

**INDIANA STATE TEACHERS' RETIREMENT FUND**  
**INVESTMENT POLICY STATEMENT**

Originally Adopted December 4, 1997  
Last Restated December 16, 2009

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## **I. INTRODUCTION**

### **A. Description of TRF**

The Indiana State Teachers' Retirement Fund ("TRF" or the "Fund") is a defined benefit plan under Internal Revenue Code Section 401(a) and is governed by federal law, the Indiana Constitution, Indiana Code, Indiana Administrative Code, and policies set by the TRF Board of Trustees (the "Board"). Pursuant to Indiana law and the Internal Revenue Code, TRF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. In order to provide the ensuing tax advantages to its members, TRF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code. In addition, TRF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code.

### **B. Objectives**

All aspects of this policy statement should be interpreted in a manner consistent with the Fund's objectives. The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

1. To have the ability to pay all benefit and expense obligations when due;
2. To achieve the actuarial rate of return while limiting downside risk; and
3. To control the costs of administering the Fund and managing the investments.

### **C. Background of the Investment Policy Statement**

The Board has maintained an investment policy statement ("Policy") for many years. This Policy has been amended and restated from time to time as the Board deemed appropriate. The Board intends the body of this Policy to augment the governing laws and, immediately upon adoption, to supersede *all* prior Investment Policy Statements. This Policy is binding on all persons with authority over Fund assets, including investment managers ("Investment Manager" as defined in Sec. II.E below), custodians ("Custodian," as defined in Sec. II.F), external investment consultants ("Consultants," as defined in Sec. II.D below), TRF staff ("Staff"), and the Board, as well as any other person who could have a relationship with the Fund.

The Board intends for this Policy to be a dynamic document, and, as such, expects to conduct periodic reviews utilizing input from Staff, Consultants, and other knowledgeable third parties. The Board anticipates approving changes from time to time to reflect experience, investment product changes, benefit and structural changes, and economic conditions. At a minimum, this Policy shall be reviewed upon the completion of each asset-liability study.

This Policy is a statement of the Board's principles and is the foundation for guiding the work of Staff. The Board recognizes that not all circumstances can be envisioned and critical situations may arise. Therefore, Staff should take the course of action that is in the best interest of the Fund. Good governance is and

will remain the responsibility of the Board, though day-to-day supervision of the Fund's investment program shall be provided by Staff, with the advice and counsel of Consultants.

#### **D. Purpose of Policy**

The purpose of this Policy is to:

1. Set forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets;
2. Make a clear distinction between the responsibilities of the Board and the responsibilities of Staff, Investment Managers, and other parties selected by the Board to implement the Board's Policy;
3. Establish criteria against which the Investment Managers and service providers ("Service Provider" as defined in Sec. III.A) are measured;
4. Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants, employers, members, and all other interested parties;
5. Serve as a review document to guide the ongoing oversight of the investment of the Fund; and
6. Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Fund solely in the interests of members and beneficiaries of the Fund.

#### **E. Description of the Primary Statutory Investment Provision**

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. The primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.4-3-10.

Other pertinent investment requirements in the Indiana Code ("IC") include the following:

1. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. All Custodians must be domiciled in the United States. IC 5-10.4-3-13;
2. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5 10.2-2-1.5(9); and

3. The Board must divest from firms that do business with Sudan under IC 5-10.2-9 and State Sponsors of Terror under IC 5-10.2-10.

#### **F. TRF Annuity Savings Account**

TRF is responsible for the management of the Annuity Savings Accounts (ASA) as detailed in Section XIII of this document. The Annuity Savings Accounts are bookkeeping accounts established for each member of TRF. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has limited investment direction to several investment options or may leave their account in the "Guaranteed Fund." The Guaranteed Fund affords the member a "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). These accounts provide an additional separate benefit from the fixed-formula employer-funded pension benefit.

## **II. DUTIES AND AUTHORITY OF RESPONSIBLE PARTIES**

### **A. Board of Trustees**

The Board responsibilities with respect to the assets of the Fund include completing each of the duties below as a prudent investor:

1. Set the policies, objectives, and guidelines for the investment of Fund assets;
2. Study issues affecting Fund investments so as to make educated and prudent decisions;
3. Select qualified professionals to assist in the implementation of this Policy;
4. Evaluate the Fund's performance and compliance with this Policy and applicable state and federal laws;
5. Evaluate performance of investment professionals and Staff; and
6. Approve an appropriate asset allocation.

### **B. Executive Director**

The Board has given TRF's executive director ("ED") broad authority for planning, organizing, and administering the operations and investments of the Fund under this and other broad policy guidance from the Board. Specifically with regard to investments, the ED is broadly responsible for the supervision of the investment program. He or she must ensure that the Chief Investment Officer ("CIO") invests Fund assets in accordance with the Board's policies and that internal controls are in place to safeguard Fund assets. Recommendations made by the CIO regarding Investment Manager hiring and terminations and sub-asset allocation adjustment, other than for rebalancing, shall require ED approval prior to any action being taken. The ED, with the advice and counsel

of the CIO and Consultant, is also given the authority to take prudent actions that are deemed essential to protect the assets of the Fund. Any emergency action taken will be immediately reported to the Board.

### **C. Chief Investment Officer and Investment Staff**

The Chief Investment Officer manages the Fund's portfolio according to the Board's policies, and recommends modifications to this Policy. The CIO has primary responsibility to make investment related recommendations to the Board and ED, with the advice and counsel of the Consultant. Other responsibilities of the CIO include advising the Board and ED on investment matters, monitoring the investment of Fund assets, supervising Investment Managers, managing the investment operations to ensure compliance with Board policies, and keeping the Board and ED apprised of situations which merit their attention.

### **D. External Investment Consultants**

Consultants are persons or firms who are approved by the Board and are responsible for providing advice on the investment program based upon their expertise and their analysis of the issues under consideration. The primary duty of the Consultants is to advise the Board and Staff on policies related to the investment program and to provide a third party perspective and oversight to the Fund's investment program. A Consultant retained by the Board will proactively generate investment, risk and operational ideas, provide advice regarding Investment Manager hiring and termination decisions, and provide advice on any other fund related matters as requested by the CIO, the ED, or the Board. Each Consultant will be evaluated annually based on their timely response to Board and Staff requests, proactive advice on asset classes and Investment Managers, depth and quality of investment manager research, and ability to perform tasks necessary to guide the management of the portfolio. The ED and CIO may hire consultants for special projects, tasks, or other advice as required to fulfill their responsibilities.

### **E. Investment Manager**

An Investment Manager is a person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940, unless exempted from registration (e.g., banks, insurance companies and affiliates, and other alternative managers).

### **F. Custodian**

A Custodian for the Fund is a bank or trust company, which is retained by the Board to account for the assets of the Fund. A Custodian serves as an additional layer of risk control for the Fund by ensuring that any movement of funds is properly approved and documented. The Custodian responsibilities are more

specifically covered under Guidelines for the Custodian in Section VIII of this policy statement.

### **G. Delegated Authority**

The ED is authorized by the Board, pursuant to a recommendation of the CIO, to retain, manage, and terminate Investment Managers within each asset class as required to achieve the investment objectives of the Fund, defined benefit and annuity savings accounts, within the following limitations:

1. The first investment made with a public Investment Manager may not exceed 3.0% of the market value of the defined benefit and ASA assets, and each subsequent investment made to the same Investment Manager may only occur after each prior investment has been reported to the Board and may not exceed 3.0% of the market value of the defined benefit and ASA assets;
2. The first investment made with an alternative Investment Manager may not exceed 0.75% of the market value of the defined benefit and ASA assets, and each subsequent investment made to the same Investment Manager may only occur after each prior investment has been reported to the Board and may not exceed 1.0% of the market value of the defined benefit and ASA assets; and
3. Reducing assets under management, including full termination, of a public or alternative Investment Manager may not exceed 4.0% of the market value of the defined benefit and ASA assets, with notification provided to the Board at its subsequent meeting. An Investment Manager, however, may be terminated with the agreement of the ED, CIO, and Consultant for any level of assets if such removal is deemed necessary to protect the Fund's assets.

An allocation change may only exceed the limits described in this section with the prior authorization of the Board. Approval authority set forth in this section shall be reviewed upon the departure of either the ED or CIO, to consider the suitability of this investment authority delegated by the Board.

## **III. CODE OF ETHICS**

### **A. Responsibilities of Service Providers**

Investment Managers, Consultants, Custodians and the agents of each, and other persons retained by the Fund ("Service Providers") shall abide by all ethical requirements that apply to persons who have a business relationship with the Fund as set forth in IC 4-2-6, IC 4-2-7, the regulations promulgated there under, Indiana Executive Orders 04-08 and 05-12 and the Board's Ethics Policy. If the Service Provider is not familiar with these ethical requirements, the Service Provider should refer any questions to the Indiana State Ethics

Commission, or visit the Indiana State Ethics Commission website at <http://www.in.gov/ethics/>. If the Service Provider or its agents violate any applicable ethical standards, the Fund may, in its sole discretion, terminate its agreement with the Service Provider immediately upon notice to the Service Provider. In addition, the Service Provider may be subject to penalties under IC 4-2-6 and 4-2-7. The Service Provider has an affirmative obligation under this Policy to disclose to TRF when any TRF employee, spouse or dependent child of a TRF employee has a pecuniary interest in or derives a profit from any agreement.

The Board recognizes that Service Providers have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Service Provider or member of Staff.

### **B. Process for Addressing an Ethics Concern**

All parties are compelled to report any acts that create a conflict of interest or could be construed as a violation of state ethics rules or Board Ethics Policy. Such report shall be in writing to the TRF Compliance Officer, CIO, and ED. If the issue in question involves the TRF Compliance Officer, CIO, and ED, then the Service Provider may use an alternative method such as reporting the violation directly to the TRF Board or State Ethics Commission if it is deemed necessary. The obligation under this section extends only to those facts that the Service Provider knows or reasonably could know.

## **IV. INVESTMENT POLICY GUIDELINES**

### **A. Asset Allocation Guidelines**

The Board recognizes that the asset allocation is the most important determinant of investment rates of returns over long periods of time. The procedure for determining the allocation will consider the relevant characteristics of the liabilities and the potential assets of the Fund. An asset allocation review will be conducted at least annually to determine the continued prudence of the allocation in achieving the objectives of the Fund. A formal asset-liability (AL) study will be conducted no less than every three years. The AL study will analyze the expected returns of various asset classes, projected liabilities, risks associated with alternative asset mix strategies and their effect on the projected market value of assets, funded status and contribution needs of the Fund. The outcome of the AL study and/or asset allocation review shall be a prudently diversified portfolio that is expected to meet the actuarial return target within the risk tolerance of the Board.

Based on the most recently completed AL study, the Board has established an asset allocation that is listed at the end of this section. The CIO and ED, with the advice and counsel of the Consultant, shall together establish sub-asset class allocations within the approved asset classes and establish the mix between

active investment managers and passive index investment managers.

## **B. Time Horizon**

The Board acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term periods. Recognizing that short-term fluctuations may cause variations in the total portfolio's performance, the Board intends for Staff to develop long-term investment strategies consistent with the guidelines contained in this Policy. Although each Investment Manager will vary in its time horizon and strategy, a 3-5 year time period reflects the Board's emphasis on the long term; however, significant deviations from performance objectives will be monitored on a more frequent basis to determine any appropriate actions.

## **C. Total Fund Asset Mix and Benchmarks**

The broad asset allocation and specific ranges are detailed in the Asset Allocation table below. Each asset class will be constructed as a diversified pool of investments that will target the blended benchmark of the broad asset class benchmarks. Individual mandates within each asset class may have a benchmark other than that listed as the asset class benchmark.

### Asset Allocation – Targets and Ranges

Asset Class	Benchmark	Target %	Minimum %	Maximum %
<b>Total Equity</b>	Weighted Blend	<b>41%</b>	<b>34%</b>	<b>48%</b>
Domestic	Russell 3000	17%	13%	21%
International	MSCI EAFE/ACWI ex US	11%	8%	14%
Equity Strategies	Weighted Blend	4%	0%	8%
Private Equity	PE Portfolio <sup>1</sup>	9%	5%	13%
<b>Total Credit</b>	Weighted Blend	<b>37%</b>	<b>30%</b>	<b>44%</b>
Domestic	Barclays Capital Aggregate Bond Index	28%	24%	32%
International	Barclays Capital Global Bond Index CITI-World Government Bond Index ex US	6%	4%	8%
Credit Strategies	Weighted Blend	3%	0%	7%
<b>Inflation-Sensitive</b>	Weighted Blend	<b>18%</b>	<b>14%</b>	<b>22%</b>
TIPS/IL	Barclays Capital TIPS Index <sup>2</sup>	5%	3%	7%
Real Estate	Real Estate Portfolio <sup>3</sup>	9%	5%	13%
Commodities	S&P Goldman Sachs Commodity Index Total Return (SPGSCI-TR) Custom Benchmark	4%	2%	6%
<b>Absolute Return</b>	One Year US Treasury Bill +3%	<b>4%</b>	<b>2%</b>	<b>6%</b>
<b>Cash<sup>4</sup></b>	90-day US Treasury Bill	<b>0%</b>	<b>0%</b>	<b>4%</b>
<b>Total</b>	Weighted Blend	<b>100%</b>		

<sup>1</sup> For a period of 3-5 years, the private equity portfolio will be benchmarked to itself. The primary reason for this is that private equity funds typically have investment periods of 10 years and there is no market benchmark that would be expected to adequately track the asset class in the interim. The long term expected return of the portfolio is Russell 3000 + 3% to 5% net of all fees and expenses.

<sup>2</sup> Benchmark includes a mix of both US and non-US securities.

<sup>3</sup> For a period of 3-5 years, the real estate portfolio will be benchmarked to itself. The primary reason for this is that private equity real estate funds typically have investment periods of 10 years, and there is no market benchmark that would be expected to adequately track the asset class in the interim. The long term expected return of the portfolio is NCREIF Fund Index-ODCE net of all fees and expenses.

<sup>4</sup> Cash is not part of the target asset allocation. However, it is occasionally necessary and prudent to hold cash for investment purposes and for the funding of benefit and other payments.

## **V. INVESTMENT MANAGER GUIDELINES**

### **A. General Guidelines for Investment Managers**

Each Investment Manager retained to manage a portion of the assets (the Investment Manager's "Portfolio") of the Fund shall be aware of and operate within this Policy and governing Indiana statutes. Subject to the guidelines in this Section and the policies documented in this Policy, any Investment Manager retained by the Fund is to have full discretionary investment authority over the Investment Manager's portfolio. Each Investment Manager will therefore submit to the Fund its own product-specific guidelines for the Portfolio it manages. Approval of the guidelines shall be evidenced by the signed management agreement. The CIO may alter the Investment Manager mandate or provide an exemption based on market conditions, with the advice and counsel of the Consultant and notification of the change and reasoning provided to the Executive Director.

As fiduciaries of the Fund, Investment Managers (regardless of type of investment) will discharge their duties solely in the interests of the Fund's members and beneficiaries with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. In addition, the Investment Managers, other than Investment Managers covered by the Policy sections for Private Equity, Hedge Funds and Real Assets, shall be governed by the following rules:

#### **1. Securities Trading**

Each Investment Manager is to immediately send copies of each transaction record to the Fund's Custodian(s), and any designated agent of its Custodian(s). Each Investment Manager is further required to reconcile the account(s) under its management on a timely basis each month with the Custodian(s). Each Investment Manager is responsible for complying fully with the Fund's policies for securities trading and selecting brokerage firms as stated in the Trading & Brokerage Policy section of this document.

#### **2. Holdings**

Notify Staff of any firm-wide holdings that exceed 5% of a public company.

#### **3. Acknowledgments of Legal Compliance**

Each Investment Manager retained by the Fund must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and acknowledges its fiduciary responsibility by signing the investment management agreement with the Fund. SEC-registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis.

#### **4. Acknowledgments of Receipt**

All Investment Managers will be provided with this Policy and any revised investment policy and shall acknowledge in writing their receipt of this Policy and their agreement to abide by its terms. All Investment Managers shall have an affirmative duty to bring suggestions for modification or change of this Policy to the CIO.

#### **5. Ethics Policy**

Investment Managers shall provide a copy of their respective ethics policy to the Fund.

#### **6. Fiduciary Liability Insurance**

Each Investment Manager shall obtain fiduciary coverage in an appropriate amount. The fiduciary coverage must cover a loss resulting from a breach of fiduciary duty in providing or failing to provide professional services to the Fund. In some cases, fiduciary coverage may be established through errors and omissions (E&O) or professional liability policies (including, for some Investment Managers, a "blanket bond" if the bond also provides coverage for fiduciary liability), as long as those policies are specifically written to cover fiduciary breaches themselves or include a specific fiduciary liability endorsement or rider.

Each Investment Manager shall annually provide written evidence of such coverage. The ED may approve alternative fiduciary liability insurance arrangements, if in the judgment of the ED, CIO, and legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

#### **7. Errors and Omissions Coverage**

Each Investment Manager will obtain E&O coverage to cover a loss due to a mistaken or negligent act or omission (without any coverage exclusions for benefit plans that would exclude the services the Investment Manager provides to TRF) in an appropriate amount.

Each Investment Manager shall annually be required to provide written evidence of such coverage. The ED may approve alternative E&O coverage, if in the judgment of the ED, CIO, and legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

#### **8. Fidelity Bond**

Each Investment Manager will obtain a fidelity bond, which covers loss from acts of dishonesty, theft, or negligence, in an appropriate amount. Each

Investment Manager shall annually be required to provide written evidence of such coverage.

The ED may approve alternatives to a fidelity bond, if in the judgment of the ED, CIO, and legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

## **9. Proxy Voting**

Each Investment Manager will abide by the Fund's Proxy Voting Policy as stated in Section X of this Policy. At least annually, each Investment Manager will provide a report of proxy voting activity to the Fund consistent with the requirements of Section X.

## **10. Conflicts of Interest**

Each Investment Manager shall be subject to the ethics provisions detailed in Section III of this Policy. An Investment Manager through its actions on behalf of the Fund shall not invest any part of the Fund with itself or with any person or entity with which or in which it has any economic interest, unless such Investment Manager receives prior written approval from both the ED and CIO. This does not preclude Investment Managers from investing personal assets alongside Fund assets in a manner that is not in conflict with their fiduciary obligation to the Fund.

This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no Investment Manager, through its actions on behalf of the Fund, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such Investment Manager receives prior written approval from both the ED and CIO.

## **11. Prohibited Securities and Transactions**

The following transactions shall be prohibited unless otherwise approved by the Board:

- a) Repurchase agreements that may create explicit leverage in the Portfolio. (Repurchase agreements such as cash equivalents are permitted.);
- b) Purchases of letter or restricted securities by public Investment Managers;
- c) Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503 or be prohibited under Indiana Code; and
- d) Direct purchases of physical commodities (e.g. Swaps, instruments that constitute a security, or authorized derivatives are permitted).

## **12. Commingled and Pooled Investments**

In accordance with IC 5-10.2-2-2.5, Investment Managers may, with the express written permission of both the ED and CIO, invest in commingled or pooled funds that otherwise comply with the guidelines in this Policy.

### **13. Correction of Violations**

If a violation of the aforementioned guidelines occurs, unless otherwise approved by both the ED and CIO in writing based upon a determination of the best interests of the Fund, the violation:

- a) Shall be corrected as soon as practicable following detection and notification, unless the ED and CIO have both agreed in writing to a correction which does not require immediate action;
- b) Shall result in reimbursement to the Fund by the Investment Manager for any losses which may have been incurred due to the violation;
- c) Shall result in the Fund retaining any gains which are realized from the violation; and
- d) May be grounds for immediate termination.

### **B. Reporting Procedures for Investment Managers**

The Investment Manager shall:

1. Prepare a quarterly report to be delivered to the Staff, which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings, a review of recent and anticipated investment activities, an analysis of major changes which have occurred in the investment markets and the Portfolio since the last report, a summary of the key characteristics of the Portfolio, and other matters as requested by the Fund from time to time;
2. Make a presentation to the Board when requested, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues;
3. Meet with Staff on an as-needed basis to discuss the management of the Portfolio, new developments and any other related matters; and
4. Advise the Staff within two (2) business days via email if any of the following events occur within the Investment Manager organizations:
  - a) a loss of one or more key people;
  - b) a significant change in investment philosophy;
  - c) a new portfolio manager(s) or account manager(s) on the Fund's account;

- d) a change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) or in business focus of the Investment Manager;
- e) loss of a significant client relationship(s); or
- f) any event that is deemed to adversely impact the management, professionalism, integrity or financial position of the Investment Manager.

### **C. Performance Evaluation Factors for Investment Managers**

A time-weighted return formula (which minimizes the effect of contributions and withdrawals) should be utilized to measure Investment Manager performance. Investment Managers will be expected to comply with the CFA Institute's Global Investment Performance Standards (GIPS) in calculating and reporting their investment performance. The Fund, and any firms retained by the Fund to calculate investment performance, will also adhere to the GIPS Standards.

Rates of return will be evaluated on both a gross and net of fee basis. In order to provide more definition and consistency, one-year, three-year, five-year, and rolling three-year and five-year periods will be used. Rolling periods shall be defined as a three (and five) year period beginning with the earliest reasonable date and including subsequent three (and five) year periods each beginning one year later until the ending date is the end of the current period. If needed to further evaluate investment performance, other time periods may be employed.

Any of the following standards may be used as a guideline for the evaluation of the investment performance of Investment Managers:

1. Gross of fee rates of return ranking at or above the median of an appropriate universe or style peer group of investment managers;
2. Net of fee returns exceeding an appropriate market index;
3. Risk-adjusted returns exceeding an appropriate market index; and
4. Volatility consistent with the assigned asset class, and with the appropriate market index benchmark.

### **D. Investment Manager Selection and Hiring**

It is the intent of the Board to follow a process that embodies the principles of procedural due diligence. In most cases, a formal Request for Proposal (RFP) will be utilized to select the best qualified investment manager. An RFP will generally not be utilized for investment managers specializing in the areas of Private Equity, Hedge Funds, and Real Assets unless it is determined that doing so would not negatively impact the selection process. Regardless of the selection process, a review of similar investment managers will be conducted to ensure

selection of the best possible investment manager. Details of the selection process can be found in the Board's Investment Procurement Policy.

## **E. Watch List Procedure**

The purpose of the "Watch List" procedure is to provide an objective plan to assist Staff in determining any action that is warranted when a public Investment Manager is not meeting expectations. Alternative investments will be measured against customized benchmarks that reasonably approximate the expectations for the strategy. The Watch List shall be presented to the Board on a quarterly basis with more frequent updates as needed to discuss material changes.

The following procedure has been established to describe the conditions leading to a public Investment Manager being added or removed from the Watch List:

### **1. Conditions for Placement on the Watch List**

Conditions considered in determining whether a public Investment Manager should be placed on the Watch List include, but are not limited to, the following:

- a) Performance (Quantitative)
  - i. Three year total fund return (net of fees) that is less than the Investment Manager's benchmark; or
  - ii. Bottom quartile performance relative to peer group for a 12-month period;
- b) Staff Evaluation (Qualitative and Quantitative)
  - i. Changes in Investment Manager ownership structure;
  - ii. Key people leaving the Investment Manager;
  - iii. Changes in strategy the Investment Manager was hired to implement;
  - iv. Investment Manager involvement in material litigation or fraud;
  - v. Material client servicing problems;
  - vi. Deterioration of financial condition;
  - vii. Any event which is deemed to adversely impact the management, professionalism, integrity or financial position of the Investment Manager; and
  - viii. Staff's assessment of value added by the Investment Manager to the overall portfolio based on informed Staff opinion and/or using common industry metrics such as, Sharpe ratio, standard deviation, tracking error, and alpha.

The CIO will determine if a Public Investment Manager qualifies for the Watch List based on the Performance and Staff Evaluation conditions listed

above. An Investment Manager that is placed on the Watch List will be promptly notified and given a 10 business day response period to explain the issues that led to their placement on the Watch List. Staff will work with the Investment Manager to outline expectations for what will facilitate their removal from the Watch List. The Investment Manager's willingness and ability to meet these expectations must be deemed adequate by Staff; otherwise, the Investment Manager may be terminated.

## **2. Conditions for Removal from the Watch List**

Public Investment Managers that are formally placed on the Watch List will be given a period of up to six months to remedy the situation ("Review Period"). At the conclusion of this Review Period, the CIO, advised by TRF's Consultant, will make a determination as to whether the Investment Manager should remain on the Watch List or be recommended for termination.

If an Investment Manager still meets the criteria to remain on the Watch List after the initial Review Period, they will be provided with a second review or recommended for termination at the discretion of the CIO. Any Investment Manager that remains on the Watch List for longer than nine months will be reevaluated by the CIO and either recommended for termination or removed from the Watch List. To remove an Investment Manager from the Watch List, despite the Investment Manager meeting the criteria for inclusion or termination, the CIO must present a formal case to the Board that justifies the decision.

## **VI. RISK MANAGEMENT AND MONITORING**

### **A. Risk Management Philosophy**

The Board believes that a central focus of investing is to control risk. The Board sets the framework for risk management through this Policy, the strategic asset allocation, and the benchmarks used for performance objectives. The Board has also developed a broad set of managerial, advisory, and consulting relationships which provide a flow of information that enables TRF to effectively analyze market conditions, research investment opportunities, monitor Investment Managers, and manage the overall investment operation. Staff is responsible for selecting, maintaining, and enhancing the risk management tools used to provide analyses that inform and support the investment actions of the Fund and report on the Fund's investment risks and associated returns to the Board as appropriate. Staff and the Consultant are responsible for keeping the Board apprised of market and economic risk factors that may impact the portfolio as well as new opportunities to improve portfolio risk management.

The Board and Staff will regularly monitor the performance and composition of the Fund's portfolio and make favorable adjustments that improve the overall risk-adjusted performance of the portfolio. Staff will regularly review the risk

management efforts to enhance the timeliness, accuracy, and value of the information. Additionally, Staff will incorporate the relevant information generated by the risk management analysis into the ongoing investment decision making processes. Ultimately, effective risk management depends on the experience, judgment, and ability of all responsible parties in managing risk exposures.

## **B. Portfolio Rebalancing Policy**

The Board recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established (see Asset Allocation section of this Policy) for each asset class to control risk and maximize the effectiveness of the Fund's asset allocation strategy, while avoiding unnecessary turnover at the security level. The CIO has the authority to move money between Investment Managers and asset classes within the prescribed Asset Allocation bands set forth in the Investment Policy Guidelines section of this Policy. Any short-term rebalancing outside of the prescribed ranges requires the written recommendation of the CIO and approval of the ED with notice provided to the Board at its next meeting.

The percentage allocation to each asset class on a market value basis should be reviewed by the Staff each quarter. When an asset class is outside of its allowable range, a reallocation should be made to rebalance that asset class back into the allowable range considering current market conditions. Investment Managers should be notified in advance of the amount and timing of any transfers to or from their accounts.

A violation of the target allocation occurs when the public securities portfolio breaches prescribed asset allocation policy limits for public securities for more than five (5) consecutive trading days as the result of changing asset values or market and credit conditions. An allocation that includes private securities will be deemed out of compliance if the net asset value exceeds the asset allocation policy limits. Staff will report the violation to the Board and remedy the violation in an expedient manner or prepare an action plan that must be approved by the Board at the next scheduled meeting to allow for an extended cure period.

## **C. Investment Manager Concentration Limits**

The Board recognizes that allocation of a relatively large amount of assets to a single Investment Manager may introduce increased business or liquidity risk to the overall Fund. Consistent with the long term goal of enhancing return while reducing risk, the Board has placed an upper limit on the amount of assets placed with an individual Investment Manager.

These limits are as follows:

1. Each active Investment Managers will be limited to managing 10% of total TRF assets with an interim maximum of 12.5%;

2. Each passive index Investment Managers will be limited to managing 15% of total TRF assets with an interim maximum of 17.5%; and
3. Each private Investment Managers will be limited to managing 5% of total TRF assets with an interim maximum of 7.5%.

#### **D. Liquidity Management**

The objective of this liquidity management policy is to ensure that the Fund maintains ample liquidity to meet its funding commitments. The two kinds of commitments which necessitate a prudent liquidity policy are:

1. Obligations to Fund members and their beneficiaries that include on-going retirement, death, and disability benefit payments; and
2. TRF investment activities associated with liquidity management and funding of Investment Managers, including:
  - a) Funding Investment Managers at initial hire, to rebalance or to add capital; and
  - b) Funding capital commitments that legally bind the Fund when called by alternative Investment Managers.

The CIO, with the written approval of the ED and the advice and counsel of the Consultant, is authorized to take actions deemed necessary to meet the Fund's commitments. The primary method of meeting future liquidity needs should be to maintain adequate funds in its custodial account to cover its funding obligations.

#### **E. Foreign-Exchange Risk Management Policy**

The objective of this foreign-exchange ("F/X") policy is to effectively manage portfolio return volatility associated with foreign currency risk. F/X risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. This F/X policy allows for a structure and implementation plan that will manage the level of strategic currency risk that the Fund is willing to tolerate. The CIO, with the advice and counsel of the Consultant, is charged with assessing the F/X impact on the Fund's portfolio based on overall exposure and the resulting impact on incremental risk and return, and making recommendations to the Board.

Unless otherwise approved by the Board, it is the policy of the Board that management of F/X exposure may be only implemented (1) by an Investment Manager on its specific portfolio when the Investment Manager possesses recognized F/X experience or (2) by an overlay manager or other third-party expert ("F/X Overlay Manager") for a specific Portfolio or the entire portfolio. Any F/X Overlay Manager will not be classified under a specific asset class; rather, the Investment Manager would be aggregated at the overall portfolio

level. Any hedging recommendations will be presented to the Board for approval and incorporated into the benchmark. The management and implementation of Board-approved F/X hedging activities will be implemented by the CIO, with the advice of the ED and the Consultant.

## **F. Leverage - Permitted Uses**

The Fund is authorized to introduce the following prudent uses of leverage by Investment Managers who possess recognized expertise with the allowed tools as follows:

1. Derivative overlay strategies in accordance with the asset allocation and risk parameters of this Policy;
2. Short sales in accordance with this Policy;
3. Foreign currency hedging in accordance with this Policy;
4. Embedded leverage within the Fund's total limited partnership investments; and
5. Collateralized funding operations including securities lending, repurchase, and reverse repurchase agreements.

## **G. Operations Risk Management**

### 1. Policy & Procedures

A policies and procedures manual shall be maintained by the Investment Staff that provides detailed steps on how to complete the essential tasks of the Investment Department.

### 2. Custodial Bank

The Investment Staff shall conduct on-site due diligence to review the operational controls set in place by all custodial banks. The Staff will also consider the extent of remedies provided by the Custodian and its overall ability to fulfill its commitments should operational failures occur.

### 3. Investment Managers

The Investment Staff shall conduct on-site due diligence to review the operational controls and investment activities conducted by all Investment Managers. The Staff will also regularly monitor each Investment Manager and its Portfolio through periodic update calls.

## **H. Legal Risk Management**

The Investment Staff will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. When appropriate, the Investment Staff will seek the advice TRF's legal department as issues arise, and shall bring all investment agreements to the legal department for review prior to execution of such agreements.

## **I. Risk Monitoring and Reporting**

Although the management of investment portfolios may be outsourced, investment oversight and risk management are primary fiduciary duties of the Board, the day-to-day operations of which are delegated to and performed by Staff. The Staff shall report to the Board, periodically, on risk exposures and the values of the several risk measures. Staff shall track the risks for the entire investment program, for each separate asset class, and for individual Investment Managers. Tracking shall include periodic reviews with each Investment Manager done via telephone and meetings at the Investment Manager's office. Reports shall include but are not limited to:

1. Current asset allocation relative to the Policy asset allocation, which will be reviewed by the CIO on at least a monthly basis;
2. Risk analyses of both existing and proposed investment programs;
3. Concentration reports highlighting the 20 companies in which the Fund has the greatest investment concentration across asset classes;
4. Monitoring reports for assessment of Investment Managers;
5. Assessment of Investment Manager correlations across the Fund's portfolio; and
6. Customized reports and risk analyses for each asset class and the total Fund's portfolio.

## **VII. TRADING AND BROKERAGE POLICY**

### **A. Introduction**

The Board intends to fulfill its responsibility for the evaluation and management of the Fund's transaction costs for the exclusive benefit of members and beneficiaries. To assist in accomplishing these duties, the Board has adopted the following trading and brokerage policy.

### **B. Basic Principles**

The Board requires that these principles guide all transactions for the Fund:

1. Best execution and lowest cost (including commission costs and market impact), as well as providing benefits exclusively for members and beneficiaries of the Fund, must apply to trades; and
2. Efforts to reduce trading costs, in terms of both commissions and market impact, provided the investment returns of the Fund are not jeopardized, will be ongoing.

The Board intends there to be a prohibition on any self-dealing on the part of any brokerage firm, including with the firm's broker affiliate, without specific prior authorization.

### **C. Basic Criteria for Selection of Brokerage Firm**

Subject to any direction from the CIO and ED, each Investment Manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the Fund. Each Investment Manager is also responsible for conducting all appropriate due diligence on the brokerage firms it selects. Their selection must in all cases be for the benefit of the Fund's members and beneficiaries and should strive for best execution with lowest cost on trades.

### **D. Directed Brokerage/Commission Recapture Policy**

The CIO and ED, on behalf of the Board, together retain the right to direct brokers and enter into brokerage commission recapture agreement(s). Accordingly, the Board has developed the following policy guidelines to ensure that any directed brokerage or commission recapture serves the interests of the Fund's members and their beneficiaries:

1. The objective of this policy is to achieve both commission cost savings and "best execution";
2. Any directed commission brokers will be selected through a process directed by Staff;
3. The percentage of each Investment Manager's Portfolio to be directed to the Board's directed commission broker(s) shall be mutually agreed upon in advance between each Investment Manager and Staff. Staff shall seek the advice and counsel of the Consultant during this process. The objective will be to select a percentage amount that generates substantial commission savings, without hindering the Investment Manager's abilities to execute investment strategies that "add value";
4. Directed commission brokers will provide Staff with periodic reports that document the date and commission amount associated with every directed trade, by the Investment Manager. In this manner, Staff will be able to monitor the overall directed brokerage program, the services of the directed commission broker, and the progress each Investment Manager is making toward any directed commission goal;

5. Commission recapture services will be utilized, where feasible, to defray costs and benefit the Fund's members, subject to the Investment Manager's "best execution" efforts; and
6. The Board intends there to be a prohibition on any self-dealing on the part of any brokerage firm, including with the firm's affiliate, without specific prior authorization.

#### **E. Review/Evaluation**

Periodically, the CIO shall review all transactions and arrangements, if any, for compliance with these policies through a trading cost analysis. The Investment Managers and Custodian shall provide any information necessary to conduct this review.

#### **F. Disclosure**

In addition, each Investment Manager shall report, as requested by Staff, on brokerage firms they are using and the terms of those relationships. This disclosure must cover all components of that relationship, including but not limited to, payment for order flow, soft dollars, covered expenses, and the nature of the broker selection process.

### **VIII. GUIDELINES FOR THE CUSTODIAN**

The Board recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. The Custodian is a fiduciary as to the assets placed with them by the Fund. The Board identifies the following as responsibilities of the Custodian(s) for the segments of the Funds for which the Custodian is responsible:

1. Provide complete custody and depository services for the designated accounts;
2. Provide for prompt investment of any cash;
3. Implement in a timely and effective manner the investment actions as directed by the Investment Manager(s);
4. Receive all income and principal realizable and properly report transactions in periodic statements;
5. Provide monthly and annual accounting statements as well as on-line access for the Fund, including all transactions. Information should be based on accurate security values both for cost and market value, and reports should be provided within 10 days of the close of each period;
6. Report to the Staff regarding situations where security pricing is either not possible or subject to considerable uncertainty;
7. Distribute to the Investment Manager(s) in a timely manner all proxy voting materials;

8. Provide assistance to the Board and Staff, to complete such activities as the annual audit, transaction verification and other related issues;
9. As requested by the Board or Staff, provide performance measurement and portfolio analytics for the Fund, consistent with CFA Institute Global Investment Performance Standards (GIPS);
10. When directed by the Board, and pursuant to a separate, written agreement for securities lending service, implement in a fair and equitable manner a securities lending program for the Fund and report fully on all aspects of its operation and returns;
11. The Custodian shall cooperate fully with all reasonable requests for documents and records made by the Board, Staff, or a Consultant. The Board (on its own or through Staff or a Consultant) shall periodically review the Custodians, including but not limited to, services provided, services available, charges and fees, and reports; and,
12. The Custodian shall conform to all provisions in its contracts with the Fund.

## **IX. SECURITIES LENDING POLICY**

### **A. Background**

IC 5-10.2-2-13(d) provides that the Board may authorize a securities lending custodian ("Securities Lending Custodian") to enter into a securities lending program ("Program") agreement under which securities held by the Securities Lending Custodian on behalf of the Fund may be loaned. For purposes of this Policy, the "Securities Lending Custodian" shall refer to the Custodian or its sub-custodian, as appropriate, with respect to the performance of securities lending services. This policy is not meant to cover securities lending performed by managers of commingled accounts. The Securities Lending Custodian shall agree to keep all assets of the Fund that are subject to the Securities Lending Custodian's custodial care in a segregated account. The purpose of such a Program is to provide additional revenue for the Fund. IC 5-10.2-2-13(d) provides that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities.

### **B. General Statement With Respect to Board's Intent**

The Board intends to maintain a Program, as the Board believes it provides a means of enhancing overall Fund performance. The investment objective for the Program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio, and tightly controls exposure to fluctuating interest rates. The Board will evaluate the income attributable to, and the risks inherent in, the Program. The Board expects each Securities Lending Custodian who has been authorized to enter

into an agreement to evaluate at least annually the agent selected by the Securities Lending Custodian and the Board, to offer suggestions with respect to any possible improvements to the Program, and to monitor the results of the Program (e.g., income, costs associated with the Program, and issues that arise with respect to the Program) and report to the Board as directed. All investment decisions and material transactions made by the Securities Lending Custodian shall be made or transacted by a registered investment advisor as defined by the Securities and Exchange Commission ("SEC").

### **C. Method of Implementation**

Specifics pertaining to any Program shall be detailed in a separate securities lending agreement. Upon request of the Fund, the Securities Lending Custodian may provide, or may arrange for an agent or sub-custodian to provide, a securities lending program to be operated in accordance with this Policy. Any agent or sub-custodian to be used by the Securities Lending Custodian to provide a Program to the Fund must be approved by the Fund in advance and in writing, and such approval may be revoked by the Fund, for any reason, upon five (5) days' written notice to the Securities Lending Custodian. In order to engage in securities lending on the Fund's behalf, sub-custodian will have the care and custody of, and will perform any custodial services incident to, the securities loaned and to be loaned. The Securities Lending Custodian shall be responsible for and shall ensure that any sub-custodian engaging in securities lending services for the Fund shall adhere to and be bound by this Policy. All costs associated with the use of a sub-custodian shall be borne by the Securities Lending Custodian.

Additional implementation requirements include the following:

1. The Securities Lending Custodian shall allocate loan opportunities among its securities lending participants, including the Fund, in a reasonable and equitable manner;
2. The Securities Lending Custodian shall enter into a borrowing agreement with each borrower of the Fund's securities setting forth terms not inconsistent with this Policy or any other agreement between and among the Fund and its Custodian and/or its Securities Lending Custodian. All loans shall be made on the following terms: (1) on behalf of and solely for the benefit of the Fund; (2) only to a borrower that does not have, and no affiliate of which has, any discretion, investment authority or control, or any investment advisory responsibility with respect to the securities being loaned; and (3) on terms that are at least as favorable to the Fund as an arm's length transaction with an unrelated party would be. On the day that any loan of securities is made, the Securities Lending Custodian shall deliver to borrower or release through a clearing agency the securities to be loaned and contemporaneously therewith, the Securities Lending Custodian shall receive from the borrower or through a clearing agency all collateral required to secure the loan;

3. Income earned by the Fund in connection with the Securities Lending Program shall be credited to the Fund's custodial account no less frequently than once a month;
4. "Distributions" shall refer to all dividends and other distributions made on or with respect to any loaned securities, including but not limited to: (1) cash; (2) stock or property dividends or distributions; (3) securities received as a result of split-ups of the loaned securities and distributions with respect thereto; (4) interest payments; (5) subscription rights; and (6) all rights to purchase additional securities. The Fund shall be entitled to receive all Distributions made by an issuer with respect to any loaned securities to the same extent as if the securities had not been loaned. The Fund understands that it typically will not retain voting rights with respect to any securities that are on loan as of a record date for determining voting rights. All Distributions on the loaned securities shall be credited to the Fund's account on the payment date, and the Securities Lending Custodian shall assume the responsibility of collecting such Distributions from the borrower or other recipient;
5. The Fund shall be entitled to no less than eighty percent (80%) and the Securities Lending Custodian shall be entitled to no more than twenty percent (20%) of (1) the total Premiums paid by the borrower in a loan of securities against Securities Collateral; and (2) the total Yield, after deducting the rebate, in a loan of securities against Cash Collateral (as defined below) unless otherwise agreed to by the Board;
6. The Fund shall direct the Investment Manager of the securities to notify the Securities Lending Custodian of any sales by no later than the trade date to permit the Securities Lending Custodian to effect timely return of loaned securities prior to or on the settlement date;
7. In order to verify that the procedures set forth in this Policy are being followed, the Securities Lending Custodian shall cooperate fully with all reasonable requests for documents and records made by the Fund and/or an independent certified public accountant selected and retained by the Fund to audit securities lending activities; and
8. In the event of a conflict between this Policy and any provisions of any contract between the Fund and the Securities Lending Custodian to which this Policy becomes a part, the provisions of this Policy shall prevail.

#### **D. Risk Controls**

Any Securities Lending Custodian shall agree in writing, among other things, to 100% indemnification of the Fund for any loss sustained as a result of borrower default, borrower's failure to pay Distributions, borrower's failure to timely deliver or return collateral or the loaned securities, and overnight market risk, provided, however, that the Fund will bear the market risk of a decrease in the value of collateral acquired by the investment of cash collateral. Upon

notification of default by the borrower, which shall be reported immediately to the Fund in writing, the Securities Lending Custodian shall take such actions as are prudent, necessary, and appropriate to use the collateral to acquire replacement securities of the exact same type and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the Fund and to the Investment Manager immediately.

The Securities Lending Custodian and/or sub-custodian is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The Securities Lending Custodian shall propose loans of the Fund's securities only to borrowers meeting the Securities Lending Custodian's customary standards of creditworthiness. The Securities Lending Custodian shall formally review the creditworthiness of the borrowers approved by the Fund no less frequently than annually, and shall remove any borrower no longer meeting the Securities Lending Custodian's customary standards of creditworthiness. The name of borrowers and potential borrowers shall be updated and provided to the Fund promptly following the end of each calendar quarter.

The Securities Lending Custodian shall be responsible for receiving acceptable collateral from any borrower to secure each securities loan. "Acceptable Collateral" shall refer only to the following forms of collateral:

1. "Cash Collateral," meaning collateral in the form of cash and evidenced by a certified check, bank cashier's check, wire transfer or, if the loaned securities are delivered to the borrower through an approved central depository system, funds delivered through such depository, including all accounts or instruments in which any such checks or funds are deposited or invested, any proceeds of the foregoing and any increases or decreases to the cash collateral resulting from the marking to market adjustments;
2. "Securities Collateral," meaning collateral consisting of securities issued, or guaranteed as to principal and interest, by the United States government, its agencies or instrumentalities, together with all present and future proceeds there from including all accrued and unpaid interest, and any and all distributions made by the issuer on or with respect thereto, and including any increases or decreases thereto resulting from the marking to market adjustments; and
3. Any combination of Cash Collateral and Securities Collateral agreed upon by the Securities Lending Custodian and a borrower.

The Securities Lending Custodian shall require any borrower to deliver Acceptable Collateral valued at the inception of the loan as at least equal to 102% of the market value of the loaned domestic securities and 105% of the market value of the loaned international securities. At the close of the market each day, the Acceptable Collateral shall be "marked to market," meaning that market value of the loaned securities shall be determined, and if the market

value of the collateral securing the loan is 100% or less of the market value of the respective loaned securities for that day, the borrower shall be required to deliver additional collateral to bring the value back to at least 102% for domestic securities and 105% for international securities, by the close of trading on the next business day. Cash Collateral, for purposes of these collateral requirements, shall be valued at either the amount of cash deposited or the purchase price of the securities purchased with such cash. In no event shall the Acceptable Collateral be less than as required by IC 5-10.2-2-13(d).

Securities shall not be loaned in excess of thirty percent (30%) of the market value of the Fund's assets (not to be taken on an individual Investment Manager account-by-account basis) under the care of the Securities Lending Custodian, marked to market on a day-to-day basis but not on an intra-day basis. In addition, the Securities Lending Custodian shall not loan out 100% of a specific security position and shall maintain at least 20% of a specific security position and designate as not available for loan in order for the Fund to act and participate on the merits of a corporate action, including proxy voting.

All investments shall be subject to the prudent investor rule, as codified in IC 5-10.4-3-10. The Securities Lending Custodian shall not make loans unless the Fund has full, unencumbered rights to the collateral (both cash and non-cash collateral). The Securities Lending Custodian shall perfect the collateral for the benefit of the Fund.

## **E. Cash Collateral Investment Guidelines**

### **1. Permissible Investments**

The Securities Lending Custodian on behalf of the Fund may invest the Cash Collateral to secure the loan of the Fund's securities. The Securities Lending Custodian shall exercise reasonable care, skill, diligence, and prudence in connection with such investments. The Securities Lending Custodian shall be liable to the Fund for negligent acts and omissions resulting in damages to the Fund. Any securities acquired in violation of these Cash Collateral Investment Guidelines shall be sold no later than the day following detection, and the Securities Lending Custodian shall reimburse the Fund for any losses, while the Fund shall retain all gains from any violation. Such Cash Collateral shall be invested only in the following investment instruments (the "Cash Collateral Investments"):

- a) Direct obligations of the United States government;
- b) Other government securities, defined as securities issued, or guaranteed as to principal and interest, by the United States government, its agencies or instrumentalities;
- c) Corporate debt securities, including rated and unrated repurchase agreements, certificates of deposit, time deposits, commercial paper, including asset-backed commercial paper of 97 days or less,

obligations of U.S. and Non-U.S. commercial banks and corporations, bankers' acceptances, medium term notes, floating rate notes, notes, debentures, and bonds, *provided, however*, that at the time of purchase, the securities described in this paragraph must be rated as follows:

- i. Long-term securities must be rated not less than A- by Standard & Poor's Corporation or A3 by Moody's Investor Services, Inc.
  - ii. Short-term securities must be rated not less than A1 by Standard & Poor's Corporation or P1 by Moody's Investor Services, Inc.; and
- d) If a security is not rated by Standard & Poor's Corporation, Fitch Ratings, or Moody's Investor Services, Inc., it shall not be purchased. Split-rated securities shall not be purchased. If any Cash Collateral investment falls below the minimum rating standard, the Securities Lending Custodian shall make a recommendation to the Fund regarding its continued retention as a Cash Collateral investment.

## 2. Prohibited Investments

Cash Collateral shall not be invested in any investment instrument not described above. For example, and not for purposes of limitation, the following investments are excluded:

- a) Common or preferred stock;
- b) Mutual Funds;
- c) Commodities;
- d) Derivatives of any kind regardless of their structure or guarantor, to include, but not be limited to, options, futures, mortgage-backed securities, asset-backed securities, range notes, swaps, interest-only securities, principal-only securities and inverse floaters. A floating rate note in which the interest rate is based upon a customary, recognized index shall not be deemed a "derivative" for the purposes hereof;
- e) Convertible debt;
- f) Issues of affiliates or subsidiaries of foreign corporations, even if the affiliate or subsidiary is an American domiciled entity;
- g) Municipal securities;
- h) Unrated securities;
- i) Private placements;
- j) Issues of the Securities Lending Custodian, its parent, subsidiaries or joint ventures other than for late day cash sweep purposes; and
- k) Letters of credit by any issuer.

### 3. Additional Requirements and Standards

Any Cash Collateral investments shall also be bound by and subject to the following provisions:

- a) Any Cash Collateral investment in the securities of any one issuer shall be limited to 5% of the total value, or amount, of the Cash Collateral, except that this restriction shall not apply to the investments in direct obligations of the United States government and other government securities. This restriction also shall not apply to the counter party in a repurchase agreement investment;
- b) Cash Collateral shall only be invested in United States dollar-denominated investments;
- c) Cash Collateral investments may be invested in units of money market funds, liquidity funds, or other pooled investment vehicles including SEC Rule 2a-7 funds whose overall guidelines meet the Cash Collateral guidelines, including other funds managed by the Custodian;
- d) The maximum maturity of any single security in which the Cash Collateral is invested shall be 13 months and 762 days for variable rate government securities. The Securities Lending Custodian shall not invest in any security which will cause the dollar-weighted average portfolio maturity of the Cash Collateral to be greater than 90 days;
- e) The Securities Lending Custodian is authorized to select brokers and dealers for the execution of trades in connection with the investment of Cash Collateral, which broker or dealer may be an affiliate of the Securities Lending Custodian provided that a competitive execution price is obtained at the time of execution of the trade;
- f) The Securities Lending Custodian is authorized to invest in direct obligations of the United States government and other government securities purchased from and/or sold by the Securities Lending Custodian, or any subsidiaries or affiliates of the Securities Lending Custodian; and
- g) The Securities Lending Custodian shall not invest cash collateral in short term paper and debt instruments issued by any borrower within the Program.

### **F. Monitoring**

The Custodian and/or its sub-agent are responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns. The Securities Lending Custodian shall delineate the attribution of returns, including utilization percentages, demand spreads and reinvestment spreads.

The Securities Lending Custodian shall provide the Fund with reports no less frequently than once a month reflecting the loan transactions during the period and showing at least the following information: (1) the total fees paid by borrowers in loans of securities against securities collateral (the "Premiums"), and the percentage share of such Premiums credited to the Fund's account; and (2) the total income earned on Cash Collateral investments (the "Yield"), the amount to be deducted there from as due from the Fund to the borrowers under the borrowing agreements (the "Rebate"), and the percentage share of the remaining earnings (Yield minus Rebate) credited to the Fund's account. All amounts credited to the Fund shall be shown on an Investment Manager-by-Investment Manager, fund-by-fund basis.

The CIO (on its own or through a Consultant) shall conduct an annual review of the Securities Lending Program. At this time, the CIO will also survey its Investment Managers to ensure they have not encountered any problems with the Program. If any problems are discovered, steps will be taken to resolve the issue(s) that are in the best interest of the Fund that may include removal of certain Investment Managers from the Program. If and when the Program is out of compliance, Staff will notify the Board and take commercially reasonable steps to bring the Program into full compliance with this Policy.

## **X. PROXY VOTING POLICY**

### **A. Introduction**

The Fund is a large public pension fund and is a significant equity investor in businesses around the world. The Board recognizes its responsibilities as a fiduciary of the Fund and believes that a proxy policy is an important element of the Fund's overall asset management. As an initial position, the Board believes a delegation of authority to other fiduciaries of the Fund, specifically the Investment Managers, is the most suitable approach to proxy voting.

Each Investment Manager retained by the Fund to buy, sell or manage common stocks which are Fund assets will have the responsibility of voting the common stock in accordance with its internal proxy voting policy and this Policy. To the extent that a third-party is used by an Investment Manager for proxy voting, the Investment Manager must inform the Fund of the third-party and its exact responsibility. In completing this responsibility, each Investment Manager is expected to take this Policy into consideration.

### **B. Guidelines**

In exercising the proxy voting authority delegated to it by the Board, each Investment Manager is to vote the proxies for the exclusive benefit of Fund members and beneficiaries, recognizing all Fund assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In voting the proxies of common stocks, the Investment Manager must act with the care, skill, prudence, and diligence of a prudent expert who is similarly situated and knowledgeable in the matters under consideration, as required under IC 5-10.4. The Board intends that this embody the most rigorous application of this standard and that the Investment Manager act with an eye solely to the best interests of the Fund's members.

These two requirements mandate that the Investment Manager conduct an individual review and analysis of each proxy issue prior to voting. In all cases, the long-term economic best interests of Fund members and beneficiaries should guide voting decisions.

### **C. Reporting Requirements**

The CIO intends to monitor the voting decisions of Investment Managers. To allow this to occur, each Investment Manager that votes shares of common stock will document such votes and report to the CIO no less frequently than once per year. The report shall include at a minimum the following:

1. A description of the process the Investment Manager uses to ensure that reasonable steps have been taken to allow for the timely voting of all proxies on all stocks which are held as of the record date;
2. The action taken on routine proxies;
3. The action, and rationale for the action, taken on non-routine proxies; and
4. A description of actions in terms of any effects on members and beneficiaries of the Fund, the Indiana economy and any special Indiana issues.

### **D. Revocation of Voting Authority**

The CIO, with notification to the ED, may revoke the authority of an Investment Manager to vote the shares of common stock held by presenting a written revocation of voting authority to the Investment Manager. This revocation may apply to an individual common stock or all common stocks managed by the Investment Managers as deemed to be in the best interest of the Fund. Any actions taken will be reported to the Board at its next regular meeting.

## **XI. SECURITIES LITIGATION POLICY**

### **A. Statement of Intent**

This securities litigation policy is established to provide a process for the monitoring of pending legal actions in which TRF is a potential member of a plaintiff's class or otherwise possesses an independent right to a securities law claim. As a fiduciary, TRF has a duty to monitor and evaluate such actions in

which it may potentially be a member or participant. This Policy contains TRF's process and guidelines for evaluating the appropriate level of participation in securities litigation claims. Such levels may include:

1. Participating as passive class member in class actions brought by others, and filing claims when action is settled/resolved;
2. Enhanced participation as class member in class actions brought and led by others, by considering objections or comments on settlements;
3. Active participation in class action litigation, including serving as a "lead plaintiff" pursuant to the Private Securities Litigation Reform Act; and
4. Opting out of the class action and pursuing separate litigation on behalf of TRF.

## **B. Identifying and Evaluating Potential Claims**

Claims may generally be identified either by Staff, Custodian, Investment Managers, the class action bar, or outside claims consultants/analysts. Staff will determine the most expedient method to identify claims in which TRF has an interest. If TRF may qualify for a recovery, further review by Staff (and the outside consultant if one is selected) will be undertaken to determine if TRF should remain a member of the class or undertake a more active level of participation. Whenever Staff is aware that TRF has sustained a loss of \$5 million or more in any one investment, Staff will actively investigate and consider whether the Fund should pursue an individual action or other more active level of participation. Consideration will be given to the following factors:

1. Size of TRF's damages measured by standards applicable to securities litigation;
2. Strength of claims, including evaluation of defenses;
3. Special circumstances which render TRF's claims different from (stronger or weaker) than claims of typical class members;
4. Venue of litigation;
5. Availability of resources to pay a significant recovery (e.g. financial condition of target company, availability of insurance, multiple defendants such as auditors, underwriters, etc.);
6. Qualifications of other lead plaintiff candidates and their counsel, and likelihood TRF would be selected a lead plaintiff;
7. Relations of claims to other corporate governance issues of special interest to TRF or its participants, and impact on other TRF holdings;
8. Potential for non-monetary remedies of special importance to TRF which other class members/lead plaintiffs may not pursue;

9. Costs to TRF of separate litigation/lead plaintiff status such as discovery, and Staff/Board time and resources needed to monitor litigation more actively; and
10. Whether the active involvement of TRF will likely add value to the potential recovery or management of the case.

If, after reviewing these factors and any others considered relevant, Staff determines that additional examination is warranted and that the potential exists for TRF to add significant value to the claim by actively participating, or opting out of the potential class of litigants and pursuing a claim independently, review of the potential claim will be referred to an evaluation counsel, in accordance with the process outlined below.

### **C. Evaluation Counsel**

If further evaluation is determined to be warranted, an evaluation counsel may be retained to perform additional due diligence regarding the claim. TRF may retain evaluation counsel on a case by case basis, or by issuing an RFP that selects any number of firms to be subsequently used in individual cases. Additional due diligence may include, without limitation; assessment of the complaint, SEC filings and company disclosures, contacts with other investors, consideration of non-litigation alternatives, and potential conflicts with other class members. The evaluation counsel will make a recommendation to the ED, the CIO, and the General Counsel as to whether more active participation or opting out of a class action and pursuing a claim independently by TRF, would add significant value to any other options for recovery. Evaluation counsel may also be asked to evaluate settlements of class actions and recommend whether TRF should object to, comment or opt out of a particular settlement. Evaluation counsel will not be eligible to serve as litigation counsel for TRF on any matter they have evaluated for TRF.

### **D. Staff Review and Consultation with Board**

Following a review of the potential claim by Staff and receipt of the recommendation of the evaluation counsel, ED, and CIO, to pursue an active role, the General Counsel will consult with the Board to determine whether active involvement is warranted by TRF. The ED, CIO, and General Counsel shall determine whether TRF should (1) simply remain a member of the class, (2) remain in class, but seek lead plaintiff status, independently or with other institutional investors, or (3) recommend for approval by the Board that TRF opt out of the class and pursue an independent securities litigation action.

### **E. Selection of Securities Litigation Counsel**

If the Board approves active involvement in a securities litigation claim, an appropriate outside counsel shall be utilized to pursue such claims directly on behalf of TRF. In cases when TRF initiates litigation because it has determined it

would be best to work with another institutional investor, staff may recommend, and the Board may conclude, that the most sensible and cost effective source of legal representation will be the Fund's legal counsel or the legal counsel representing such institutional investor that TRF wishes to support.

#### **F. Case Management**

The authority to settle, withdraw from or otherwise terminate a securities litigation matter initiated by TRF rests with the Board, but the Board may delegate such authority to the ED and/or General Counsel.

The Board shall receive a quarterly report regarding the status of all securities litigation matters when such matters are currently under consideration.

#### **G. Custodian Role and Authority**

1. Maintain and communicate data necessary to identify TRF's securities holdings and transactions in order to determine if TRF is a class member, calculate amount of TRF's losses, and prepare proofs of claim;
2. Collect and distribute to appropriate parties (i.e., monitoring firm, evaluation counsel, litigation counsel) all notices regarding the commencement, class certification, and settlement of class action lawsuits in which TRF has an interest as an actual or potential class member;
3. Collect and deposit into appropriate accounts all investment proceeds of TRF's claims;
4. Establish and implement a procedure to identify all securities class actions filed by others in which TRF is or may be a class member;
5. Timely file proofs of claim on behalf of TRF in all class actions in which TRF may participate as class member; and
6. Provide quarterly reports to ED regarding status of all class actions in which TRF is a class member, including status of all proofs of claim.

## **XII. INFORMATION DISCLOSURE POLICY**

In order to comply with the Access to Public Records Act ("APRA"), specifically, IC 5-14-3-1, et seq., the Board hereby adopts this policy regarding disclosure of private equity, real estate, hedge funds, and other private investment strategies ("Alternative Investments").

## **A. General Principles**

The Board appreciates its public role as an independent body corporate and politic exercising essential governmental functions on behalf of Indiana's educators and its responsibility to be publicly accountable for its investment decisions. As a separate corporate body, the Board is required to comply with the public records provisions of the APRA.

Generally, public records of the Board must be available for public disclosure. However, the APRA prohibits disclosure of records that contain trade secrets. APRA provides that records containing trade secrets may not be disclosed by a public agency unless specifically required by statute or under the rules of discovery. IC 5-14-3-4(a)(4).

Therefore, in order to comply with the APRA, the Board adopts the following disclosure policy for Alternative Investments made by the Board.

## **B. Alternative Investment Disclosure Policy**

Subject to the procedures and any other restrictions applicable under the APRA, the Board will allow the Staff of TRF to disclose information such as the legal name of partnership investments, general partners, or investment managers that have been selected by the Fund. TRF will also disclose a summary of the portfolio, including aggregate returns on the Board's investments.

However, in order to comply with the APRA's prohibition on disclosure of records that contain trade secrets, the Board and Staff of TRF are prohibited from disclosing any information on the underlying investments made by the partnership or managers and their individual performance contribution to the Alternative Investments portfolio.

### **XIII. ANNUITY SAVINGS ACCOUNT POLICY**

#### **A. Purpose**

This Annuity Savings Account Policy is intended to assist the Board in managing the investment program established for the Annuity Savings Accounts (the "ASAs").

#### **B. Statutory Authority**

The ASAs are bookkeeping accounts established for each member of the Fund. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). Each member may direct their investment to several alternative funds or may leave his or her account in the "Guaranteed Fund." The Guaranteed Fund affords the member a capital preservation option on all contributions credited to that member's account, plus all previously credited interest at an interest rate determined by the Board each year. These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit. The ASAs are subject to the following provisions:

1. The Board must maintain a "Guaranteed Fund" option. IC 5-10.2-2-3(b);
2. The Board must maintain an indexed stock fund option. IC 5-10.2-2-3(c)(1);
3. The Board must maintain a bond fund option. IC 5-10.2-2-3(c)(1)
4. The Board may establish any other options it wishes, so long as the options represent a variety of investment objectives. IC 5-10.2-2-3(c)(2);
5. Administrative costs and related investment management expenses of each of the options may be paid from the earnings on that option. IC 5-10.2-2-3(c)(4); and
6. A valuation of each member's ASA must be completed no later than the last day of each quarter. IC 5-10.2-2-3(c)(5).

#### **C. Primary Focus**

The primary focus of this ASA Policy is to:

1. Outline the number and characteristics of investment options selected by the Board for the Annuity Savings Accounts; and

2. Provide rate-of-return objectives and establish formal criteria to monitor and evaluate the performance results of the various investment options.

#### **D. Objectives and Structure**

The ASA program has been structured to provide Fund members with a choice of six diverse options that offer a range of risk and return characteristics appropriate for members. A member can select between the options subject to the following conditions from IC 5-10.2-2-3(e):

1. A member may make a selection or change an existing selection under rules established by the Board and must be allowed to change at least once each quarter;
2. The Board must implement the member's selection beginning the first day of the next calendar quarter that begins at least thirty (30) days after the selection is received by the Board. This date is the effective date of the member's selection;
3. A member may select any combination of the Guaranteed Fund or any other available alternatives, in one percent (1%) increments;
4. A member's selection remains in effect until a new selection is made by that member;
5. On the effective date of a member's selection (the "Effective Date"), the Board must reallocate the member's existing balance or balances in accordance with the member's direction, based on the market value for an alternative investment option on the Effective Date and by account balance for any Guaranteed Fund balance on the Effective Date. The Board shall not reallocate the member's account at any other time; and
6. All further contributions to the member's account shall be allocated in accordance with the member's most recent effective direction.

ASA program options currently include:

1. Guaranteed Fund;
2. Fixed Income;
3. Passive Core Equity;
4. Small/Mid Cap Equity;
5. International Equity; and
6. Real Return / TIPS.

The number and types of investment options available will be periodically reviewed by the Board in order to ensure a diversity of investment alternatives, adequate and reasonable availability of investment types, and clarity and usefulness of the investment choices. The objective will be to provide, on an ongoing basis, a broad array of investment choices representing diverse investment types described by the underlying capital markets, investment return expectations and risk expectations (defined as volatility of investment return). The Board or its designee will also review the Investment Managers of the funds as provided for in Section V of this Policy.

Annually, the Board is required to prepare a separate analysis of the fund options for distribution to the ASA program participants describing recent and historical performance results in terms expected to be understandable to the average participant. This analysis must:

1. Include a description of the procedure for selecting an alternative investment program;
2. Be understandable by the majority of members; and
3. Include a description of prior investment performance. IC 5-10.2-2-3(d).

## **E. Investment Policy Guidelines**

### **1. Guaranteed Fund**

The Guaranteed Fund interest credit rate will be based on the 2-year GIC (Guaranteed Investment Contract) Index Rate compiled by T. Rowe Price. It will be established annually by the board, normally at the Board's April/May meeting but in no event later than June 30th, and will be set equal to the average of the three previous month-end 2-year GIC rates prior to the board meeting, rounded to the nearest 5 basis points.

The underlying assets of the Guaranteed Fund will be limited to:

- a. Money Market Instruments;
- b. U.S. Treasury and Agency Notes and Bonds;
- c. Sovereign and Supra-National Obligations;
- d. Municipal Bonds;
- e. Corporate Securities;
- f. 144A Securities;
- g. Yankee Bonds;
- h. Mortgage-Backed Securities (including CMOs, CMBS, and REMICs);
- i. Asset Backed Securities;
- j. Trust Preferred and Capital Securities;
- k. Futures and Forwards (including Exchange Traded Swaps Futures);

- l. Options, Caps and Floors;
- m. Swaps; and
- n. Credit Default Swaps (Buy Protection).

Derivatives may be used in lieu of physical bonds or to target a specific fixed income or currency position. In addition, they may be used to hedge, fully or in part, any market risk, including interest rate, credit, liquidity, and currency risk. Derivatives cannot be used for purposes of speculation or to economically leverage the portfolio beyond what has been explicitly permitted in the guidelines (e.g., Investment Managers will have some flexibility to tactically exceed the benchmark's duration in an effort to generate excess returns). Derivatives used in the portfolio must be collateralized by cash or cash equivalents that have an investment grade rating and a duration that is less than one year. Furthermore, the Investment Manager is expected to take additional independent steps to ensure that there is sufficient liquidity within the portfolio to meet the liabilities associated with the use of derivatives. Note that money market futures, or other derivative instruments of a similar nature, that are marked to market daily and don't require the delivery of a physical bond upon settlement do not need to be collateralized.

The Investment Manager(s) will have discretion to invest in public and private asset classes, instruments and investment vehicles. Purchases and sales may be transacted for regular or deferred settlement. Hedging, spread and income generating strategies may include the use of short sales. Derivatives may be used in lieu of physical bonds or to target specific fixed income or currency position. Leverage is prohibited except futures positions where there is an associated cash or cash equivalent position. Securities lending may be utilized in accordance with the Securities Lending Policy.

The portfolio duration will be one to three years. The minimum average portfolio quality will be A-; the minimum issue quality will be B-; and the minimum commercial paper quality will be A2/P2. The Investment Manager will apply quality ratings using the higher of Moody's, S&P or Fitch. Should an issue be downgraded below these minimums, the Investment Manager will determine the appropriate action, in conjunction with Staff, based on the perceived risk and expected return.

The Board recognizes that the 2-Year T. Rowe Price GIC rate is only a proxy for the investment returns. Staff is responsible for explaining periods of variances from the benchmark to the Board and periodically adjusting the manager mix or underlying benchmark/target.

## **2. Fixed Income**

The investment objective of the Fixed Income option is to provide exposure to the broad bond market. This option may be constructed with both passive and active components and the underlying Investment Manager makeup will be determined by the Board's policy. This option will invest primarily in investment-grade corporate bonds, U.S. government and agency instruments, high yield securities and non-U.S. fixed income securities.

## **3. Passive Core Equity**

The investment objective of the Passive Core Equity option is to provide investment in the broad domestic equity market. This option should closely track the returns of the S&P 500 Index by employing an indexing strategy that invests primarily in a mix of stocks and futures similar to the S&P 500 Index.

## **4. Small/Mid Cap Equity**

The investment objective of the Small/Mid Cap Equity option is to provide investment in the stock of smaller and mid-sized domestic companies, typically referred to as "small-cap" or "mid-cap" stocks. This option may be constructed with both a passive and active component and the underlying Investment Manager makeup will be determined by the Board. The objective of this option is to produce returns similar to the Russell 2500 Index.

## **5. International Equity**

The investment objective of the International Equity option is to provide a broad exposure to foreign equity markets of large companies based outside the United States. This option may be constructed with both a passive and active component and the underlying Investment Manager makeup will be determined by the Board. The objective of this option is to produce returns similar to the MSCI EAFE Index.

## **6. Real Return / TIPS**

The investment objective of the Real Return / TIPS option is to provide a fixed income like investment that adjusts the nominal rate of return for inflation over time. This option is being offered for investors who are concerned about the negative impact that future inflation may have on their purchasing power. This option will invest primarily in U.S. TIPS, but may also have exposure to Global Inflation Linked Securities from time to time. The objective of this option is to produce returns similar to the Barclay's Capital U.S. TIPS Index.

## **F. Performance Objectives**

The Board has determined that it is in the best interest of the Fund's members and their beneficiaries that performance objectives be established for each investment alternative and it is clearly understood that these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this ASA Policy. The performance of each individual ASA program option will be evaluated relative to a market index and to a meaningful peer group of active Investment Managers. The evaluation of performance results will be accomplished according to the standards established in Section V of this Policy. Specific benchmarks for each option are delineated below.

1. Guaranteed Fund – The primary objective of the Guaranteed Fund's investment portfolio is to meet or exceed the established interest credit rate over a full market cycle while minimizing tracking error and downside risk. The portfolio's performance will be tracked against the 2-Year T. Rowe Price GIC Index Rate. Since the interest rate is derived from an index that is not directly investible, a market-based index that has a high correlation with the 2-year GIC rate will generally serve as a proxy. Each Investment Manager will be benchmarked against an appropriate market-based index and is expected to earn a rate of return that exceeds the index return by 0.25% to 0.50% annually over a full market cycle after fees. Similarly, each Investment Manager should target a tracking error of 0.50% relative to their index over the same time period.
2. Fixed Income - Barclays' Capital Aggregate Bond Index
3. Passive Core Equity - Standard & Poor's 500 Index
4. Small/Mid Cap Equity - Russell 2500 Index
5. International Equity Fund - Morgan Stanley Capital International - Europe Australasia Far East Index (MSCI EAFE).
6. Real Return / TIPS - Barclay's Capital U.S. TIPS Index

## **G. Guaranteed Fund Risk Management Guidelines**

Managing risk is essential to maintaining the long term funded status of the Guaranteed Fund. It is imperative that the investment firms selected to manage assets for the Guaranteed Fund have dedicated human resources and robust analytical tools that will enable them to manage risk effectively. Each Investment Manager will be reviewed by Staff annually to ensure that they have sound investment practices in place and that risk is being managed prudently. This review will include a thorough review of all operations and investment management activities and may include an on-site visit to the manager's office.

1. Specific Risks to Consider:
  - a. Benchmark Risk will be controlled by tracking the overall portfolio against the 2-year GIC rate;

- b. Interest Rate Risk will be controlled by limiting portfolio duration to not exceed 3 Years due to the stable return mandate of the Guaranteed Fund. Decisions shall be managed using historical real return relationships and economic analysis;
- c. Yield Curve Risk must be managed in a controlled, disciplined fashion by employing break-even, economic analysis, partial duration, and principal component analysis;
- d. Convexity Risk must be managed using option-adjusted and scenario analyses;
- e. Sector Risk and Asset Risk will be controlled relative to each Investment Manager's individual guidelines. Based on the economic outlook, historical factors, and break-even analysis, Staff shall estimate the impact on various sectors' and assets' spreads;
- f. Credit Risk will be controlled by requiring minimum ratings by asset type, outlined in minimum credit quality section above. A downgrading of a security, which causes a violation in the guidelines, shall not require an immediate sale if Staff believes that no further risk of credit deterioration exists or the sale will not diminish the total return to TRF;
- g. Structure Risk must be managed using option-adjusted and scenario analysis; and
- h. Liquidity Risk should be addressed at the Investment Manager level and minimized when at all possible.

#### **XIV. PRIVATE EQUITY INVESTMENT POLICY**

##### **A. Investment Objectives**

The Fund has determined that, over the long term, inclusion of private equity and debt investments (hereinafter referred to collectively as "private equity") would enhance TRF's expected portfolio investment characteristics. The use of private equity investments tends to increase the portfolio's overall long-term expected real return and reduce year-to-year portfolio volatility.

Private equity investments involve the purchase of unlisted, illiquid common and preferred stock and to a lesser degree, subordinated and senior debt of companies that are in most instances privately held. The selection and management of private equity assets will be guided to preserve investment capital and to maintain prudent diversification of assets. These investments are generally long-term in nature and provide the sponsor a reasonable time horizon to wisely invest capital, to add value through intensive operational management, then to realize the proceeds of such an investment.

## **B. Asset Allocation**

TRF's allocation to private equity investments shall remain within the limits authorized by the Board. The target allocation is based on the market value of invested capital ("Net Asset Value"). The Board recognizes that it is necessary to make capital commitments annually and in excess of the target allocation in order to achieve and maintain the targeted Net Asset Value. Over the long-term, it is expected that approximately equal amounts of new funding will be committed each fiscal year to garner the benefits of time diversification.

## **C. Portfolio Performance Expectation**

Any individual fund investment is generally expected to improve the risk/return profile of the allocation and/or produce an IRR of 15% to contribute to the 15% overall portfolio IRR expectations. This is based on long-term expectation of public equities producing an average return of 9-11%.

## **D. Portfolio Management**

The selection and management of assets in the private equity portfolio shall be guided to generate a high level of risk adjusted return, to provide a moderate amount of current income, and to maintain prudent investment diversification. The Fund shall manage the investment risk associated with private equity investments in several ways:

### **1. Institutional Quality**

All assets must be of institutional investment quality, whereby the investment would be considered acceptable by other prudent institutional investors (e.g. insurance company general accounts and separate accounts, commercial banks and savings institutions, public employee retirement systems, corporate employee benefit plans—domestic, foreign and other tax-exempt institutions).

### **2. Diversification**

The private equity portfolio shall be diversified as to investment strategy, timing of investment, size and life cycle of investment, industry sector, investment sponsor organization (e.g., general partner group), capital structure and geographical location. While there is not a set minimum dollar amount per fund, the Private Equity Consultant is charged with assisting TRF Staff to deploy capital, such that targets are achieved with a minimal number of funds. Average commitment size will be determined by a number of factors, including fund type, assets under management, track record, and market opportunity.

### **3. Investment Structure**

*Direct Partnership Investment or Separate Account:* The Fund's preferred investment structure will comprise an arrangement whereby direct, co-investments and secondary investments are made directly with investment partners. These investments will be made with the advice and counsel of one or more Consultants. The Consultants will facilitate commitments to private equity limited partnerships, limited liability companies, group trusts, and/or other vehicles on behalf of TRF, on both a discretionary and nondiscretionary basis.

*Co-Investments:* Co-investment opportunities provide additional funding to specific investments being made by limited partnerships. In specific instances, the general partner can invite the limited partners to provide additional capital when an investment is of a size, which exceeds the Fund's diversification parameters.

### **4. Reporting System**

A comprehensive reporting and monitoring system for the entire private equity portfolio, each Investment Manager and, to the extent possible, each individual investment, will be maintained to track the portfolio. Situations of investment underperformance, total private equity portfolio diversification deficiencies, and conflicts of interest can then be more easily identified, facilitating active portfolio management.

### **5. Performance Measurement**

The private equity portfolio is expected to generate a minimum total dollar-weighted rate of return (internal rate of return or IRR) of 15%, net of all investment management fees and expenses (over rolling 10-year periods). This is based on long-term expectations of publicly traded equities producing an overall average return of 9-11%. Performance will be calculated on both a time-weighted and dollar-weighted (internal rate of return or IRR) basis, with primary emphasis being placed on the internal rate of return. The rate of return calculations will be net of all sponsor fees and expenses, but gross of Consultant fees and expenses.

Staff and the Consultant will be responsible for reviewing Custodian figures as to timing, amount, value of in-kind securities at distribution and reported net asset value, and reconciling any discrepancies. IRR and/or multiple calculations provided by recognized industry sources, such as Venture Economics and Cambridge Associates, will be used for purposes of comparison of individual fund performance to peers and the industry. For time-weighted returns, comparable publicly-traded market indicators (such as small cap indices) will be employed.

## **6. Specialized Services**

Due to the complex nature of alternative investment formats, expert legal counsel will be retained by Staff on an as-needed basis. Investment Staff or the Consultant may periodically be required to engage specialized firms to investigate principals for issues of integrity, ethics, legal, tax, among others, prior to entering a subscription agreement or other private equity-related contracts. Specialized firms may also be engaged by the Investment Staff for market research and operational issues such as in-kind distribution management of investment interests.

## **7. Transfers and Terminations of Interest**

The CIO and ED, acting together, with the approval of the internal legal counsel, may sell, transfer, withdraw or terminate interests in the private equity portfolio in accordance with the investment documents, provided that the action does not breach any agreement to which TRF is legally bound. All such actions shall be reported to the Board at its next scheduled meeting.

## **E. Investment Policies**

The private equity program will be guided by the long-term target strategic portfolio structure and may exclude certain eligible investment areas in any single year based on the opportunities available in the marketplace. Each year the program will be implemented and modified in accordance with an annual tactical plan that is prepared by the Investment Staff and the Consultant, approved by the CIO and ED, and discussed with the Board, as requested.

### **1. Eligible Investments**

The following investment types will be considered for the private equity portfolio:

#### ***a) Venture Capital***

Early, late and multi-stage investments;

#### ***b) Buyouts/Acquisition***

Investments to acquire majority or controlling interests in business or product lines from either public or private companies;

#### ***c) Restructuring/Recovery***

Investments made in distressed or poorly performing companies, with the intent of initiating a recovery via financial

restructuring or introduction of management expertise, and holding debt and equity securities;

***d) Special Situations***

These are investment in strategies that have gained institutional following, but where sporadic opportunities do not justify a separate long-term strategic allocation. Categories include funds which make strategic block investments, have very broad mandates (such as merchant banking funds), focus on specific industries, or exploit opportunities created by changing industry trends or governmental regulations;

***e) Subordinated Debt***

This area includes investments in funds focused on unsecured or junior obligations that generally take the form of subordinated debentures or preferred stock. They typically earn current coupons or dividends and have warrants on common stock or conversion features; and

***f) Other***

This could include investments in publicly-traded securities and strategies different from those cited above such as hedge fund strategies, commodity trading, post-venture equities, commercial leases, project finance, energy related, or non-traditional strategies.

**F. Portfolio Diversification**

**1. Geographic Diversification**

Over the long-term, the TRF portfolio should seek portfolio diversification with regard to major regional areas, both domestically and internationally (e.g., Africa, Asia, Europe, South America). International private equity investments shall generally comprise between 35-50% of the private equity investment allocation and shall be diversified in the context of the Fund's total portfolio. The currency exposure to TRF from the non-dollar aspect of the allocation will be monitored as part of the total portfolio and not managed as part of the private equity allocation.

**2. Industry Sector Diversification**

TRF Staff and Consultant will seek to diversify by industry sector (e.g., Biotechnology, Computers, Energy, Financial Services,

Healthcare, Medical, Media/Communications, Electronics, Software, Consumer/Retail, Basic Industry) such that no one industry classification represents more than 20% of the private equity portfolio. Staff and the Consultant will adopt an industry classification methodology and will make adjustments deemed necessary to sufficiently measure the private equity portfolio diversification.

### **3. Vintage Year Diversification**

Commitments to funds will be made over time to spread out investment timing such that new commitments will be made each fiscal year. This policy has the effect of dollar-cost averaging the TRF portfolio over business cycles and helps insulate the portfolio from event risk.

### **4. Investment Manager Diversification**

TRF will seek to diversify by issuer of securities and investment sponsors. No more than approximately 15% of the TRF private equity portfolio's net asset value shall be invested with any individual sponsor organization. Net asset value is defined as the carrying value of the investments reported by a fund sponsor in the quarterly financial statements. The Fund is permitted to own up to 100% of any particular fund or separate account subject to the sponsor limitation above.

### **5. Capital Structure Diversification**

While the majority of investment opportunities in the private investment area are equity-oriented in nature, TRF will seek portfolio diversification such that both equity and debt securities (i.e., those that are higher in a company's capital structure than common stock) are included in the private equity portfolio. These securities should also be senior to common and preferred equity and can be in the form of preferred stock, subordinated debt, senior debt, lease financing, or other structure.

## **G. Contract Terms**

No contract shall obligate the Fund for a period in excess of fifteen (15) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that any individual option period or extension does not exceed five (5) years.

## **XV. REAL ASSETS INVESTMENT POLICY**

This Real Assets Policy (this “RA Policy”) sets forth the purpose, general objectives, and investment policy with respect to the Fund’s real assets investment program (the “Real Assets Portfolio”). For purposes of this RA Policy, “real assets” includes private and public, equity and debt, domestic and international agriculture, commodity, real estate, timber, water, and other related investments. The Fund has authorized its real assets consultant(s) (the “Real Assets Consultant”) to provide expertise and advice related to Fund investment strategy, policies and practices and to work co-operatively with TRF Staff when providing advice concerning the Fund’s real assets investments. New investments may comprise real assets commingled funds (“Real Assets Funds”); real assets separate accounts, where the Fund represents the predominant equity investment in a particular vehicle (“Real Assets Separate Accounts”); and real assets co-investments (“Real Asset Co-Investments”), where the Fund invests in a direct real asset investment, typically alongside a Real Assets Fund.

### **A. Asset Allocation**

The Fund’s target Real Assets Portfolio allocation is intended to be achieved with the goals of portfolio diversification and attaining the optimum return on the total portfolio, consistent with the assumption of prudent risk and safety of principal. Due to the nature of closed-ended Real Assets Funds drawing committed capital on an unscheduled basis, TRF may over allocate to the Real Assets Portfolio in order to achieve intended investment amounts based upon pacing analyses conducted by TRF and/or the Real Assets Consultant.

### **B. Investment Objectives**

The objectives of the Fund’s Real Assets Portfolio include (1) preserving the Fund’s capital, (2) enhancing risk-adjusted returns, (3) further diversifying the total portfolio, (4) reducing the Fund’s overall portfolio volatility, and (5) providing a hedge against inflation.

### **C. Commodity Investments**

TRF commodities investments may include investments in overlay exposures, and collateral investments, including but not limited to futures contracts, forward contracts, swap agreements, structured notes, and options (the “Commodities Portfolio”). Commodities Investment Managers investing on behalf of TRF may hold individual positions long, short, or a combination of both. The Commodities Portfolio will be implemented through a combination of passive and active management in both liquid and illiquid structures.

### **D. Risk Controls**

Derivative instruments may be standardized and exchange-traded (e.g., futures) and/or privately-negotiated and over-the-counter (e.g., swap

agreements). Underlying risk exposures may be to cash commodities and/or commodity derivatives. Risk exposures for exchange-traded instruments shall lie with exchange clearinghouses and with approved counterparties for non-exchange-traded transactions.

### **1. Exchange-Trade Listing Requirements**

Exchange-traded commodity futures, options, and other instruments may be traded on any exchange regulated by the Commodities Futures Trading Commission ("CFTC") of the United States and/or the Financial Services Authority ("FSA") of the United Kingdom.

### **2. Non-Exchange-Traded Counterparty Requirements**

For non-exchange traded derivatives, counterparty creditworthiness shall be at a minimum of "A3" as defined by Moody's Investor Service, "A-" by Standard & Poor's, and/or "A-" by Fitch. The use of unrated counterparties is prohibited unless such counterparty is a wholly-owned affiliate of a parent organization that guarantees payment and meets the above-noted counterparty creditworthiness standards.

### **3. Collateral Value**

The market value of commodities collateral shall be maintained at 100% or greater of the net option-adjusted notional value of any commodities overlay exposure at the consummation of any new commodities overlay position. If the collateral market value falls below the net option-adjusted value of the overlay, the Commodities Investment Manager(s) shall adjust the Commodities Portfolio at the earliest feasible opportunity to bring collateral value up to the notional value of the overlay.

### **4. Collateral Investment**

The commodities program collateral investments shall only be invested in cash or government obligations used for future margin requirements, inflation linked bonds held by the Fund for investment, a short term investment fund, or any receivable due from an approved counterparty to a commodity-related investment. Other investment structures for collateral pool assets must be approved by the Board.

## **E. Infrastructure Investments**

Infrastructure investments will be considered on a disciplined and tactical basis to capitalize on opportunities that add diversification to and help achieve the return targets for various areas of the asset allocation. TRF will consider

investment opportunities in public and private infrastructure including, but not limited to, transportation, energy, natural resources, ports, utilities, communications, and social infrastructure assets. Eligible infrastructure funds will range from core open-ended funds to opportunistic closed-ended funds, and may also include Separate Accounts with selected Investment Managers. Private infrastructure funds may have a maximum term of approximately twelve (12) years, with extension periods provided for proper winding-up of affairs and disposition of assets unless otherwise approved by the TRF Board.

## **F. Real Estate Investments**

The Fund's real estate investment portfolio is designed to target a value-added level of return, approximately 12% on a nominal basis (net of all fees, compounded annually), through real estate investments providing both income and appreciation (the "Real Estate Portfolio"). The investments will be managed with consideration given to the general parameters detailed in this section.

### **1. Risk/Return Mix and Return Expectations**

#### ***a) Core***

Equity or debt investment in operating and fully-leased institutional quality real estate in the traditional property types (apartment, office, retail, industrial, and hotel). Net returns historically have been in the 8% range on a nominal basis (net of all fees).

#### ***b) Value – Added***

Equity or debt investments made in real estate assets in need of repositioning through such activities as rehabilitation, redevelopment, and leasing-up. Global publicly-traded real estate securities are also typically placed in the value-added category because they often engage in various opportunistic strategies (e.g., ground-up development, land banking). Net returns historically have been in the 12% range on a nominal basis (net of all fees).

#### ***c) Opportunistic***

Equity or debt investment in real estate properties, operating companies and other investment vehicles involving significant repositioning or ground-up development risk. Opportunistic debt and equity strategies include development opportunities, distressed assets, financial restructurings, buyouts of publicly-traded real estate operating companies, and REITs. Investment may also be made in non-traditional property types. Risks may include development, financial restructuring, and operating risk, among other types. Net returns historically have been in the 15% or higher range on a

nominal basis (net of fees).

The following table provides the targets as well as the range of investments for the Real Estate Portfolio:

	<b>Lower Range</b>	<b>Target</b>	<b>Upper Range</b>
Core	10%	30%	60%
Value-added	10%	45%	60%
Opportunistic	10%	25%	60%

## **2. Benchmark**

The benchmark for the Private Real Estate Portfolio, over the course of a fair market cycle of eight to ten years, is the NCREIF Fund Index-ODCE (Open Diversified Core Equity), provided that the private Real Estate Portfolio maintains an acceptable level of risk when measured by the standard deviation of quarterly returns of the NCREIF Fund Index-ODCE (Open Diversified Core Equity). The benchmark for Public Real Estate Portfolio, over the course of a fair market cycle of eight to ten years, is the EPRA/NAREIT, provided that the public Real Estate Portfolio maintains an acceptable level of risk when measured by the standard deviation of quarterly returns of the EPRA/NAREIT index.

## **3. Investment Guidelines**

Eligible Real Estate Funds will range from core open-ended funds to opportunistic closed-ended funds, and may also include Real Estate Separate Accounts with selected fund Investment Managers. Real Estate Separate Accounts represent opportunities wherein TRF would be the predominant equity sponsor for an Investment Manager pursuing a specifically-targeted opportunity. TRF's Real Estate Funds and Real Estate Separate Accounts will generally exhibit the following additional characteristics:

- a) Each Real Estate Fund and Real Estate Separate Account will consist of real estate investments within the industrial, office, multi-family, retail, and hotel property types. Other investable property types will include but not be limited to senior housing, student housing, storage assets, for-sale residential units, and land investments;
- b) The Real Estate Funds/Separate Accounts, in aggregate, will provide reasonable diversification by geography, tenant base, and lease term, once fully invested on a portfolio basis, provided that certain property types and regions may be over-weighted. Individual Real Estate

Funds may have a property-type or geographic bias; and

- c) Closed-ended Real Estate Funds may have a maximum term of ten (10) years, with extension periods provided for proper winding-up of affairs and disposition of assets.

#### 4. Risk Mitigation

The following describe the various diversification guidelines that will be utilized:

##### *a) Investment Vehicle and Liquidity Exposure Ranges*

The allocation range for investment vehicle type is shown below along with their historical liquidity levels. It should be noted that even ostensibly liquid vehicles have, on occasion, experienced significant illiquidity, thereby affecting exit pricing for some investors. Thus, the allocation ranges are intended to provide significant flexibility to achieve TRF's Real Estate Portfolio goals over time, as shown below:

<b>Investment Vehicle Type</b>	<b>Liquidity Level</b>	<b>Allocation Range</b>
Commingled Closed-Ended	Illiquid	Up to 80%
Commingled Open-Ended	Moderate	Up to 80%
Separate Account	Illiquid	Up to 50%
Global Real Estate Securities	Liquid	Up to 30%

##### *b) Property Type*

Property-type ranges are based on the universe of available real estate investments, institutional investor portfolio information, and available indexes. TRF may occasionally overweight certain property types when opportunities with top-tier investment managers exist. While traditional real estate property types of office, retail, industrial, residential, and hotel are provided, other emerging property types may provide significant opportunities for outperformance. The policy ranges with respect to the Fund's property type exposure are shown below:

<b>Property Type</b>	<b>Allocation Limits</b>
Office	Up to 50%
Retail	Up to 50%
Industrial	Up to 50%
Residential	Up to 50%
Hotel	Up to 30%
Other	Up to 50%

**c) Geography**

A significant percentage of the Real Estate Portfolio is targeted to international real estate, to take advantage of secular growth in real estate demand. The policy ranges with respect to the Fund’s international exposure are shown below:

	<b>Lower Range</b>	<b>Target</b>	<b>Upper Range</b>
Domestic	10%	60%	90%
International	10%	40%	90%

European, Asian, and Latin American economic growth may lead to substantial returns for investors capitalizing on increased secular demand for residences, office space, retail establishments, and trade warehouses. The policy ranges with respect to the Fund’s international regional exposure are shown below:

	<b>Lower Range</b>	<b>Target</b>	<b>Upper Range</b>
Europe	0%	40%	90%
Asia	0%	40%	90%
Other International	0%	20%	50%

**d) Leverage**

The target leverage level established for the Fund’s Real Estate Portfolio is 60% on loan-to-value basis. On an individual investment basis, leverage can increase to 80%. Within each Real Estate Fund, leverage should be applied on a non-recourse basis to the borrower, allowing for significant flexibility regarding provisions for debt maturations.

<b>Risk</b>	<b>Target</b>	<b>Policy Range</b>
Core	30%	Up to 50%
Value	55%	Up to 65%
Opportunistic	70%	Up to 80%
Individual Investment	NA	Up to 80%
<b>Total Real Estate Portfolio</b>	<b>60%</b>	<b>Up to 80%</b>

**e) Investment Manager**

If an Investment Manager is unable to fully implement its strategy based upon factors internal to the organization (e.g., credit agency downgrades, key person risk), it affects the returns that can be expected from the Real Estate Portfolio. No single Fund commitment to a single partner or

Investment Manager shall exceed twenty percent (20%) of the total expected size of the Real Estate Portfolio.

***f) Other Diversification Factors***

TRF Staff and the Real Assets Consultant shall monitor other investment diversification factors including property size, partnership vintage year, ownership type and stage of development to avoid any unnecessary concentration of risk.

**G. Co-Investments and Direct Investments**

**1. Definitions**

Real Assets Co-investments entail providing additional funding to specific real assets investments being made by the Real Assets Funds and Real Assets Separate Accounts to which TRF has commitments. Real Assets Direct Investments entail providing funding to specific real estate and infrastructure investments sourced independently of the Real Assets Funds and Real Assets Separate Accounts to which TRF has commitments. TRF shall not invest in individual commodities positions on a direct basis.

**2. Capital Stack**

TRF may invest in either the same portion of the capital stack or in different portions of the capital stack as the Real Assets Fund or Real Assets Separate Account from which a Real Assets Co-investment opportunity was sourced. Staff and the Real Assets Consultant shall conduct due diligence on any prospective Real Assets Co-investment or Real Assets Direct Investment opportunity, including review of the interaction of the capital stack positions under adverse investment outcomes.

**H. Monitoring and Control**

All investments will be made through investment vehicles providing full discretion to Investment Managers. Staff and the Real Assets Consultant will develop and implement a comprehensive and responsive reporting and monitoring system for the Real Assets Portfolio, individual investments and individual Investment Managers. The reporting and monitoring system will identify under-performing investments, controlled portfolio diversification deficiencies, and inherent conflicts of interest, thereby facilitating active portfolio management. A cash-based internal rate of return (IRR) will be used when evaluating the long-term performance of private investments. Time-weighted returns will be used to measure performance of public investments as well as for comparative performance purposes.

## **XVI. HEDGE FUND POLICY**

### **A. Introduction**

This Hedge Fund Policy sets forth the purpose, general objectives, and investment policy with respect to the Fund's hedge fund investment program ("Hedge Fund Program"). For purposes of this Hedge Fund Policy, "hedge fund" includes domestic and international investment strategies that utilize a multitude of private and public securities investments to generate returns. The Fund has authorized its Consultant to provide expertise and advice related to the Fund's investment strategy, policies, and practices, and to work co-operatively with the Staff when providing advice concerning the Fund's hedge fund investments. Staff and the Consultant will utilize an ongoing investment process that is structured, disciplined and collaborative to source and select appropriate investments. Staff and the Hedge Fund Consultant shall assemble and manage a diversified portfolio of hedge fund investments classified according to risk exposures within the total fund asset mix (Section IV.C) as equity strategies, credit strategies, and absolute return.

### **B. Investment Strategies**

The equity strategies, credit strategies, and absolute return sections of the total Fund asset mix shall include hedge funds and other investment strategies that seek to exploit investment manager skill and/or specific market opportunities that may not all be classified as "hedged." The separate allocations to equity strategies and credit strategies will not necessarily consist of equity securities and credit securities, but will focus on matching an equity like return and credit like return profile. The primary investment categories targeted for the Hedge Fund Program will generally be within the generally accepted benchmarks (e.g. HFRI, Credit Suisse/Tremont Hedge Fund Index) of hedge fund investment strategies that include event-driven (e.g., merger arbitrage, distressed securities, multi-strategy, specialist credit), relative value (e.g., convertible arbitrage, fixed-income arbitrage, market neutral equity), and opportunistic/tactical (e.g., long/short equity, global macro, managed futures), among others. A number of investment opportunities in the equity and credit strategies area are often available in directional or un-hedged strategies that exhibit a compelling risk adjusted return to the Fund, but are outside of the standard benchmarks. These may include such strategies as distressed credit, commodities, and mezzanine, among others. These investments will be made on an opportunistic basis and will comprise no more than 40% of the target allocation of the Hedge Fund Program.

### **C. Performance Objectives**

Evaluation of monthly, quarterly, and annual performance will be performed to track potential risks and to assess the Hedge Fund Program's progress toward its long-term investment goals. Prior to investment, objectives will be

established for each fund consistent with its specific strategy. Additionally, regular comparison will be made to relevant benchmarks and to the performance of funds that employ a similar strategy.

The Hedge Fund Program shall pursue the following objectives:

### **1. Targeted Risk**

The Hedge Fund Program shall attempt to target risk no greater than one-half the rolling three-year annualized volatility of the equity portfolio with a target maximum one-month portfolio draw down risk of less than 10%; and

### **2. Targeted Return**

On an annual basis and for purposes of performance appraisals, the Hedge Fund Program return target shall be the return of the one-year U.S. Treasury Bill rate plus 4% over rolling three to five-year periods. The ongoing measure of the composite performance of the portfolio will be a recognized index, such as the HFRI Fund of Funds index.

## **D. Investment Manager Selection Guidelines**

Staff and the Consultant shall develop and maintain selection guidelines to aid in the identification of compelling investment opportunities. A formal process will be utilized to assess the universe of investment opportunities with selection guidelines that may include, but are not limited to the following:

### **1. Investment Management Review**

- a) Investment Manager investment experience,
- b) Basic investment vehicle terms,
- c) Investment goals and objectives,
- d) Risk management philosophy and resources,
- e) Use of Leverage,
- f) Due diligence process,
- g) Legal constraints or requirements,
- h) Reporting and transparency (confidentiality agreements may be required),
- i) Decision making and research process, and
- j) Other relevant parameters that may apply;

### **2. Operational Review**

- a) Operational infrastructure and documented procedures,
- b) Number and experience of operations staff,
- c) Background investigations of key people, as deemed necessary,
- d) Conflicts of interest,

- e) Legal, compliance, internal controls,
- f) Service providers (i.e., fund administrator, auditor, prime broker, custodian), and
- g) Other relevant parameters that may apply.

## **E. Risk Management and Monitoring**

To control risk or enhance return, hedge funds will often use short-selling, derivatives, leverage, and illiquid securities. While specific investment guidelines are established with each fund to mitigate risk, TRF shall apply the following measures of diversification and risk management for constructing and reviewing the overall Hedge Fund Program:

### **1. Strategy Risk**

TRF's Hedge Fund Program shall be constructed as a broadly diversified program of investments. The maximum exposure to long-short equity investment managers shall be 60%, with any other single underlying hedge fund strategy limited to 40% (e.g., convertible arbitrage, market neutral equity, fixed-income arbitrage, risk arbitrage, distressed securities, dedicated short-bias, global macro, emerging markets, and managed futures).

### **2. Investment Manager Risk**

To be broadly diversified by Investment Manager, TRF's aggregate Hedge Fund Program shall target exposures to a minimum of fifteen (15) individual hedge funds, with the maximum exposure to any one hedge fund, or group of affiliated hedge funds, limited to five percent (5%) of defined benefit Fund assets, unless otherwise specifically exempted by the Board.

### **3. Leverage Risk**

It is recognized that financial leverage is used in many hedge fund strategies to enhance returns. Therefore, Hedge Fund Program investments should only be made in investment vehicles which provide limited liability and thereby protect TRF from losing more than its invested capital.

### **4. Liquidity Risk**

While investments in illiquid securities, or hedge funds with long lock-up periods, are often key to enhancing returns, the fully developed Hedge Fund Program shall target portfolio level liquidity of one (1) year, as measured by the asset-weighted average period for redemption of all underlying funds. Fund agreements are generally open ended post a lock up period, not to exceed five (5) years for any single agreement, and will be reviewed on a regular basis. The equity and credit strategies may include investments in

a drawdown format that will be limited to a maximum period of 15 years and not be included in the liquidity calculation set above. Agreements may contain an option to extend the initial term, if any, of the agreement upon the agreement of the ED and CIO.

## **5. Counterparty Risk**

In the normal course of risk management, the Hedge Fund Program may elect to engage in derivatives transactions to offset, or hedge, unintended market exposures in underlying funds that remain in a lock-up period. In these transactions involving counterparty risk, such credit risk should be minimized through the exclusive use of listed options and futures traded on registered exchanges. Non-exchange traded options, forwards, or swaps shall be deemed acceptable only if the counterparty is rated A or better by at least one of the major rating agencies.

## **F. Reporting**

The performance of the Hedge Fund Program shall be reported to the Board as requested. The update will include an explanation of how the Hedge Fund Program has evolved since previous discussions. The reporting should include the following:

### **1. Performance for Past Periods**

Standard time periods for each report should include at least: Last Quarter, Year to Date, Latest 12 Months, 3 Years and Since Inception. Returns should be annualized for periods over one year and calculated on a time-weighted basis for the total portfolio. All returns should be net of all management and incentive fees.

### **2. Explanation of Performance Results**

Discuss the performance results, relating specifically to strategy and Investment Manager allocation during the current review period. This explanation shall include relevant portfolio information.

### **3. Specific Near-Term Strategy**

Discussion of the Investment Manager's portfolio strategy over the near-term period.

### **4. Funds added or removed from the Portfolio**

Discussion of any Investment Manager changes made to the Hedge Fund Program.

### **5. Changes in the Consultant's firm**

Discussion of any changes in the Consultant's firm including, but not limited to, organizational structure, ownership, key personnel, investment strategy and philosophy.

