameters of the Trust and the outlook for the capital markets. These actuarial assumptions are reviewed during the actuarial experience study and used as inputs for asset/liability studies.

Custodian

The Board selects the Trust's custodian subject to the statutory procurement process and with a recommendation from Staff. The custodian's primary function is to hold in custody all investments of the System, other than certain interests in limited partnerships, limited liability companies, and other illiquid investments that may be held directly by ERS and are typically only accounted for by the custodian. The custodian also calculates investment performance and benchmark comparisons.

Investment Managers

Staff is responsible for managing the Trust in the best interest of the Beneficiaries by making prudent investment decisions, adopting investment strategies, and reporting investment results to the Board. Staff may both internally manage assets and elect to use external management when appropriate. When the term "Investment Managers" is used in this Policy, it is intended to include both internal and external managers unless otherwise specified.

Investments shall be made and managed by one or more Investment Managers who meet the requirements described in Texas Government Code §§ 802.203 and 802.204. Managers shall construct and manage one or more portfolios of investments consistent with the investment philosophy and strategy they are hired to implement in compliance with this Policy and any agreement(s) they execute with the System. The Investment Implementation Policy (IIP) establishes specific processes and procedures with respect to manager selection, monitoring, and retention.

In public asset classes, external management may be carried out by external advisors where oversight of the trade approval process is retained by Staff. External advisors are selected, in accordance with applicable laws, by the appropriate ACIC for inclusion in a Select Pool. From within a Select Pool, Staff shall recommend external advisors for funding or de-funding, and the CIO, in consultation with the Executive Director, shall determine whether to approve Staff's recommendations. Staff shall make recommendations to the Executive Director regarding the assignment of benchmarks for external advisors, a process that shall include input from the General Investment Consultant.

Private asset classes may 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 in order to achieve pertinent objectives.

Investment Managers 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 are

responsible for adhering to the contractual terms of their agreements with ERS, as well as all relevant provisions of this Policy and all applicable laws. Staff shall monitor all Investment Managers for compliance.

Emerging Managers

In selecting managers, advisors, consultants, and other private financial service providers, the Board shall make a good faith effort to evaluate qualified emerging fund managers as potential contractors and service providers 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.

In establishing an emerging manager program, Staff shall seek to find smaller investment managers that can benefit the Trust by enhancing risk-adjusted returns, net of expenses. The Board expects that over the long term, inclusion of emerging managers as part of external investment management will enhance the Trust’s expected investment performance by serving to complement the Trust’s internal investment management. Such relationships shall exhibit strong alignment of interest with investors and seek to provide ERS with long-term access to the next generation of talent. The ERS emerging manager program is to be integrated within each asset class.

Staff shall report to the Board annually on the methods and results of efforts to hire emerging fund managers in accordance with Texas Government Code § 805.301(i), including data disaggregated by race, ethnicity, gender, and fund size, and the extent to which the emerging manager program has fulfilled the expected benefits described above.

CHART 1 – ROLES AND RESPONSIBILITIES

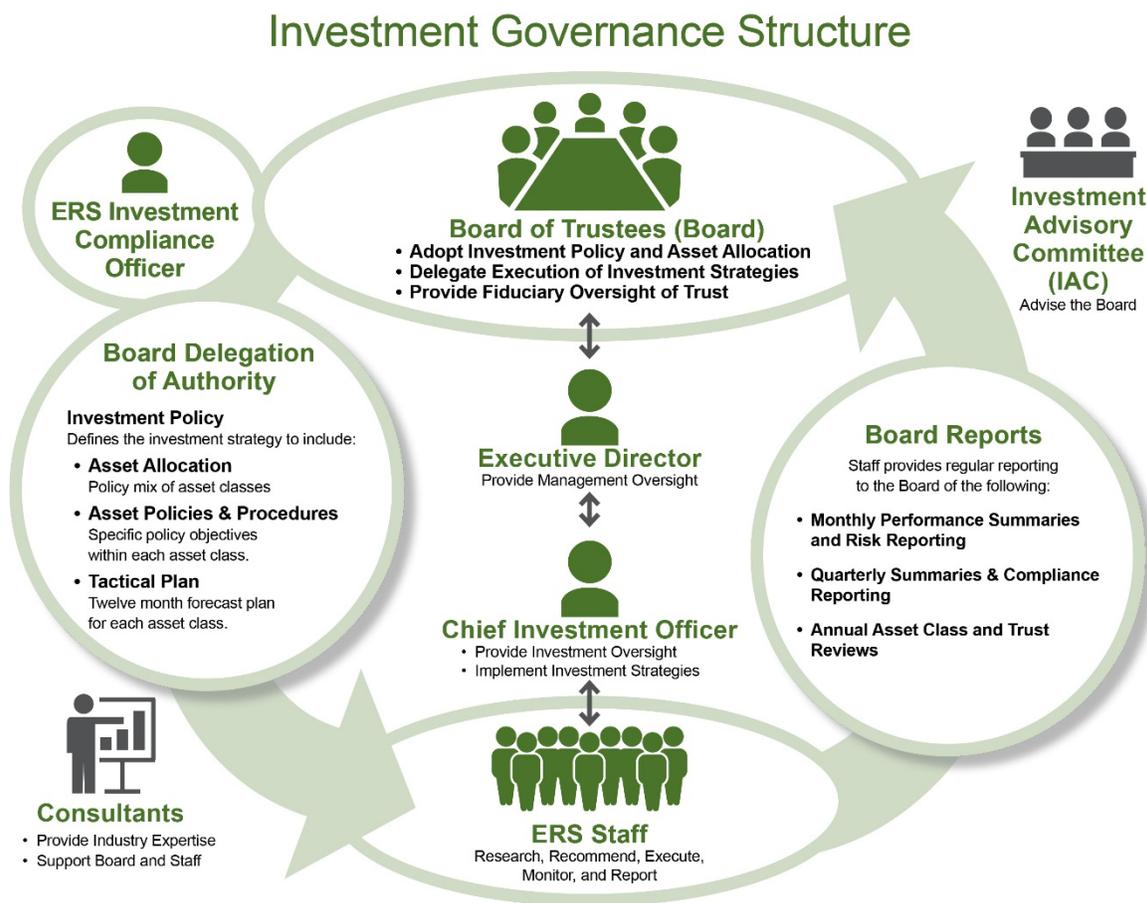


TABLE 1 – POLICY LEVEL INVESTMENT RESPONSIBILITIES

Investment Responsibility	Board	IAC	ED	CIO / Staff	Consultant / Actuary (as applicable)
Investment Policy Statement	A*	R	R	R	R
Asset Allocation Parameters	A	R	R	R	R
Permissible Asset Classes	A	R	R	R	R
Strategic Performance Benchmarks	A	R	R	R	R
Decisions about Deviations from Policies	A	R	A**	R	R
Selection of General Investment Consultant*	A	N/A	R	R	N/A
Selection of Asset Class Consultant(s)	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 Assumed Rate of Return	A	R	R	R	R
Proxy Voting Policy	A	R	R	R	R
Selection of Proxy Agent	--	--	A	R	N/A
Selection of IAC Members	A	N/A	R	R	N/A

A = Approves, R = Provides Recommendation

* Approval is required by law. ** Approval when timing does not allow for presentation to the Board and such action is in the best interest of the System, which shall be followed by reporting to the Board and IAC.

TABLE 2 – IMPLEMENTATION LEVEL INVESTMENT RESPONSIBILITIES

Investment Responsibility	Board	IAC	ACIC	ED	CIO	Staff	Consultants (as applicable)
Approve Alternative Investments Over Board Approval Threshold +*	A	R	R	R	R	R	R
Approve Investments Under Board Approval Threshold	O	O	A	A	R	R	R
Approve External Advisors	O	O	A	R	R	R	R
Funding/Defunding of External Advisors	O	O	O	O	A	R&I	R
Contract Execution**	O	N/A	N/A	A	R	R	N/A
Rebalancing/Asset Overlays	O	R	N/A	O	A	R&I	R
Derivatives – Internally Managed	O	O	N/A	O	A	R&I	R
Derivatives – Externally Managed	O	O	A	O	R	R	R
Risk Management	O	R	R	O	A	R&I	R
Proxy Voting	O	O	O	O	A	R&I	R

A = Approves, O = Provides Oversight, R = Provides Recommendation, I = Responsible for Implementation

* Approval is required by law. **Oversight for contract negotiation and execution is provided by OGC.

+ - Pursuant to Texas Government Code § 815.3016, Board approval is required for alternative investments that exceed the Board Approval Threshold.

B. Proxy Voting

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

C. Scrutinized Investments

Applicable state and federal law may limit the authority of the System to invest in, and require the System to divest from, certain designated securities. Staff shall follow the procedures set forth in the Scrutinized Investments Policy (attached as Addendum II) to ensure compliance with applicable law, including Texas Government Code Chapters 2270, 808, and 809.

D. Securities Litigation

As an institutional investor with a large, diversified portfolio, ERS frequently holds securities that may be the subject of class-action securities litigation or may provide a basis for other litigation. The Board recognizes that when such litigation appears to have merit, there can be a number of options available.

Staff shall manage the Trust's interest in securities litigation as an asset of the Trust and shall review the materiality of any underlying financial loss. Staff shall consider the costs and benefits of the options available in accordance with its fiduciary obligations to the Trust.

In most cases, the Trust's interests in securities claims may be adequately addressed through participation by ERS as a class member, rather than by taking a lead plaintiff's role or pursuing litigation individually. In such cases, the filing of claims usually shall be handled primarily by the Trust's custodian on behalf of the Trust, at the direction and with the oversight and approval of Staff. To the extent that the custodian does not provide these services or another firm appears to be better able to represent the Trust's interests, other firms may be retained to handle claims.

In securities matters where financial loss to the Trust is exceptional or where it is determined that the Board's fiduciary obligations require active participation or individual pursuit of claims, Staff shall work with the ERS Office of the General Counsel (OGC) to refer the matter to appropriate outside counsel for further evaluation and prosecution.

Chapter IV: Asset Allocation

A. Asset Allocation Parameters

The most important component of an investment strategy is the asset mix, which is the resource allocation among the various types of securities available to the Trust for investment purposes. The Board shall set long-term asset allocation targets that can be expected to generate returns sufficient to fund required benefit payments. The Board has set these ranges with an expectation that Staff will be tactical in its implementation decisions in order to manage risk prudently and to maximize the expected return given the risk budget. Current strategic targets and tactical ranges are outlined below.

TABLE 3 – STRATEGIC TARGETS AND TACTICAL RANGES

Asset Class	Strategic Target	Tactical Minimum	Tactical Maximum
Return Seeking Assets	80%	70%	88%
Global Equity	51%	42%	60%
Public Equity	35%	25%	45%
Private Equity	16%	11%	21%
Global Credit	12%	6%	21%
Public Credit	9%	4%	14%
Private Credit	3%	0%	8%
Real Assets	17%	12%	22%
Public Real Estate	3%	0%	13%
Private Real Estate	9%	4%	14%
Private Infrastructure	5%	0%	10%
Risk Reducing Assets	20%	12%	28%
Liquidity Assets	14%	8%	20%
Rates	12%	7%	17%
Cash & Equivalents	2%	1%	10%
Diversifying Assets	6%	4%	10%
Hedge Funds	6%	0%	11%
Special Situations	0%	0%	5%
Global Total	100%	--	--

The Board has found it prudent to diversify both across and within the major asset classes in order to construct a highly efficient portfolio (i.e., one that delivers strong compound returns on a long-term, risk-adjusted basis). Each of the asset classes and sub-asset classes outlined above provides a distinct and purposeful role within the Trust, and careful attention should be paid to the correlations between them so that high levels of diversification are maintained as market conditions change and regime shifts occur.

B. Establishing/Reviewing Parameters

The Board, with advice from Staff and the General Investment Consultant, is responsible for establishing the Strategic Asset Allocation (SAA) process and parameters for the Trust. SAA refers to the establishment of the strategic targets and tactical ranges for the included asset classes (i.e., securities sharing certain fundamental and risk-based characteristics), which will determine the distribution of investments within the Trust. The SAA process is intended to optimize expected returns net of expenses for the Trust within the established risk budget over a long-term horizon by maintaining a prudent and well-diversified portfolio.

An actuarial experience study shall be conducted every four years pursuant to Texas Government Code § 815.206(c). The General Investment Consultant shall conduct formal asset/liability studies in connection with each actuarial experience study. Such studies also shall include a detailed review of the asset allocation parameters and a comprehensive assessment of the liquidity needs of the Trust as compared to the potential trajectories of the asset base. These periodic studies shall provide the primary basis upon which significant changes may be made to the SAA parameters for the Trust. The Executive Director may direct that additional actuarial studies take place as needed.

The likelihood of superior long-term investment performance arising out of the SAA process depends greatly on the accuracy of the assumptions used to establish its parameters. As such, these assumptions should be monitored continually and revisited regularly by Staff with the results reported to the Board at least annually.

Reviews of the adopted SAA parameters using updated capital market assumptions and other market-related inputs shall also be provided to the Board by Staff at least annually. These reviews shall discuss the alignment of the asset allocation parameters with the assumed rate of return and shall discuss how the implementation plan supports the long-term strategic objectives of the program. These reviews also shall discuss risk-return assumptions, correlation of returns, and implementation approaches using applicable strategic benchmarks and other relevant data.

Within each asset class, the CIO, in consultation with the Executive Director, shall adopt portfolio implementation strategies and investment approaches to meet the overall investment objective of each asset class. Staff shall present to the Board at least annually an overview of each asset class, including a long-term capital plan for private markets asset classes with forecasted 12-month tactical ranges.

C. Transition Period for Asset Allocation

This section shall apply during any period following significant changes in the asset allocation parameters.

Recognizing that changes in exposures to illiquid asset classes cannot be implemented immediately, such changes shall be implemented over time at the discretion of Staff in a manner that minimizes risk and maximizes expected return. Implementation by Staff of any asset allocation decision by the Board is always a work-in-progress and shall be executed prudently. Staff shall manage implementation of any new or revised asset allocation based on available investment opportunities and the liquidity needs of the Trust.

The calculation methodology for benchmarks associated with the above-referenced asset classes during the transition period shall be established by Staff in advance of each fiscal year and once implemented, shall not be modified during the applicable fiscal year. During the implementation of any new or revised strategic target, the actual weight of the asset class at the end of the prior month may be used as the weight of the relevant asset class to calculate the Policy Benchmark.

Given that there may at times be no allocation within Special Situations, the Policy weight of the Special Situations asset class for calculating the Policy Benchmark shall be the actual weight of the asset class at the end of the prior month, up to the tactical maximum for the asset class. The offsetting weight shall be subtracted from the weight of other established asset classes as specified by Staff, after consideration of the current market environment and investment opportunity set.

D. Rebalancing

The purpose of rebalancing is to position the Trust within the Board-approved asset allocation parameters in order to maintain a risk/return profile that is consistent with the objectives in this Policy. In exercising its authority to conduct such rebalancing, Staff shall ensure conformity with the asset allocation parameters established by the Board by formally reviewing the positioning of the Trust at least monthly.

When conducting rebalancing activities, the Board expects Staff to operate prudently under the following principles:

- To implement the investment strategy, Staff may act to position the Trust closer to or farther away from the strategic targets, but the asset class positioning of the Trust shall remain within the approved tactical ranges unless a temporary exception is made by the Board.
- Rebalancing activities may include reallocation between approved Investment Managers within the Select Pool(s) and the management of overlay portfolios that facilitate the positioning of the Trust and its constituent asset classes.
- Rebalancing activities may include routine redemptions from liquid investments to make required benefit payments and to meet other cash flow obligations of the Trust, including the timely funding of capital calls.
- When the positioning of the Trust drifts outside of the parameters of the Board-approved asset allocation due to market movement or other factors, Staff shall initiate rebalancing transactions or promptly seek Board approval to remain outside the prescribed ranges.
- Less liquid private asset types (such as real estate, private equity, and infrastructure) may not be able to be managed within tactical ranges at all times, but those allocations shall be prudently managed to the strategic targets over time through distributions and strategic new investments.
- Any aspect of Trust positioning that is outside of the Board-approved asset allocation parameters as of any month's end shall be reported to the Board at the next regular meeting.

The intent of this Policy is to implement the Trust's investment strategies within the asset allocation parameters at a reasonable cost, recognizing that overly precise management of Trust positioning can result in transaction costs that are not economically justifiable. As such, the evaluation of decisions related to rebalancing the Trust shall include consideration of the expenses that can be reasonably expected to occur as a result.

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

A. Permissible Investments

The Trust may be invested only in “securities,” as that term is defined in Texas Government Code § 815.301(f) and set forth in Addendum II. In determining whether to invest in a security, the following factors shall be considered in determining whether such investment is appropriate and prudent for the Trust:

- a) whether the investment is consistent with Policy and portfolio objectives, including diversification at the portfolio and Trust levels;
- b) Staff and/or Investment Manager competency in evaluating, managing, and trading the investment;
- c) The expected effect of the investment on Trust liquidity; and
- d) The expected costs of the investment.

Securities shall be screened by Staff to ensure that they meet the above standards, and OGC shall be consulted regarding any questions about the definition of “securities.”

Investments may be held in separately managed accounts, as well as commingled funds. If held in a commingled fund or mutual fund, the prospectus, organizational document, or Declaration of Trust (including the associated list of permissible investments) takes precedence over this Policy solely to the extent of any conflict with this Policy unless provided otherwise in a written agreement between ERS and the Investment Manager. If held in a collective investment trust (CIT), the terms of the relevant group trust governing such CIT shall be incorporated by this reference and become a part of this Policy solely with respect to the management of the assets held by such CIT.

B. Asset Classes

Overarching Asset Allocation Expectations

The Trust shall be managed in accordance with the guidelines and structure adopted during the most recent Asset/Liability Study (A/L Study). Implementation within each asset class shall be aligned with the fundamental assumptions used to determine its risk return profile during the A/L Study, as well as the risk return profile of the overall investment program. The following sections provide a description of the diversification framework used during the A/L Study and provide a table with a high-level description of each asset class, its primary strategic benchmark, a description of its role within the Trust, its primary risk control, and its management style. Further details on investment implementation for each asset class shall be included within the capital plan that is presented for approval by the Board on an annual basis.

Return Seeking/Risk Reduction Framework

The Board has adopted the asset allocation parameters reflected in this Policy to improve the long-term expected return and Sharpe ratio of the Trust relative to a traditional mix of passive liquid assets. This framework for the asset allocation between return seeking and risk reduction/liquidity assets provides broader diversification and improved returns in disparate economic cycles. This framework sets forth two broad categories of asset classes: a category that seeks returns (which includes growth-oriented assets and real assets) and a category that provides risk reduction, diversification, and/or liquidity as needed.

Performance Benchmarks

Staff and consultants shall review strategic benchmarks with the Board periodically to confirm that the benchmarks remain appropriate for the investment strategy. Strategic benchmarks shall be specified in advance of their adoption, consistent with the portfolio objectives, measurable, unambiguous, investable, and reflective of current market conditions. Since the available benchmarks for private market asset

classes often lack many of these characteristics, Staff shall recommend for Board adoption those that are best suited for the portfolio construction and strategy of the asset class. In all instances, Staff and the applicable Investment Consultant shall provide the Board with analysis supporting the conclusion that each adopted strategic benchmark is prudent and appropriate for the applicable asset class and the Trust overall.

TABLE 4 – ASSET CLASSES, STRATEGIC BENCHMARKS AND RISK BUDGET

RETURN SEEKING ASSET CLASSES	
GROWTH-ORIENTED ASSETS	
Public Equity	
Strategic Benchmark	MSCI ACWI IMI with USA Gross Total Return index (M1WDW\$GI)
Reference Indices*	Domestic Portfolio: MSCI USA Total Return Index (NDDUUS) International Portfolio: MSCI ACWI IMI ex-USA Total Return Index (M1WDUIM)
Portfolio 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	
Strategic Benchmark	Median of Wilshire Associates Trust Universe Comparison Service's (TUCS) Total Private Equity Return of Master Trusts for Public Plans > \$5 Billion
Reference Indices*	Public Market Equivalent (PME), Burgiss Private Capital Indices
Portfolio Role	Growth, Enhanced Returns, Illiquidity Premium
Primary Risk Control	Pacing, Regional Diversification, Strategy Diversification
Benchmark Description	The portfolio will benchmark against the median performance of public pension plans with greater than \$5 billion in assets.
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.
Public Credit	
Strategic Benchmark	Bloomberg US High Yield 2% Issuer Capped Cash Pay Total Return Index (LF89TRUU)
Portfolio 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 loans, emerging market debt, and riskier investment grade bonds to enhance returns.
Expected Information Ratio	0.35

Private Credit	
Strategic Benchmark	S&P/LSTA Leveraged Loan Total Return Index (SPBDAL) + 150 bps
Portfolio Role	Yield, Diversification, Illiquidity Premium
Reference Indices*	Public Market Equivalent (PME), Burgiss Private Capital Indices
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

REAL ASSETS

Public Real Estate	
Strategic Benchmark	FTSE EPRA/NAREIT Developed Total Return Tax Adjusted Valuation Index (TGPGHM4U)
Reference Indices*	Domestic: EPRA Nareit US Total Return Index USD (RUUS) International: FTSE EPRA Nareit Developed ex US Net Total Return Index (TRGXUU)
Portfolio Role	Diversification, Yield, Potential to Hedge Inflation
Primary Risk Control	200 bps Tracking Error Target / 300 bps Tracking Error Limit
Benchmark Description	-- Free float adjusted, market capitalization weighted index of global equity real estate investment trusts (REITs) and real estate operating companies (REOCs). Real estate assets mostly in the four primary property types: apartments, industrial, office, and retail.
Management Style	Active
Additional Information	Investments in REITs with U.S. and non-U.S exposures.
Expected Information Ratio	0.30 for Public Real Estate

Private Real Estate	
Strategic Benchmark	NCREIF Fund Index – Open End Diversified Core Equity (NPPIODCE)
Reference Indices*	Public Market Equivalent (PME), Burgiss Private Capital Indices
Portfolio Role	Diversification, Yield, Potential to Hedge Inflation, Enhanced Returns, Illiquidity Premium
Primary Risk Control	Diversification by Vintage Year, Region, Strategy, Property Type
Benchmark Description	-- The NCREIF ODCE Net Index, an index comprised of open-end Core commingled funds focusing primarily on equity ownership of institutional properties.
Management Style	Active
Additional Information	The portfolio will be implemented with a level of diversification across partners, strategies, geography, and industry. Investments include core and non-core properties with U.S. and non-U.S exposures. The portfolio will have a limit of 65% Loan to Value.

Private Infrastructure	
Strategic Benchmark	US CPI Urban Consumers NSA Index (CPURNSA) + 400 bps
Reference Indices*	Public Market Equivalent (PME), Burgiss Private Capital Indices
Portfolio Role	Diversification, Income-Oriented, 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.

RISK REDUCTION/LIQUIDITY ASSET CLASSES

LIQUIDITY ASSETS

Rates

Strategic Benchmark	Bloomberg US Intermediate Treasury Total Return Index (LT08TRUU)
Portfolio 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

Cash & Equivalents

Strategic Benchmark	ICE BofA U.S. 3-Month Treasury Bill Index (G001)
Portfolio 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
Expected Information Ratio	0.20

DIVERSIFYING ASSETS

Hedge Funds

Strategic Benchmark	ICE BofA U.S. 3-Month Treasury Bill Index (G001) + 350 bps
Reference Indices*	HFR Indices including the HFRI FOF: Conservative Index
Portfolio 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.

****Reference Indices are used to assess performance against portfolio objectives beyond relative performance versus the strategic benchmark.***

C. Special Situations

The Special Situations asset class exists to improve risk-adjusted returns of the Trust with new investment strategies and mandates that promote prudent innovation or enhance diversification. By its nature, the Special Situations asset class will include a broad range of investment strategies that may fall outside of traditional asset classes but which may represent attractive additions to the portfolio overall.

This category is intended to comprise a small portion of the Trust, and it may 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 that is not aligned with an asset class otherwise included in this Policy shall require approval by the ACIC deemed by the CIO to be most qualified to assess the proposed investment.

Special Situations investments may be considered for permanent inclusion in an established asset class upon the recommendation of the CIO and approval by the ACIC of the asset class in which the investment will be included. Oversight of this asset class, which includes implementation oversight for investment opportunities that fall outside of traditional asset classes, shall be assigned by the Risk Committee within the IIP.

Each investment strategy adopted within the Special Situations asset class shall have an explicit implementation benchmark used for performance evaluation. The primary performance objective for the Special Situations asset class overall is to achieve a rate of return in excess of the weighted average return of the implementation benchmarks of the underlying investment strategies.

D. Leverage

Leverage is a condition in which the net potential monetary exposure of an obligation exceeds the value of the underlying assets supporting the obligation. For the purposes of this Policy, leverage is divided into two primary types:

- Asset Allocation Leverage reflects any excess allocation to the combined cash and investment exposures of the Trust that is greater than 100% on a net basis. Asset Allocation Leverage is distinct from Strategy Leverage and is not permitted under this Policy.
- Strategy Leverage is leverage that is used within an asset class or portfolio to achieve the risk-return characteristics targeted by a particular investment. The use of Strategy Leverage is permitted only when documented fully in the Investment Manager's agreement with the System.

The Investment Division shall monitor risk exposures and leverage on both an individual entity and aggregate basis. Specifically, gross notional and net exposure levels shall 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 program should consider both systematic risk and idiosyncratic risk.

- Systematic risk is addressed over the long term by focusing on expected returns, volatility, and correlation of asset classes during each asset/liability study and the adoption of asset allocation parameters. In the shorter term, systematic risk is addressed in portfolio construction via positioning the Trust and its asset classes within the tactical ranges established by this Policy.
- Idiosyncratic risk is addressed via the maintenance of a well-diversified asset allocation mix and constituent portfolios. Idiosyncratic risk is also managed via investment guidelines that address portfolio positioning and the risks specific to asset classes and portfolios.

Some risks are measurable while others are not. For risks that are measurable, Staff shall consider the various methods for estimating them and incorporate the relevant methods to manage and report these risks. For the risks that are not measurable (e.g., legal, regulatory, headline, etc.), Staff shall be mindful to consider these risks within the risk management program and report them 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. Staff, the IAC, and Investment Consultants shall 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. Such collaboration to understand and manage risks of the investment program aims to establish discipline across market cycles and regimes.

F. Risk Allocation

ERS has adopted a risk budgeting and allocation framework to manage active risk, which for these purposes is defined as the amount of variation in positioning within a portfolio relative to a prescribed benchmark. The purpose of this framework is to define risk parameters at the Trust level and to provide a transparent and measurable methodology for allocating that risk to active strategies in an optimal way.

To establish suitable risk parameters for public market asset classes, the Board approves an Active Risk Budget that includes tracking error ranges for each asset class. Tracking error is calculated as the standard deviation of the difference between the portfolio return and return of the applicable strategic benchmark. It is recognized that statistical measures such as tracking error are estimates and do not guarantee that observed performance will occur as expected. Targeted tracking error (typically on a one-year forecast basis) will be the primary metric for managing active risk prospectively while realized tracking error (typically on a trailing five-year monthly basis) will be used for retrospective measurement and reporting purposes.

For the private asset classes, risk shall be managed through consistent investment pacing, regional diversification, strategy diversification, manager diversification, and other metrics particular to each private asset class. To establish suitable risk parameters for private market asset classes, the Board relies on the asset class capital plans alongside internal guidelines prepared and maintained by Staff that include parameters specific to each program such as strategy weights, geographic diversification requirements, manager and concentration limits, and other metrics as appropriate.

G. Risk Committee

The Risk Committee has been established to oversee the implementation of this Policy. The duties and responsibilities of the Risk Committee shall include its obligations to:

- Develop methods and tools necessary to implement the strategic decisions of the Board;
- Assure that the risk parameters established by the Board in this Policy are being observed;
- Consider relevant information regarding the risk exposures of the Trust;
- Recommend actions that will either minimize negative outcomes or enhance positive outcomes;
- Look both within and across the asset classes to develop a comprehensive view of Trust risk; and
- Investigate and employ best practices in the area of risk management.

The Risk Committee is composed of the CIO and senior investment staff appointed by the CIO. Its functioning shall be further detailed in the Risk Committee Charter as approved by the CIO. To direct the efforts of Staff, the Risk Committee shall develop and maintain the Investment Implementation Plan (IIP), which shall incorporate the asset class guidelines as well as appropriate processes, procedures and controls for all investment programs.

H. Liquidity

Liquidity is to be managed diligently as part of risk management at the Trust level and shall be reported to the Board quarterly. Since the Trust pays out significantly more in benefits each year than it receives in contributions, the investment program shall maintain an emphasis on liquidity to ensure timely payment of benefits. Since the liquidity needs of the Trust remain consistent regardless of its performance, the SAA parameters adopted by the Board shall consider these by maintaining a highly liquid segment within the asset allocation parameters. Staff shall manage liquidity within the other asset classes prudently and actively with a view toward maintaining adequate liquidity 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 under Texas Government Code § 815.301(f) and commonly used by institutional investors to manage portfolios. Derivative transactions that are “swaps” or “security-based swaps” may not be entered into directly by Investment Managers unless they fall under the definition of “securities.” Investment managers may be permitted to utilize derivatives to implement their approved investment strategies. Guidelines for each Investment Manager shall generally specify the permitted amount and type of derivative usage. Derivative usage by Investment Managers shall be segregated and limited to the underlying portfolio in which the derivatives are approved and shall not be employed to introduce leverage to the Trust overall. Staff shall establish procedures to monitor compliance with this Policy by Investment Managers to require prudent investment practice regarding derivative usage, and to take into account any operational risk associated with various derivatives strategies.

J. Risk Measurement and Management

Risk management is a primary responsibility for Staff, and investment performance shall 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 parameters, (2) the adoption of strategic benchmarks for each individual asset class, and (3) the establishment of reasonable risk limits within this Policy for investment implementation. The strategic goal of risk management is not to eliminate risk but rather to balance risk and return in pursuit of the objectives set forth in this Policy.

The process of risk management involves monitoring the key aspects of the Trust, including:

- Assuring appropriate diversification of the Trust’s assets;
- Maintaining the volatility of the Trust within acceptable levels based on projected volatility and correlation of asset classes;
- Managing the liquidity of the Trust such that the Trust can satisfy its payment obligations while taking advantage of market dislocations to buy securities when valuations are attractive; and
- Stress testing the Trust and its constituent portfolios under different market conditions.

The primary risk measurement for the Trust is based on:

- Managing the exposures of the Trust within allowable ranges;
- Managing tracking error and monitoring information ratio (risk-adjusted measure of portfolio active risk management) of the Trust;
- Reviewing other risk-adjusted measures that address limitations of information ratio, including Sharpe Ratio (i.e., the average return minus the risk-free rate divided by the standard deviation); and
- Reviewing qualitative and other characteristics demonstrating portfolio diversification of the private market asset classes.

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

K. Securities Lending

The Board may select one or more commercial banks, depository trust companies, or other entities to lend the Trust’s securities under rules or policies adopted by the Board in accordance with Texas Government Code § 815.303. The securities lending agent shall implement the program in accordance with a contract and written guidelines. The primary objective of the securities lending program shall be to earn the return associated with the lending of securities while minimizing the risk associated with the collateral pool.

Chapter VI: Trust Monitoring and Reporting

The successful delegation by the Board of certain duties to the Executive Director, Staff, and non-investment staff depends upon accountability and transparency in the implementation of the program. Accountability comes from clear measurement against well-defined objectives and appropriate benchmarks. Transparency comes from accurate, timely, and clear reporting to the Board of Trust positioning, investment returns and risks, portfolio costs, and implementation decisions made by Staff. This chapter delineates the schedule and content of the core reporting that the Board relies upon to fulfill its fiduciary duties.

A. Performance Evaluation

Performance evaluation of the Trust is designed to monitor the asset allocation, implementation plan, and selection decisions related to investment managers and external advisors. The purpose is to test the continued validity of these decisions and to prompt an analysis of any underperformance or inappropriate levels of risk.

Performance objectives have been established for the Trust and each asset class in order to guide proper ongoing diligence with respect to the monitoring and evaluation of managers and strategies, and it is clearly understood that these objectives are to be viewed over the long term. Rates of return shall be compared with:

- The risk and return of an appropriate market index;
- The return of an appropriate style benchmark, where applicable; and
- 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 Investment 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.

At least annually, Staff shall review the valuations applied to all investments for reasonableness. If a valuation method applied to a material part of any portfolio is deemed to be improper or if Staff believes that a significantly different valuation should be applied, Staff shall follow up with the relevant Investment Manager. If Staff is unable to resolve any differences in opinion of reasonable valuation for the aggregate portfolio, Staff may pursue independent valuations to the extent it is reasonable and cost-effective to do so. Procedures to guide activities of Staff under this section shall be set forth in the IIP.

B. Performance Monitoring (Trust)

The primary implementation objective for the investment program is to obtain risk-adjusted net returns equal to or greater than the adopted benchmark, including incremental returns that are proportionate to the amount of additional risk (tracking error or other appropriate risk metric) assumed. Benchmark returns for composite allocations, including those for the Trust overall, are weighted according to the strategic targets set forth in the SAA parameters.

Specifically, the net return of the Trust shall aim to meet or exceed the Policy Benchmark. This benchmark is intended to reflect a passive implementation of the parameters established by the Board during the SAA process, and outperformance should represent the value added by investment implementation and risk management activities. The Policy Benchmark is a composite of the performance benchmarks selected to track the major asset classes target weighted for the strategic targets in the Strategic Asset Allocation.

The performance of the Trust and the Policy Benchmark may also be compared against the Passive Index. This benchmark is intended to reflect the investment mix prevailing among institutional peer portfolios as implemented via low-cost passive investable indices. Outperformance relative to this benchmark should

represent the value added through decisions made in the Strategic Asset Allocation process and should be evaluated on a risk-adjusted basis. This index shall also serve as a baseline proxy for the market risk of the Trust to account for the fact that substantial investments in illiquid assets produce a smoothing effect on performance that tends to understate reported risk metrics such as volatility.

The baseline measurement period for achieving these outperformance objectives is five years, though shorter and longer periods should also be considered. Each asset class benchmark should be reviewed annually for potential adjustment and approval by the Board, with attention paid to the selection of the constituent indices for continued relevance, applicability, and investability. These benchmarks are not expected to change frequently, and such changes should reflect substantial changes in the long-term market environment, composition changes in the benchmarks, and implementation changes by the Trust or its institutional peers.

Similar to the total Trust, the performance objective of the asset class and sub-asset class composites is to obtain risk-adjusted returns in excess of those of stated objectives and peer performance, as appropriate. Active returns relative to the adopted benchmark returns are expected to exceed the cost of management and be proportionate to the amount of risk assumed.

C. Performance Monitoring (Asset Classes)

The Board shall monitor the performance investment strategies of the Trust through discussions with Staff and with assistance provided by the General Investment Consultant, as appropriate. Staff shall monitor the performance of each investment strategy, including relative to strategy benchmarks approved by the Executive Director, on an ongoing quarterly basis while retaining a long-term focus. Determinations regarding termination could result from many potential scenarios, including but not limited to:

- Underperformance relative to benchmark over five years or other appropriate time period;
- Underperformance relative to peer group;
- Underperformance relative to the level of risk assumed;
- Substantial changes in assets under management (external advisors);
- Material changes to the Policy or objectives previously approved by the Board;
- Inconsistency between investment holdings and the stated strategy; and
- Lack of stability of the organization or high personnel turnover.

Recommendations for termination of an investment strategy shall be made by Staff to the CIO, who will make a decision in consultation with the Executive Director.

D. Performance Reporting

Regular evaluation of Trust performance by the Board is necessary to monitor the effectiveness of the investment program in meeting the strategic and implementation objectives of ERS. The purpose is to assess effectiveness and to prompt a review of underperformance and excessive risk. All performance measurement shall be based on total returns, net of expenses, adjusted for risk, as measured over a sufficient time period to reflect the benefits of any active decisions (typically a minimum of three years and preferably over five years or more).

Staff and the General Investment Consultant shall provide to the Board frequent updates regarding Trust performance, as set forth below. These reports shall include a comparison to established benchmarks as well as the investment performance of appropriate institutional peers. Such performance attribution analysis shall quantify the extent to which specific allocations, strategies, and managers added to or detracted from overall Trust performance.

These reports shall also include an annual performance-based review of investment expenses that includes peer group or industry averages for the Trust and relevant asset classes, investment strategy type. Such analysis should include an evaluation of expense levels for comparable internally and externally managed strategies, as well as for comparable actively and passively managed strategies.

Such information shall be reported in writing to the Board and shall include:

- **Monthly Reports**
 - A summary of Trust investment performance on an absolute and relative basis;
 - The balance of all asset classes and any allocation changes during the period;
 - A summary of Trust positioning across the policy asset classes; and
 - A summary of investment performance for all asset classes.

- **Quarterly Reports**
 - A summary of investment performance as described elsewhere in this Chapter;
 - Summary risk metrics at the Trust level;
 - Summary reports on each private market asset class; and
 - A report on any violations of or material exceptions to this Policy, if applicable.

- **Annual Reports**
 - A summary of Trust performance as described elsewhere in this Chapter;
 - Asset class performance and related capital plans;
 - A listing of all investment holdings in the Trust;
 - A year-to-year comparison of the Trust's investments;
 - A summary, by broker, of the commissions on all stock transactions, the volume of directed commission activity, and services funded;
 - A summary, by broker, of all fixed income transactions;
 - A review of trade costs, including analysis of the impact of commissions, fees, market impact, and other direct or indirect expenses;
 - A summary of securities lending performance;
 - A report on the Trust's liquidity levels, including the results of stress testing analysis;
 - A report on methods, efforts, and results of ERS in hiring emerging investment service providers, including data disaggregated by race, ethnicity, gender, and fund size;
 - A summary of the proxy voting process for the year, including a summary of exceptions to the ERS Proxy Voting Policy;
 - A summary of performance for the assets managed on behalf of the GBP; and
 - A report on this Policy, including changes recommended by Staff, consultants, and the IAC.

All such reporting shall include other information requested by the Board from time to time.

E. 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 arrangement.

Trades allocated to a particular broker-dealer strictly for execution purposes shall be executed at commission rates acceptable to ERS. All currency and security trade orders shall be placed with firms that meet all of the requirements listed below, to the extent applicable to the specific firm.

- Firms shall be registered and in good standing with the U.S. Securities and Exchange Commission (SEC);
- Firms and their designated agents shall be members in good standing with the Financial Industry Regulatory Authority (FINRA);
- Firms and, to the extent required by law, their designated agents, shall be registered and in good standing with the Texas State Securities Board;

- Firms shall demonstrate a proven and effective execution platform for institutional investors that has been utilized by the firm for a minimum of three years; and
- Firms and their executing brokers and clearing agents shall each have minimum excess net capital of \$2,500,000.

In order for a firm to be approved or to remain approved, all information shall be provided to ERS upon request and shall be satisfactory to ERS.

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 as long as it has (1) at least a five-year history of serving institutional clients in this capacity and (2) a high short-term debt rating from at least two nationally recognized statistical rating organizations.

Chapter VII: Code of Ethics

Code of Ethics and Personal Investment Activities

Texas Government Code § 815.213 requires that this Policy include a code of ethics that contains standards of ethical conduct and disclosure requirements applicable to Trustees and ERS employees in the administration of the investment program. The broad purpose of this section is to fulfill that obligation by maintaining integrity in the oversight and management of ERS investments and by preventing the misuse of material, non-public information. High ethical standards are essential to the success of ERS and the fulfillment of its fiduciary duty to Beneficiaries.

Therefore, all “Covered Persons” shall be governed in their personal investment activities by this Policy, as well as applicable state and federal laws. Covered Persons include all members of the Board, all members of the IAC, the Executive Director, the Deputy Executive Director, and all ERS investment-related staff who the Executive Director determines to have material access to confidential ERS investment trading information. ERS investment-related staff include members of the following departments: Executive Office, Investments, Information Systems, Finance, OGC, Internal Audit, Investment Compliance, and Records and Information Management.

Covered Persons are subject to the ERS Insider Trading and Confidentiality Policy. Each such Covered Person shall sign a yearly affirmation of compliance.

ERS “Restricted Persons” include the Executive Director, Deputy Executive Director, Investments staff, and investment-related staff for whom additional restrictions are appropriate.

Restricted Persons are broken down into two component lists designated as either “Restricted Persons I” or “Restricted Persons II.”

- The Executive Director and Investments staff are classified as “Restricted Persons I.”
- With regard to investment-related staff, ERS Investment Compliance (i) identifies investment-related staff with either direct or indirect access to confidential ERS investment trading information and (ii) provides the criteria, assigns numerical values, and tallies the final weights used for measuring investment-related staff’s overall proximity to confidential ERS investment trading information. Investment-related staff determined to have direct access and a greater proximity to confidential ERS investment trading information will generally be designated Restricted Persons I, while investment-related staff determined to have only indirect access and a lesser proximity to confidential ERS investment trading information will generally be designated Restricted Persons II. The Executive Director ultimately determines the classification for each member of investment-related staff according to the Restricted Person’s access and overall proximity to confidential ERS investment trading information.

ERS Investment Compliance shall maintain a quarterly updated list of all Covered Persons, Restricted Persons I, and Restricted Persons II.

Restricted Persons I are subject to the Personal Transactions section below in its entirety. Each Restricted Person I and Restricted Person II shall submit a quarterly affirmation of compliance with all applicable portions of this Code of Ethics, including the Insider Trading and Confidentiality Policy (Addendum V).

The provisions of the Personal Transactions Policy do not apply to Trustees, IAC members, or Restricted Persons II since they do not participate in the selection of publicly traded securities on behalf of ERS. However, the Insider Trading and Confidentiality Policy does apply to Trustees, IAC members, and

Restricted Persons II. To the extent that Trustees and IAC members participate in the evaluation, review, and approval of private market investments, they must certify that they shall not, either for themselves or on behalf of any other person or entity, make investments in private investment funds in which ERS has invested or for which they otherwise received confidential information.

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. Standards of Conduct

As it relates to the investment activities of the Trust, Covered Persons frequently interact with other ERS employees, Beneficiaries, colleagues within the investment profession, other participants in financial markets, and members of the public. In these interactions, Covered Persons shall take care to act with the highest levels of integrity and respect. When engaging in activities related to ERS, Covered Persons should exercise independent professional judgment and shall adhere to the following principles:

- Understand and abide by all applicable laws, rules, and regulations, including ERS policies.
- Act in a manner that is consistent with the mission of ERS and the policies that are established to support that mission.
- Act in good faith, with loyalty, and in the best interests of Beneficiaries.
- Act with judgment, prudence, and reasonable care.
- Avoid conflicts of interest, refrain from self-dealing, and refuse any gift that could reasonably be expected to impair one's loyalty.
- Act with diligence, competence, and skill.
- Review regularly the efficiency and effectiveness of the investment program in meeting its goals, including the performance of service providers such as consultants and actuaries.
- Use reasonable care and judgment to achieve and maintain independence and objectivity in activities related to ERS.
- Deal fairly, objectively, and impartially with all Beneficiaries.
- Maintain confidentiality of ERS information as required.
- Communicate with stakeholders in a timely, accurate, and transparent manner.

To support these principles and guide their implementation, standards of conduct tailored specifically to the ERS investment program and applicable to Staff shall be incorporated by the Risk Committee into the Investment Implementation Plan.

B. Personal Transactions

The requirements included in this section apply only to the Executive Director, Investments staff, and investment-related staff to the extent and for so long as they are designated "Restricted Persons I" by the Executive Director.

Restricted Persons I are required to disclose all applicable personal brokerage accounts and make all related trade confirmations and account statements available to ERS Investment Compliance via direct broker feed, when available, or otherwise by hard copy via U.S. mail. This disclosure requirement includes all applicable fully managed accounts (i.e., where the broker has the sole discretion to transact and the Restricted Person I or family member has no trading authority). Fully managed accounts are monitored but are not subject to pre-clearance requirements.

All Restricted Persons I shall obtain the approval of the CIO or a designee appointed by the CIO prior to making personal trades in applicable securities. Similarly, the CIO and the Executive Director shall obtain

pre-trade approval from Investment Compliance. Pre-trade approvals grant the Restricted Person I permission to buy, sell, or trade options of the requested security from the time of receipt through the end of following business day.

The pre-clearance requirement described above applies to trades of the following:

- Publicly traded equity and debt securities; and
- Derivative instruments of such securities, including without limitation, swaps, futures, and options.

The pre-clearance requirement set forth above does not apply to personal investments in:

- Certificates of Deposit (CDs);
- Open-end mutual funds;
- Closed-end funds;
- Trusts;
- Unit trusts;
- Closed-end trusts;
- Exchange-traded funds (ETFs);
- Exchange-traded notes (ETNs);
- Currencies;
- Physical commodities;
- U.S. Government obligations and debt;
- Municipal securities;
- Direct investments in digital assets or cryptocurrencies;
- Derivatives linked to the performance of any of the foregoing; and
- Less than \$500.00 of any applicable security transacted over a rolling 30-day period.

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

- the purchase or sale of any security that is effected in an account over which a Restricted Person I has no direct or indirect influence or control;
- the acquisition of any security pursuant to a dividend reinvestment program;
- 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;
- bona fide employee stock transactions by a family member related to their employment;
- the assignment or transfer of shares or other securities between accounts; and
- trades within fully managed accounts.

Pursuant to the Insider Trading and Confidentiality Policy, ERS maintains a list of restricted securities (the "Restricted List"). The Restricted List includes securities of companies about which staff has received material non-public information. Covered Persons are prohibited from trading in their personal accounts securities of any issuer on the Restricted List for so long as the issuer remains on the list. It should be noted that the Restricted List is separate and distinct from ERS' statutory prohibitions on transactions in scrutinized companies (see Scrutinized Investment Program Procedures, Addendum II).

"Personal Trades" means:

- a transaction for a Restricted Person I's own account, including a retirement or self-directed account (e.g., an IRA), in which the Restricted Person I has direct or indirect influence or control over the timing of the trade of the security or derivative on a security, and

- a transaction for an account in which a Restricted Person I has indirect beneficial ownership (any interest in which a person indirectly has or shares a pecuniary interest) 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 I's spouse, minor children, adults residing with such Restricted Person I, and any trust or estate in which such Restricted Person I or any other member of his/her immediate family is a trustee or has a substantial beneficial ownership interest unless such Restricted Person I 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.

To allow for automation of the compliance monitoring process, Restricted Persons I may be required to maintain covered accounts at securities firms that have electronic connectivity with the software system used by ERS.

Front running is prohibited, and these preclearance requirements for personal trades are intended to prevent front running. For purposes of this section of this Policy, "front running" occurs when a Restricted Person I 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 a similar ERS decision or recommendation to buy or sell a security or a derivative on a security.

Obtaining preclearance for a personal trade does not prevent the transaction from constituting front running under this Policy if the Restricted Person I 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 I assume the risk of a conflict or violation of this Policy by initiating any personal transaction 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.

A Restricted Person I shall not delay, hinder, modify, or cancel any internal ERS recommendation, decision, or trading order with the intent to facilitate a personal trade. Restricted Persons I also shall not personally participate in private market investment transactions that benefit from action taken by ERS, including the purchase or receipt of primary shares in a pending initial public offering (IPO). Exceptions to this rule include the receipt of IPO shares from a stock dividend on shares already owned, demutualization of a company in which the individual is already an interested party, and as a result of a family member's employment by an IPO issuer.

All Restricted Persons I shall report on a quarterly basis regarding all personal investment activities. Similarly, Investment Compliance shall report to the Internal Auditor, Chief Investment Officer, and Deputy Chief Investment Officer on a quarterly basis regarding all personal investment activities. An internal investigation shall be promptly conducted into any questionable trade for technical violations of this Policy. If a technical violation is deemed material, Investment Compliance shall document the violation in the quarterly investment compliance status report.

Potential violations of the pre-clearance requirements within this Policy shall be reviewed on a post-trade basis. As part of this review, any transaction that was placed in a manner that was technically not in compliance with the above criteria for "broad-based" securities indices shall be flagged, and Investment Compliance shall determine whether or not said technical violation constitutes a material violation of this Policy, in consideration of any evidence of front running, insider trading, or intent to violate policy.

If it is determined that a Restricted Person I has materially violated this Policy, that individual may be required to reverse the transaction at their expense and disgorge all profits. The individual may also be subject to the full range of disciplinary actions under the ERS Personnel Policy and Procedure Manual, may

be excluded from participation in the Incentive Compensation Plan as outlined in the relevant plan document(s), and may be reported to applicable regulatory or law enforcement agencies when appropriate.

C. Gifts, Benefits, and Favors

In accordance with Chapter 36 of the Texas Penal Code, Covered Persons shall not solicit, accept, or agree to accept any gift, personal benefit, or personal favor in connection with their employment at ERS. The terms “gift,” “personal benefit,” and “personal favor” 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:

- gifts of books, pamphlets, articles, and 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 \$50.00 in value);
- 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;
- 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; or
- 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.

Gifts, personal benefits, and personal favors provided to investment staff are managed by the Chief Investment Officer’s office. Gifts, personal benefits, and personal favors provided to non-investment staff are managed by the Executive Office.

Covered Persons shall not accept non-exempt gifts of \$50 in value or greater received by mail. Non-exempt gifts of \$50 in value or greater received by mail that cannot reasonably be returned will be donated or otherwise dispensed by the managing office.

Covered Persons are required to disclose all gifts, personal benefits, and personal favors to the managing office. Covered Persons are further required to reaffirm all gifts, personal benefits, and personal favors on a quarterly basis with Investment Compliance.

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

D. 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.

- 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, such as when Staff speak at or actively plan the seminar or conference, and only with specific approval in advance from the CIO.

- 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.
- The prohibition 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 Staff are more than merely perfunctory.
- 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, Staff shall obtain specific approval in advance for their attendance at such events from the CIO. The CIO shall obtain such approval from the Deputy Executive Director. This approval will not be given for elaborate or expensive events.
- 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.

E. 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 also to cure it. Listed below are examples of conflicts of interest that shall be avoided:

- 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.
- Covered Persons may not participate in outside employment 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 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.
- 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.
- 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, the conflict may be cured in that manner provided that:
 - the person may be and is effectively separated from influencing the action taken;
 - the action may properly be taken by others; and
 - the nature of the conflict is not such that the person shall withdraw regularly and consistently from decisions that are normally the person's responsibility with respect to

ERS. Trustees and IAC members shall disclose any conflict regarding matters that are before the Board or IAC and not vote on the matter.

F. Market Manipulation

Covered Persons may not engage in market manipulation, including practices that intend to mislead market participants by distorting prices or artificially inflating trading volume.

G. Use of Placement Agents

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

H. Insider Trading and Confidentiality

See Addendum V for the Insider Trading and Confidentiality Policy.

I. Ethics Training

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

J. Compliance and Enforcement

- The Board will enforce this Policy through the Executive Director, who is responsible for its implementation with respect to all staff, the Deputy Executive Director, and IAC members.
- 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.
- 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.
- Any Covered Person with knowledge of a violation of this Policy shall report such violation to OGC and Investment Compliance. No retaliatory action will be taken for any such report made in good faith.
- A violation of this Policy may be reported to applicable regulatory or law enforcement agencies when appropriate.
- Anyone scrutinizing a transaction or issue for compliance with this Policy and applicable laws 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, OGC, Investment Compliance, Internal Auditor, state and federal enforcement authorities, and others might view the transaction or issue in hindsight.

Chapter VIII: Funds of the Texas Employees Group Benefits Program

This section defines the investment objectives and guidelines for the assets of the Texas Employees Group Benefits Program (GBP) administered by ERS for the benefit of GBP participants.

A. Purpose and Authority

On September 1, 1976, the Uniform Group Insurance Program (UGIP) for state employees (Article 3.50-2, Texas Insurance Code) began operation. In 2001, the UGIP was replaced by the GBP, later codified in 2003 in Chapter 1551 of the Texas Insurance Code as the Texas Employees Group Benefits Act (the Act). The purposes of the Act are specified under Section 1551.002.

The Act establishes the structure, scope, eligibility and participation provisions of the GBP as well as certain mandatory benefits. Section 1551.051 of the Act vests sole authority in the Board for the administration and implementation of the GBP.

Current programs administered for active employees under the GBP include:

- Health Insurance, including Prescription Drug Coverage
- Dental Insurance
- Voluntary Accidental Death & Dismemberment (AD&D) Insurance
- Short-term and Long-term Disability Insurance
- Vision Insurance
- Basic Term Life Insurance
- Optional Term Life Insurance
- Dependent Term Life Insurance
- Flexible Spending Accounts (FSAs)
- Health Savings Accounts (HSAs) for participants in Consumer Directed HealthSelect

The Act authorizes the Board to provide these life, accident, and health programs through coverage purchased from an eligible insurance carrier or through self-funding directly from the Employees Life, Accident and Health Insurance and Benefits Fund. The Board has adopted the Texas Employees Group Benefits Program Policy and Guidelines (GBP Policy) with the goal of offering competitive benefits at a reasonable cost. The GBP Policy applies to the basic term life and health insurance programs funded through the legislative appropriation process, but it does not apply to any of the optional or voluntary benefit plans.

In 2007, the GBP was separated into two funds (Active and Retiree) due to the implementation of GASB 43. Since that time, funds for retired members and their dependents have been in a fiduciary fund named the State Retiree Health Plan (SRHP). Through the GBP via the SRHP, ERS provides postemployment health care, dental, basic life, and optional life insurance benefits to retired employees of the state and other entities as specified by the Texas legislature.

The SRHP is funded on a pay-as-you-go basis as an Other Post-Employment Benefit Plan that does not accumulate significant assets, and which is treated as a fiduciary fund for financial reporting purposes. Other such fiduciary funds that may hold investments but do not accumulate significant assets include the State Employees Cafeteria Plan Trust Fund (TexFlex).

B. Contingency Reserve Fund

Section 1551.211 of the Act requires ERS to establish a Contingency Reserve Fund (CRF) for self-funded GBP coverage plans and, prior to the first day of each fiscal biennium, deposit into the CRF an amount equal to 60 days of estimated average expenditures for those plans. This Statutory Reserve Requirement (SRR) aims to provide for adverse fluctuations in claims and administrative expenses.

Section 1551.211 of the Act requires the Board to include in each request for legislative appropriations for the GBP the amount deemed necessary to maintain the CRF at the SRR level. To do so, the Board shall estimate the required expenditures that are anticipated for self-funded GBP coverage plans, considering projected claims and administrative expenses for those plans over an average 60-day period during the upcoming biennium.

Section 1551.401 of the Act addresses the Employees Life, Accident, Health Insurance & Benefits Fund and makes that fund available for all GBP coverage. As such, claims and administrative costs for self-funded GBP coverage (e.g., HealthSelect plans) are paid out of that fund and the CRF is maintained within that fund. To account for assets and liabilities associated with that fund, ERS uses a single Internal Service Fund that is categorized for financial reporting purposes as a proprietary fund.

Based on the funding mechanism set forth in the Act and described above, the GBP is not expected to accumulate funds significantly in excess of the SRR over the long term. As such, the GBP Policy establishes a guideline for ERS to consider the use of contingency funds in excess of the SRR to:

- Offset future legislative appropriations requests and related contribution increases. Any such benefit subsidies should be applied over multiple biennia in order to avoid requesting double-digit rate increases when the excess is exhausted.
- Fund benefit design changes and/or implement programs with low, reliably predictable costs that are not expected to necessitate requests for additional state funding in subsequent years.

The GBP Policy requires the Board to consider an increase in member cost share at the beginning of the fiscal year if such increase would be necessary to maintain a projected CRF balance of at least 15 days of expenditures for self-funded plans at the end of the biennium for which the Legislature has appropriated funding. To facilitate this process, Staff shall report to the Board no less frequently than annually the balance of funds managed on behalf of the GBP and provide the Board with an estimate of the level of funds significantly in excess of the SRR, if any.

C. Investment Objectives

The Act allows the Board to invest and reinvest any portion of the GBP funds under the standard of care provided by Texas Government Code § 815.307, including a consideration of the functional need to provide for adverse fluctuations in claims and administrative expenses. The strategic objective of the Investment program for managing GBP funds is to deliver performance that supports the current and future provision of benefits for GBP participants. The Act requires that the interest on, earnings of, and proceeds from the sale of GBP investments be credited to the GBP.

- Except for cash held in the state treasury, the investments of the Employees Life, Accident, Health Insurance & Benefits Fund are consolidated within the Investments pool fund. For the purposes of this Policy, these funds shall be known as the Insurance & Benefits Fund (IBF). The strategic objective of the investment program for the IBF is to:
 - earn returns consistent with the assumptions used to discount projected benefit payments to their actuarial present value, and
 - provide for the timely payment of claims and the prudent management of interest rate risk and credit risk.

This objective is achieved by delivering investment returns that are consistent with the actuarial discount rate while ensuring sufficient liquidity to meet the cash flow needs of the GBP both timely and

consistently. This return target can be benchmarked by the Bond Buyer Index for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher.

- The SRHP is funded on a pay-as-you-go basis and it is not expected to accumulate significant funds. Any funds managed on behalf of the SRHP shall be referred to as the Retiree Health Fund (RHF) for the purposes of this Policy. For the RHF and the other fiduciary funds described above, the strategic objective of the investment program shall be to provide ample liquidity at all times. As such, all funds in the RHF shall be invested in cash and benchmarked against 90-day Treasury bills.

The implementation objective for the Investment program as it relates to the IBF and the RHF is to obtain overall investment returns over rolling five-year periods that are in excess of the adopted policy benchmark. The adopted policy benchmark for the IBF and the RHF shall be the average of the asset class benchmarks set forth in Chapter IV of this Policy weighted according to the strategic targets set forth below.

D. Asset Allocation

To fulfill these objectives, the asset class positioning of the IBF and the RHF shall adhere to the allocation parameters set forth below. Use of these allowable ranges for the IBF shall be calibrated to the level of excess funds in the IBF such that liquidity is maximized as the funding level approaches the SRR.

TABLE 5 – STRATEGIC TARGETS AND TACTICAL RANGES

INSURANCE & BENEFITS FUND			
Asset Class	Strategic Target	Tactical Minimum	Tactical Maximum
Public Credit	10%	0%	30%
Private Credit	0%	0%	10%
Rates	40%	0%	70%
Cash & Equivalents	50%	0%	70%
Global Total	100%	--	--

RETIREE HEALTH FUND			
Asset Class	Strategic Target	Tactical Minimum	Tactical Maximum
Cash & Equivalents	100%	100%	100%
Global Total	100%	--	--

The authority that is delegated to Staff for rebalancing the IBF and the RHF shall be the same as set forth in Chapter IV of this Policy and shall be exercised with the same level of diligence and care. Performance reporting for the IBF and the RHF shall be as specified for the GBP in Chapter VI of this Policy. On an annual basis and as otherwise requested, Staff shall apply capital market assumptions to the targets above in order to estimate the expected rate of return for the IBF and the RHF. This process aims to assist the GBP actuaries in setting actuarial assumptions for investment income and other such efforts to manage the GBP programs.

E. Unit Trust Accounting

In order to provide flexibility of asset allocation and effectively invest in a diversified manner, the Board directed the implementation of investment unit trust accounting. The Trust implemented unit trust accounting in 2006 and the IBF did so on January 1, 2009.

Unit trust accounting involves assigning units to each fund based on the share of that fund's investment fair value to the total fair value of the consolidated investments. Investment earnings and appreciation increase the per unit value of all participating funds. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the participating funds on a daily basis using the pro rata share of fair value. Deposits and withdrawals for each fund change the number of units held by each fund. All changes are recorded at the unit value that is calculated for the transaction date. The custodian bank prepares consolidated statements that detail all of the unit trust accounting activity.

EMPLOYEES RETIREMENT SYSTEM OF TEXAS
PROXY VOTING POLICY
(Effective February 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 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 private funds, 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. 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 impractical to follow this policy exactly.

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 STRATEGIES

The policy classifies management and shareholder proposals included in proxies into 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: 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 serve on too many boards) raise concern as to their ability to serve shareholder interest effectively. 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 analyzed to determine their effect on 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 any social, political or ideological interests. 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 Beneficiaries to unrelated objectives.

SCRUTINIZED INVESTMENTS PROGRAM POLICY**A. Introduction**

This policy addresses ERS holdings in securities in which investment may be prohibited and divestment may be required pursuant to applicable state or federal law. Implementation procedures shall be reviewed by OGC and Investment Compliance and approved by the Executive Director.

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 on a periodic basis a list of companies in which investment may be prohibited, and divestment may be required, pursuant to the applicable law (the “Listed Companies”). The Applicable Agency generally will make such lists publicly available and update them on at least an annual basis. Since such laws generally provide different restrictions for direct investment in Listed Companies and indirect investment in Listed Companies, that distinction shall be observed for all activities related to these procedures.

C. Procedures for Scrutinized Investments

- Promptly upon receipt of a list of Listed Companies, investment staff will compare this information to its internal holdings and coordinate with external investment managers to determine whether any Listed Company is owned either directly or indirectly by the Trust.
- To the extent that investment staff identifies portfolio holdings that are Listed Companies, Investment Compliance will coordinate notification of applicable government officials and agencies in accordance with statutory requirements.
- In addition, to the extent that the applicable law directs ERS to engage with Listed Companies regarding scrutinized business activities, investment staff will coordinate engagement with such Listed Companies.
- This review and notification process will be completed by investment staff and overseen by Investment Compliance.

D. Analysis of Scrutinized Investments

- Promptly upon determination that the Trust holds securities of a Listed Company, investment staff will review and analyze the role that each security fulfills in the Trust’s investment program in order to determine the impact of the removal of that security from the Trust. Such an assessment shall be based solely on the economic value of the security within the Trust and its constituent portfolios, taking into consideration ERS policies, the Board’s constitutional fiduciary duty and exclusive benefit rule, and the transaction costs associated with divestment. Other relevant criteria may include, without limitation, the diversification characteristics of the security in the portfolio(s), including its relative value and relative risk characteristics, and the economic impact to the Trust of substituting other securities as may be necessary.
- To the extent required by applicable law, following the analysis set forth above, investment staff will cause the Trust to divest of all Listed Companies from all portfolios for which doing so would not be expected to have an adverse impact that is material from the perspective of the performance objectives prescribed by the Board. Divestment will be executed in an orderly fashion in keeping with fiduciary duty to the Trust and any divestment timing requirements set forth in applicable law.

- In the event investment staff determines that divestment from a security of a Listed Company would have a significant adverse impact on one or more portfolios, investment staff will advise the CIO and present the analysis supporting that conclusion. The CIO and relevant investment staff will, after consultation with OGC, make a recommendation to the Executive Director to determine how to proceed, taking into account the fiduciary duty of ERS to manage the Trust in a prudent manner in accordance with subsection (3) of Art. XVI, Section 67 of the Texas Constitution.
- In the event investment staff reasonably believes that it would be in the best interests of the Trust or its constituent portfolios to initiate a new purchase of securities of a Listed Company, investment staff will notify the CIO, who will follow the process set forth) above for divestment decisions.

E. Ongoing Monitoring and Reporting

ERS will follow all requirements related to ongoing monitoring and reporting of its holdings in the securities of Listed Companies. Such requirements may include periodic engagement with Listed Companies regarding their active scrutinized business activities, providing notice of Listed Company holdings to relevant government agencies and officials in accordance with relevant laws, and reporting to ERS senior staff and the Board the status of holdings in Listed Companies. Investment Compliance will be responsible for ensuring that investment staff provide all relevant reporting and meet all pertinent deadlines in this regard.

STATUTORY DEFINITION OF "SECURITIES"

Pursuant to Texas Government Code § 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 rights ²
 - participation in any oil, gas or other mineral royalty or lease ³
 - 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. However, 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 to be offered to 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 of all Placement Agent relationships (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. The contractual agreement between ERS and each consultant shall contain representations and warranties acceptable to ERS regarding such consultant's relationships with any placement agent, and the contractual agreement shall further contain requirements acceptable to ERS regarding disclosures regarding placement agent relationships and other ethical issues that shall be made by the consultant to ERS in connection with its work for ERS on any Fund prior to making a recommendation on that Fund.

Funds: These Policies and Procedures also apply to all Funds in which ERS invests. Any Fund in which ERS is considering investing shall submit to ERS a disclosure statement stating whether the Fund has engaged a Placement Agent and whether it is obligated to pay any Placement Fees with respect to ERS' investment in such Fund. The disclosure statement shall 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 shall 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 shall 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 shall further state whether the Fund 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 or near the commencement of due diligence. A Fund shall make the disclosures described above to ERS contemporaneously with ERS' investment in such Fund. All such disclosure statements shall 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 shall register with the SEC or the Financial Industry Regulatory Authority if required by applicable law. A Placement Agent that is not registered as required may not receive a Placement Fee in connection with an investment in a Fund by ERS.

Funds and Placement Agents shall 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 shall 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.

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:

- any contacts with any Texas Elected Official or member of the Board of Trustees or IAC,
- any Contributions to any Texas Elected Official, either directly or through Bundling, or 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:

- ERS shall have the right to withdraw without penalty from the Fund;
- 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

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.

- 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 or incentive payable to the Fund for investments made during the two-year period.

If at any time after initial disclosures are made pursuant hereto, any consultant, Fund, or other party subject to these Policies and Procedures discovers 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. The 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 shall 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, separate account, hedge fund, co-investment vehicle, 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 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 that is 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 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, parent, child, or sibling 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 (MNPI) are subject to this Insider Trading and Confidentiality Policy.

Definitions

“Covered Persons” means all members of the ERS Board of Trustees, IAC members, the Executive Director, the Deputy Executive Director, ERS investment-related staff, and any other non-investment staff who have access to ERS Information.

“ERS Information” means any MNPI regarding specific ERS investment transactions or proposals and related activity; potential ERS contracts with outside consultants, advisors, contractors, or vendors; or any other MNPI arising out of a person’s work for ERS.

“Material,” with respect to 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 positively or negatively, should be considered Material.

“Non-Public,” with respect to information, means information that is not widely available to the public. In the event of a question about whether information is considered Non-Public, such question should immediately be brought to the attention of OGC and Investment Compliance. OGC, in consultation with Investment Compliance, upon review of applicable facts and laws and after consultation with outside counsel and other persons as appropriate, shall make the determination of whether the information is Non-Public for purposes of this policy.

“Restricted List” means a list of securities for which ERS may possess MNPI. The Restricted List will be maintained by staff and updated promptly when Covered Persons are in receipt of MNPI. Staff will review the list periodically and may include any other securities if ERS determines there is a risk of an appearance of impropriety or a conflict of interest. The CIO retains discretion in determining when to add issuers to and remove issuers from the list.

Insider Trading and Confidentiality Policy

Covered Persons shall treat as confidential 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. Covered Persons should assume that all MNPI gained as a result of association with ERS is confidential. Covered Persons shall safeguard this MNPI whether generated internally or acquired from outside sources and shall 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 MNPI when discussing ERS matters with persons outside of their own divisions.

Each Covered Person having access to any ERS Information or any other MNPI:

- 1) shall consider the information to be proprietary to ERS and confidential in nature and shall safeguard that information as such person would any other property of ERS, and
- 2) shall be aware that:
 - a) any purchase or sale

- i) by ERS of securities as a result of such person's actions while aware of MNPI relating to those securities, or
 - ii) by such person of securities while aware of MNPI 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 at least the following:
- i) for Covered Persons (or their tippees) who trade or cause ERS to trade on MNPI, 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 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 MNPI 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.

When a Covered Person believes that he or she has received MNPI related to a security, the Covered Person should immediately contact their supervisor, Investment Compliance, or the Director of Investment Operations to determine if the security should be placed on the Restricted List.

The use of MNPI is also restricted by Texas Penal Code § 39.06 in the following ways:

- 1) A person commits an offense if such person, in reliance on MNPI to which the person has access by virtue of the person's 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.
- 2) A person commits an offense if, with intent to obtain a benefit or with intent to harm or defraud another, the person discloses or uses, for a nongovernmental purpose, MNPI that the person has access to by means of such person's state office or state employment.

- 3) 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

OGC and Investment Compliance 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 that either OGC or Investment Compliance 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 and on a yearly basis thereafter, each Covered Person shall be provided with a copy of this policy, and each such Covered Person shall sign a certification regarding receipt and review of the policy and responsibility for compliance. In addition, Investment Compliance 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:

- 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 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 Investment Compliance.

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

Any Covered Person or other ERS employee who has information that tends to indicate a violation of this policy shall promptly bring this information to the direct attention of OGC and Investment Compliance, 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, OGC or Investment Compliance 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. OGC 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 OGC or Investment Compliance (or Internal Audit, when applicable) and state and federal enforcement authorities and others might view the transaction in hindsight.

INVESTMENT ADVISORY COMMITTEE CHARTER

- A. Purpose:** The purpose of the Investment Advisory Committee (IAC) is to support and assist the Board in carrying out its fiduciary duties with regard to the investment of the Trust.
- B. Authority:** The IAC is established at the discretion of the Board pursuant to Texas Government Code § 815.509 and 34 Texas Administrative Code § 63.17(b). IAC membership is further described in Texas Government Code §§ 815.5091 and 815.5092.
- C. Scope:** The IAC shall review the investment policies and implementation strategies of ERS in order to provide advice that assists the Board in its oversight of the investment program. In addition, the IAC shall provide advice to the Board regarding asset allocation parameters, portfolio strategy, investment policies, and permissible securities. The IAC shall also provide advice to the Board regarding the Incentive Compensation Plan, the TexaSaver program, and other investment-related matters as requested by ERS. Specific areas of responsibility are included in Chapter III of the Policy, including as set forth in Table 1 and Table 2.
- D. Other Duties:** Individual IAC members shall also be selected to serve as members of the TexaSaver Product Review Committee (PRC) and one or more Asset Class Investment Committees (ACICs) as outlined in their respective charters. IAC members shall be considered to serve on ACICs based on their professional areas of expertise by the Chief Investment Officer, the Executive Director, and the Board IAC Working Group. In carrying out their duties to the Board, IAC members shall also provide general investment advice to Staff and specific investment advice to their respective ACIC(s).
- E. Eligibility:** As set forth in Texas Government Code § 815.5091, a person appointed to serve as an IAC member must be (1) a person with expertise in the management of a financial institution or other business in which investment decisions are made; or (2) a prominent educator in the field of economics, finance, or another investment-related area.
- F. Composition:** The IAC shall be composed of at least five and not more than seven members unless an exception has been previously approved by the Board. IAC members serve at the pleasure of the Board for staggered terms of three years.
- G. Selection:** Referrals by Board members, existing IAC members, Staff, consultants, peers, and industry organizations shall be the primary source of candidates for IAC membership. The Board Chair shall appoint two Board members to serve on the Board IAC Working Group. In consultation with the Chief Investment Officer and Executive Director, the Board IAC Working Group shall nominate IAC members for approval by the full Board.
- H. Structure:** The Board shall select a Chair and Vice Chair of the IAC for terms of two years to serve as liaisons to the Board and to preside over IAC meetings.
- I. Quorum:** A quorum of the IAC consists of a majority of eligible members.
- J. Annual Review:** Pursuant to Texas Government Code § 815.5093, the Board shall review the composition of the IAC at least annually. As provided by Texas Government Code § 815.509(c), if the Executive Director or an IAC member has knowledge that a potential ground for removal exists, the Executive Director or IAC member shall notify the Board Chair of the potential ground for removal.

The Board's annual review shall be accompanied by a survey of all current members of the Board regarding the functioning of the IAC at the individual and aggregate level. The purpose of this survey

is to assess, at regular intervals, whether the IAC is meeting the needs of the Board; to consider the reappointment of IAC members; and to provide feedback in pursuit of continuous improvement.

K. Authority and Responsibilities: The IAC shall consider investment recommendations developed by Staff for presentation to the Board to ensure that they align with the philosophy and objectives outlined in the Policy. IAC members are expected to review and evaluate written materials prior to each meeting, and to ask probing and relevant questions of Staff and consultants regarding the information presented and any related recommendations. After such consideration, the IAC shall vote to:

- Recommend that the Board approve Staff's recommendation as submitted;
- Recommend that the Board approve Staff's recommendation with contingencies or modifications;
- Recommend that the Board postpone consideration of Staff's recommendation in order to allow for resolution of specified issues; or
- Recommend that the Board reject the Staff recommendation.

IAC members have the authority to request additional information related to the investment recommendation as is necessary or desirable to fulfill their roles and responsibilities.

L. Meetings: The IAC shall convene at least quarterly in person for joint meetings with the Board. The IAC shall also convene either virtually or in person prior to each quarterly joint meeting in order to review any upcoming recommendations from Staff and, with the assistance of Staff, prepare a written summary of the IAC's recommendations to the Board in advance of each joint meeting.

The IAC Chair and Vice Chair shall also meet with the Board IAC Working Group quarterly.

Ad hoc meetings of the IAC may be held in person and/or attended by Members via telephone or video conference as agreed upon by the IAC. IAC members shall be provided at least five business days' notice of a meeting whenever possible.

M. Meeting Materials: Staff shall make every effort to provide IAC members with meeting materials at least 72 hours in advance of a meeting unless such schedule is not feasible given the timing of the proposal. Meeting materials include, but are not limited to, the agenda item, related appendices, relevant background materials/analysis, reports, and a Staff recommendation when applicable.

N. Minutes: Each meeting of the IAC shall be documented with minutes that record the Members present, material issues of significant discussion, and any actions taken (including decisions to reject a proposal or hold approval until contingencies are met). Minutes shall be provided to the Board on at least a quarterly basis or as needed to facilitate discussion on a matter under consideration by the Board.

O. Approval: Approval of a proposed investment recommendation or other action requires a majority vote of the IAC in all cases except where unanimous approval is required.

P. Limitations: The IAC serves the Board solely in an advisory capacity and shall have no authority to enter into contracts on behalf of ERS.

Q. Reporting: On at least a quarterly basis, the IAC shall provide to the Board a written summary of the IAC's recent activity and any resulting recommendations.

- R. Compliance:** IAC members are considered Restricted Persons II for purposes of the Policy and are therefore subject to the Conflicts of Interest Policy and Insider Trading and Confidentiality Policy. IAC members shall notify Investment Compliance of any actual or perceived conflict of interest arising in the matters discussed, prior to and during any meeting. Ethics provisions in ERS policies and federal and state law shall govern participation in or recusal from any IAC meeting or vote if necessary.
- S. Amendment:** This Charter shall be reviewed as updates are made to the Policy to determine whether any modifications are necessary or desirable. Any proposed changes shall be subject to approval by the Board.
- T. Interpretation:** It is intended that this Charter be construed and administered so that it complies with all applicable federal and state laws and regulations. The Executive Director is authorized to approve variances from the policies, practices, and procedures set forth above in furtherance of such compliance or as the Executive Director deems to be in the best interests of ERS, consistent with both the fiduciary responsibilities of ERS and the purpose and scope of this Charter and the Policy.
- U. Confidentiality:** IAC members shall safeguard and maintain strict confidentiality of all non-public information provided by ERS in connection with service as an IAC member. Confidentiality shall not apply to information that IAC members are required to disclose pursuant to a legally binding order or other similar requirement of a court, administrative agency, or other governmental body. An IAC member shall avoid taking any investment action or cause others to take any investment action based on such information.
- V. Compensation:** During the annual agency budgeting process, the Board shall determine the compensation to be paid to IAC members for future service.
- W. Reimbursement:** IAC members shall be reimbursed for all expenses reasonably incurred in furtherance of their official duties. Travel for IAC purposes shall be reimbursed under the same policy that applies to the Board.
- X. Payments:** Unless otherwise authorized by the Executive Director, payments to IAC members for compensation and expense reimbursement as authorized above shall be made quarterly in arrears based on an itemized invoice provided to Staff by an IAC member and certified by the Chief Investment Officer.
- Y. Independent Contractor:** IAC members shall serve as independent contractors and are not employees of ERS or the state of Texas for any purpose. Contracts with IAC members may be terminated at any time with or without cause at the pleasure of the Board as provided by Texas Government Code § 815.509(a).

ASSET CLASS INVESTMENT COMMITTEE CHARTER

- A. Purpose:** The purpose of each Asset Class Investment Committee (each, an ACIC) is to support the Board in fulfilling its oversight responsibilities, in accordance with the Policy. ACICs are delegated the authority to review and approve Staff recommendations for alternative investments (as defined by Texas Government Code § 815.3016) that do not exceed the Board Approval Threshold set forth in the Policy.
- B. Scope:** As part of the Board's framework for delegation of authority to staff, ACICs reviews and approve Staff recommendations within each of the asset classes for:
- Commitments to alternative investments,
 - Redemptions from alternative investments that are greater than \$25 million,
 - Extensions (defined as lengthening the term of an existing fund or co-investment to which ERS has previously made a commitment) that are greater than two years,
 - Addition of investment strategies to the Select Pool(s),
 - Removal of investment strategies from the Select Pool(s), and
 - Other proposed investment-related actions at the discretion of the CIO or Executive Director.

This process is to be conducted in a manner consistent with ERS' established investment objectives and strategies with the goal of achieving strong risk-adjusted performance by the programs that comprise the Trust while keeping with the assumption of prudent levels of risk, as described in the Policy.

The provisions of this Charter shall conform to the Policy and any related policies approved by the Board or the Executive Director (ED).

- C. Composition:** Each alternative asset class will be assigned an ACIC, which for the purposes of this policy includes Private Equity, Private Real Estate, Private Credit, Private Infrastructure, and Hedge Funds. For the purposes of this Policy, Public Equity (which shall also include Public Real Estate) and Public Credit will also be assigned to an ACIC that will oversee the selection of Investment Managers within their respective Select Pools as well as significant changes in overall portfolio structure.

Each ACIC will include at least four Voting Members.

- The three permanent Members of each ACIC include the Executive Director, the CIO, and a member of the IAC with expertise in the relevant asset class. 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 ACIC meeting.
- A fourth Voting Member with expertise valuable to that ACIC shall be appointed to each ACIC by the CIO, in consultation with the Executive Director. The fourth member shall be a senior member of the investment staff from a different asset class than the asset class under review. The Executive Director shall have the final authority to approve or deny the composition of each ACIC.

Investment Consultant: If an investment consultant provides a recommendation for the specific asset class investment being reviewed, a representative from the Investment Consultant will attend the ACIC meeting in person or via telephone or video conference.

Non-Voting Members: Non-Voting Members of each ACIC will include (1) a staff member from the Operational & Financial Diligence team, (2) a staff member from OGC, and (3) a staff member from Investment Compliance or the Director of Internal Audit. Non-Voting Members may provide written or oral commentary, if applicable, but have no voting privileges related to investment actions.

Quorum: At least a majority of the Voting Members of an ACIC shall attend for a quorum, with the Executive Director or designee required to attend. The attendance of Non-Voting Members is not required to meet quorum. However, Investment Compliance or the Director of Internal Audit shall certify prior to any vote that the pending investment complies with the Policy.

D. Authority and Responsibilities: Pursuant to the Policy, each ACIC has the authority to review and approve the below recommendations from Staff to ensure that they conform to the objectives outlined in the Policy and are prudent given current and anticipated market conditions. ACICs will consider the alignment of the proposed investment with the philosophy and objectives outlined in the Policy. After such consideration, the relevant ACIC will vote to:

- Approve the recommendation as submitted;
- Approve the recommendation with contingencies and/or modifications, with such approval taking effect once the applicable ERS asset class director represents in writing to the Executive Director via the CIO that all such conditions have been fulfilled;
- Postpone consideration of the recommendation to allow for resolution of specified issues; or
- Reject the recommendation as submitted.

ACICs will not consider any proposed investment that has not gone through the applicable ERS investment and operational due diligence processes as well as the meeting procedures described in this Charter. All Voting and Non-Voting Members of each ACIC have the authority to request additional information related to the investment recommendation as is necessary or desirable to fulfill their roles and responsibilities.

The ACIC may also be consulted regarding material post-closing investment matters to the extent permitted or required by other ERS policies.

E. Meetings: ACICs will meet as needed when a proposed investment is ready for consideration. ACIC meetings may be held in person and/or attended by members via telephone or video conference as agreed upon by the ACIC. ACIC Members will be provided at least five business days' notice of the meeting whenever possible.

Approval by email may occur for:

- Co-Investments in an amount of \$25 million or less. A Co-investment is defined as any direct or indirect investment into a single asset or group of assets alongside or otherwise in connection with an investment in such asset(s) made by a private fund or alongside an existing fund sponsor. Co-investments may also include co-investment vehicles intended to hold multiple investments.
- "Top-up" investments in an amount of \$25 million or less. A Top-up Investment is defined as an additional commitment to an existing fund or co-Investment to which ERS has previously made a commitment.
- Extensions in an amount of \$50 million or less with respect to the ERS NAV in the Fund.
- Partial redemptions in an amount of \$50 million or less, and/or full redemptions of the ERS commitment in the case of urgent circumstances as designated by the CIO.

Investments approved by Voting Members via email shall satisfy the following conditions:

- the proposed criteria are consistent with the amounts specified above;

- it is made with an Investment Manager with which ERS has made a previous investment and has an existing relationship, and
- it is approved unanimously by the Voting Members.

All other provisions of this Charter apply to Co-investments and Top-ups reviewed and approved via email. The Executive Director shall have the authority to require any investment to be reviewed and voted on at a regular ACIC meeting instead of by email.

If any Top-up Investment results in a total aggregate commitment to such vehicle in excess of the Board Approval Threshold, the Top-up Investment will be subject to the Board approval procedures described in Item VIII of this Charter.

- F. Meeting Materials:** Staff will make every effort to provide ACIC Members with meeting materials at least 72 hours in advance of the meeting unless such schedule is not feasible given the timing of the potential investment. Meeting materials include, but are not limited to, an investment recommendation from staff and, when appropriate, a separate recommendation or report from Operational & Financial Diligence team and/or the applicable consultant.
- G. Minutes:** Each meeting of an ACIC will be documented with minutes that record the Members present, material issues of significant discussion, and any actions taken, including but not limited to decisions to reject an investment or not approve until contingencies are met.
- H. Approval:** Other than any approvals by email that require unanimous approval, at least a majority of the Voting Members shall approve all investment recommendations or actions, one of whom shall be the Executive Director or a designee.
- I. Limitations:** Any proposed investment that exceeds the Board Approval Threshold will first be presented to the applicable ACIC in accordance with this Charter, but only for the purpose of recommending the investment to the Board. If so recommended, the proposed investment will then 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.
- J. Reporting:** On a quarterly basis, staff will provide to the Board a summary of investment activity within each pertinent asset class, as set forth in the Policy.
- K. Conflicts of interest and declarations of interests:** ACIC members are subject to the Conflicts of Interest Policy and Insider Trading and Confidentiality Policy. ACIC members shall notify Investment Compliance of any actual or perceived conflict of interest arising in the matters discussed, prior to and during the meeting. Ethics provisions in ERS policies and state law shall regulate participation in or recusal from the ACIC meeting and/or vote if necessary.
- L. Amendment:** This Charter shall be reviewed at least annually to determine if modifications are necessary or desirable. Any proposed changes will be subject to approval by the Board.
- M. Interpretation:** It is intended that this Charter be construed and administered so that it complies with all applicable state laws and regulations, as such may be amended from time to time. The Executive Director is authorized to approve from time to time variances from the policies, practices, and procedures set forth above in furtherance of such compliance or as the Executive Director deems to be in the best interests of ERS, consistent with both the fiduciary responsibilities of ERS and the purpose and scope of this Charter and the Policy.