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City of Austin Employees' Retirement System

City of Austin Employees' Retirement System

Board Approved Policy

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Signature of Chairperson: E S Gonzales

Elizabeth S. Gonzales

Adopted

November 23, 2010

Statement of Investment Policy

for

City of Austin Employees' Retirement System
(COA ERS)

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Original Adoption Date: 11/30/99

I. STATEMENT OF POLICY

Purpose

This document (including Appendices I –X) is the official Investment Policy of the City of Austin Employees' Retirement System (the "System"). The policies in this document (the "Investment Policies") have been adopted by the Board of Trustees of the System (the "Board") to establish both the investment policies and the investment objectives of the System. The Board has the fiduciary duty of overseeing the System's assets and investments (the "Fund"). The terms and requirements of this policy are not to be deviated from by any responsible party without the prior written permission of the Board. All previous System investment policies and objectives are superseded by this document. Any revisions to this document will be promptly supplied to the appropriate parties in written format.

Investment Goals

The purpose of the Fund is to accumulate the financial reserves necessary to provide for the retirement or pensioning of eligible members of the City of Austin Employees' Retirement System and their beneficiaries. Given this purpose, the System's liquidity requirement, and the source and predictability of contributions, the Board elects to assume normal pension fund risk in pursuing an investment program. A primary objective of the investment management of the Fund is to emphasize consistency of growth in a manner intended to protect the Fund from excessive volatility in market value from year to year.

The Board, with consultation, advice and assistance from the System's Professional Staff and Investment Consultant, will use the Fund's asset allocation as the primary tool to achieve this goal. As this is a long-term projection and investments are subject to short-term volatility, the main investment review focus of the Board will be to emphasize total return of the Fund versus its absolute and relative targets, each asset segment's composite performance versus appropriate market benchmarks, and each Investment Manager's performance versus a specified asset class style benchmark and style peer comparisons over relevant time periods. Each Investment Manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, add incremental value after costs and provide investment management in compliance with this document and the Investment Manager's contract with the System.

Investment Philosophy

The Fund is a permanent one.

The benefit obligations of the System must be met on a timely and regular basis.

There is currently no expectation of need for significant liquidity from the Fund.

The Fund shall be considered a total return fund, with appropriate recognition given to both current income and capital appreciation. Taxes shall not be a consideration. As such, market value will be the only relevant basis for measuring investment value.

In the long run, ownership (equity investment) is a prudent investment vehicle for preservation of real values. The purpose of fixed income investments is to protect the principal, provide income and provide a measure of stability to the Fund.

Diversification is integral to the fund's design and as a result, investments that improve fund diversification will be considered.

As a long-term fund with a commitment to funding the full benefits of the participants, cash flow considerations shall take precedence over the liability stream when considering overall asset allocation of fund assets.

Identification of Duties

There are several parties acting as fiduciaries regarding the investment program for the Fund. This document will set out specific duties and responsibilities for the investment-related parties that are established to achieve the objectives of the Fund.

II. INVESTMENT RESPONSIBILITIES

Board of Trustees

The Board has the fiduciary responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish, maintain and require compliance with this Investment Policy and the objectives stated in this document. Within this framework, the Board will select, contract with, monitor, and evaluate the Investment Consultant, Investment Managers, Custodian (as defined herein), and other parties to serve the goal that actual results meet the objectives.

Professional Staff

The Executive Director, the Chief Investment Officer and the Chief Financial Officer will constitute the System's professional staff ("Staff"). The Staff is responsible for rendering to the Board objective, competent, professional advice that is free from conflicts of interest.

Staff will make recommendations to the Board regarding the Fund and will be responsible for implementing both Board decisions and respective portions of this Investment Policy.

Investment Consultant(s)

The Board may obtain the services of one or more qualified firms or individuals to assist and advise the Board and Staff regarding the structure, management, and investment of the Fund (an "Investment Consultant"). An Investment Consultant's duty is to render objective, competent, professional advice and assistance that is free from conflicts of interest and to work with the Board and Staff with respect to the investment process. This includes meeting regularly with the Board to provide perspective as to the Fund's goals, structure and the investment management team as well as the progress being made in fulfilling Fund objectives. An Investment Consultant will advise, consult and work with the Board and Staff to develop and maintain a properly diversified portfolio of investments for the Fund.

The Investment Consultant will perform its duties and obligations to the Board in conformance with generally accepted industry standards, its contract with the System, and the System's Investment Consultant Operational Policy.

Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. An Investment Consultant will assist the Board in investment manager selection, when needed, and will promptly inform the Board and discuss the impact of material changes taking place within any current manager's organization and/or investment process. Within this process, an Investment Consultant assumes fiduciary responsibility for advice given regarding the management of the investment process.

Investment Managers

The investment managers ("Investment Manager") will construct and manage a portfolio of investments (the "Portfolio") consistent with the investment philosophy and disciplines they are hired to implement in compliance with this document and the respective investment management agreement (IMA) they execute with the System. When the word "Product" is used in this Investment Policy, it means an investment strategy or methodology that is structured, developed and marketed for investing in specific securities or specific types of securities. The terms, provisions and requirements set forth in this Investment Policy, the applicable local, state and federal laws, and the IMA executed by the investment manager, establish the requirements governing the investment of the Fund, and such requirements are hereinafter collectively sometimes referred to as the "Guidelines". Investment managers will select specific securities, buy and sell such securities, and manage the investment Portfolio within the Guidelines. Investment decisions are best made when not restricted by excessive procedure. Therefore, full discretion is delegated to the Investment Managers to carry out the investment of the respective Portfolio within the Guidelines. Investment Managers will also allocate brokerage commissions and use only acceptable investment vehicles as defined in the Investment Policy and the respective IMA. In the event of an actual or perceived conflict between this Investment Policy and the respective IMA, the more strict interpretation shall prevail.

The execution and delivery of the IMA by the Investment Manager is an acknowledgement by the Investment Manager that it has received this Investment Policy and will fully comply with the terms and provisions of the IMA, this Investment Policy and all other Guidelines.

Global Custodian(s)

The Global custodian(s) ("Custodian") will maintain custody of all cash, securities, commingled funds and other investments of the Fund. The Custodian will regularly value, list and summarize these holdings for the Board's review. The Custodian will also accurately record all transactions affecting the Fund. The audited entries from the Custodian constitute the official records for the Fund. In addition, a bank or trust depository arrangement with the Custodian will be utilized to accept and hold cash prior to allocating it to the Investment Manager, and to invest such cash in liquid, interest-bearing instruments.

III. FIDUCIARY CONDUCT

An investment fiduciary includes, but is not limited to, a person who exercises discretionary authority or control in the investment of the assets of the City of Austin Employees' Retirement System (the "System") or who renders, for a fee, advice for the System. The term investment fiduciary includes, but is not limited to the members of the Board, the General Counsel of the System, the System's Professional Staff, Investment Consultant(s), Investment Managers and the Custodian.

An investment fiduciary shall discharge his or her duties exclusively in the interest of the participants in the System and their beneficiaries and shall:

1. Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;

2. Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered;

3. Act in accordance with these Guidelines;

4. Make investments for the sole purpose of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of supervising, safeguarding, and investing the assets of the System; and

5. Give appropriate consideration to those facts and circumstances that an investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role which the investment or investment course of action plays in that portion of the investments for which an investment fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by an investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the System, to

further the purposes of the System, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action. The trustees shall give consideration of the following factors as they relate to total system's investment course of action:

(a) the diversification of the investments of the System;
(b) the liquidity and current return of the investment of the System relative to the anticipated cash flow requirements of the System; and
(c) the projected return of the investments of the System relative to the funding objectives of the System.

IV. PERMISSIBLE INVESTMENTS

Listed below are the investment vehicles specifically permitted currently under this Investment Policy. They are categorized as equity, fixed income, or real estate to indicate how they are classified for purposes of the asset-mix guidelines in a subsequent section. Unless given authorization in writing, managers are allowed to invest only in the security types listed below for the asset class for which they have been hired.

Equities
- Common stocks
- Convertible Bonds
- Preferred Stocks

Fixed Income
- Domestic and Yankee Bonds
- Mortgages and Mortgage-Backed Securities
- Asset-Backed Securities
- Cash-Equivalent Securities
- Money Market Funds, Bank STIF and STEP Funds

Real Estate
- Open Ended Commingled Funds

1. The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. If held in a Board approved commingled account or mutual fund, the prospectus or Declaration of Trust takes precedence over this document.

2. Private placement bonds are not permitted. SEC Rule 144(a) fixed income securities are allowable.

3. Investments may not be made in any investment that is prohibited by the Internal Revenue Service, the Department of Labor, or other federal or state law.

4. For purposes of definition, cash equivalent securities are any fixed income investment with less than one year to maturity or reset date.

5. The following portfolio concentration limitations will apply. The securities representing equity of any one company shall not exceed 4% of Portfolio value at initial purchase cost or 6% of the market value of any manager's Portfolio.
Fixed income securities of any one corporation shall be limited to 4% of Portfolio value at initial purchase cost and may not exceed 6% of the Portfolio at market. This

restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipals. The total holdings of a federal agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 20% of the Portfolio at cost (agency-issued mortgage-backed securities include, but are not limited to GNMA's). The direct debt of the federal government (treasury bonds, bills and notes) shall not be restricted as a percentage of the Portfolio.

6. Quantitative or Enhanced Index investment styles may deviate from the above concentration limitations provided the Investment Manager is following a pre-established investment process and relative position limitation (i.e. index weight plus 1%) authorized in the IMA or specifically granted as an exception within this Policy. The Investment Manager shall monitor the account and shall promptly inform the Staff and Investment Consultant if the concentration restriction noted above in this Policy is exceeded regardless of authorization or specifically granted exception.

7. Derivatives are permissible for the purpose of equitizing cash (e.g., an overlay program, reducing cash exposure, or in Portfolio transition).

8. The Fund will be invested in a manner consistent with the Guidelines.

9. Equity Investment Managers may invest in depository receipts as long as the underlying security is permissible within these guidelines and the investment does not expose the Fund to any greater risk than the risk from holding the underlying security.

10. Domestic equity Investment Managers are allowed to invest in dollar-denominated, SEC registered stock of foreign domiciled companies traded on the NYSE, AMEX or OTC markets. Concentration restrictions for these securities are the same as for any other equity security.

11. Investment Managers may be hired to manage accounts using primarily closed-end funds. In such accounts, closed-end funds are permissible holdings.

V. GENERAL FIXED INCOME PORTFOLIO GUIDELINES

Eligible Holdings

The Portfolio will be invested exclusively in publicly traded fixed income securities, as described under Section IV. Permissible Investments, Fixed Income. Securities are not allowed that use any form of leverage or in which interest or principal position is tied to anything not specifically allowed in this Investment Policy or the IMA.

Diversification

The diversification of the fixed income securities held in the Portfolio among sectors and issuers is the responsibility of the Investment Manager. The Investment Manager shall comply with the concentration limitations as presented under Section IV. Paragraph 5.

SEC Rule 144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager's portfolio.

Portfolio Quality

Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's or Fitch) by any of the three designated rating agencies unless specific written permission is granted by the Board to an Investment Manager. Split-rated securities in which the middle rating is below investment grade shall not comprise more than 5% of the market value of any Investment Manager's Portfolio unless specific authority has been granted.

The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (Standard & Poor's, and Fitch) may have a 5% position of the Portfolio value at purchase cost and a 7% position at market value. Issues of individual entities rated below Aa3 (Moody's) or AA- (Standard & Poor's and Fitch) may have a 2% position of the Portfolio value at purchase cost or 3% position at market value.

The ratings issue does not apply to direct obligations of the U.S. Government and its agencies as defined Section IV. Paragraph 5, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.

If specific Investment Managers are given latitude to invest in securities issued by non-U.S. entities, the same quality restrictions shall apply.

Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A- (Standard & Poor's and Fitch) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle or five years, whichever is shorter, the following are the performance expectations for the Portfolio:

1. The total return of the fixed income segment of the fund should rank above median performance in a universe of managed fixed income securities.

2. The total return of the fixed income component, net of fees, should exceed the return of the Barclays Aggregate Bond Index.

3. Passive fixed income investment Products are expected to equal the return of the underlying index gross of fees.

VI. GENERAL EQUITY PORTFOLIO GUIDELINES

Eligible Holdings

The Portfolios of Investment Managers responsible for investing in equity securities will be invested in publicly traded marketable securities. Restricted or letter stock, etc., is not permitted.

Diversification

The diversification of the equity securities held in the Portfolio among sectors and issuers is the responsibility of the Investment Manager. The Investment Manager shall comply with the concentration limitations as presented under Section IV. Paragraph 5.

Style Adherence

The most important feature any individual manager brings to a multi-manager diversification of the Fund is style adherence. Quarterly, fundamental Portfolio characteristics and style benchmark comparisons will be monitored for adherence to the Investment Manager's identified style.

Performance Objectives

Primary emphasis is to be placed on relative rates of return after fees. Over a market cycle or five years, whichever is shorter, the following are the performance expectations for each Portfolio:

1. Passive investment vehicles are expected to match the return of their respective benchmarks gross of fees.

2. The total return of the domestic equity segment of the Fund should rank above median in a universe of equity style peers.

3. The total return of the domestic equity composite, net of fees, should exceed the total return of the Russell 3000 Index and rank above median in a universe of equity style peers.

VII. RESPONSIBILITIES OF EACH INVESTMENT MANAGER

The duties and responsibilities of each Investment Manager appointed to manage assets of the Fund are as follows:

1. The Investment Manager shall manage the assets in accordance with the Guidelines (the IMA, statutory requirements, this Investment Policy and the guidelines and the objectives expressed herein). No deviation is permitted unless the ability to do so is given in a separate written agreement approved by the Board.

2. The Investment Manager shall promptly inform the Board regarding all significant matters pertaining to the investment of the assets. The Board shall be kept apprised of major changes in investment strategy, Portfolio structure, market value of the assets, and other matters affecting the investment of the assets. The Board shall also be informed promptly of any significant changes in the ownership, affiliation, organizational structure, financial condition, or professional personnel staffing of the Investment Manager's organization.

3. The Investment Manager shall provide written communication to the Board whenever the Investment Manager believes that this Investment Policy should be altered.

4. The Investment Manager shall not initiate any transaction that is in violation of this investment policy. In the event that changes that are beyond the control of the Investment Manager (e.g. change in benchmark construction, change in credit rating, and change in security prices) occur that cause the Investment Manager's Portfolio to violate the guidelines, the Investment Manager shall promptly notify COA ERS. If the Investment Manager (as a fiduciary) deems it in the best interest of the Fund to remain in violation of the policy, the Investment Manager shall prepare a written recommendation to the Board regarding the violation. Following the receipt of the written recommendation, the Board shall accept, amend, or reject the Investment Manager recommendation. After the Board has made its determination, the Investment Manager shall be notified whether or not the recommendation has been accepted and in the event that it is not accepted the Investment Manager will be provided with written instructions. During the period between the occurrence of the violation and the notification of the Board's determination, the Investment Manager (as a fiduciary) shall act as it deems appropriate in the sole interest of the plan's participants and beneficiaries.

5. Each Investment Manager is hereby authorized and empowered to vote proxies, said voting to be performed in good faith and for the exclusive benefit of the System participants and beneficiaries.

6. Each Investment Manager shall maintain the insurance coverage established in their IMA with the System. The Investment Manager shall promptly notify the Staff and Investment Consultant if insurance coverage violates established minimums.

7. Each Investment Manager shall comply with all Annual and Quarterly Reporting Requirements as stated in Appendix VII.

VIII. TOTAL PENSION FUND INVESTMENT OBJECTIVES

Both relative and absolute results will be considered in the evaluation of the total Fund's performance of the Fund. The following are the performance expectations for the Fund:

1. The Fund's total return after fees should exceed the total return of an index composed of a mix of asset class benchmarks within the proportions set out in Appendix IV.

2. The time period for this objective is one market cycle or five years, whichever is shorter.

IX. EVALUATION AND REVIEW

On a timely basis, but not less than annually, the Board will review actual investment results achieved to determine whether:

1. The Investment Managers performed in accordance with the Guidelines set forth herein.

2. Asset allocation remains reasonable and each Investment Manager's decision-making process remains consistent with the Guidelines and the style and methodology represented by the manager.

3. The investment manager performs satisfactorily when compared with:
   - the objectives stated herein, as a primary consideration,
   - other managers of similar style, and
   - recognized market indices.

4. On an annual basis, the Board will review Investment Manager proxy voting procedures and proxy voting records as submitted in accordance with Appendix VII; and

5. On an annual basis the Board will review commissions generated, commission rates charged and firms used by the Investment Managers. Compliance with specific directives regarding commission cost management will be regularly reviewed.

At least annually, the Board will formally review this Investment Policy to determine whether it continues to be appropriate in light of the Board's investment philosophy and objectives, and changes in the capital markets and/or Fund structure.

X. SECURITIES LENDING – SPECIFIC POLICIES AND GUIDELINES

The Board may select an agent to lend the Fund securities. Any income gained through the lending program will be deposited monthly in a specified account and invested in short-term instruments until allocated by the Board.

The agent may lend any eligible securities, such as U.S. and non-U.S. equities, corporate bonds and U.S. and non-U.S. government securities. The agent shall have full discretion over the selection of borrowers and shall continually review credit worthiness of potential borrowers through adequate analysis of all material provided to them.

All loans shall be fully collateralized with cash, government securities or irrevocable bank letters of credit. Collateralization of such loans shall be 102% domestic/105% international of the market value of the loaned securities plus accrued income for U.S. and non-U.S. loans, respectively. Such collateralization procedures should be marked-to-market daily by the agent.

The securities lending program shall in no way inhibit the trading activities of the Investment Managers.

The securities lending agent must have written/internal guidelines for the investment of cash collateral. The Board will review these guidelines and incorporate them as the System's Investment Policy on Securities Lending Cash Collateral. A copy of the agent's cash collateral investment policy shall be sent to the System at least annually and any other time there is a material change made to the document.

Appendix I
Asset Allocation & Rebalancing Guidelines

Asset Allocation

The level of risk assumed in the Fund is a function, in large part, of the Fund's asset allocation. The proportion of assets allocated for equity investments is the most important determinant of volatility of future returns. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

Based on its determination of the appropriate risk posture for the Fund and its long-term return expectations, the Board in consultation with the Investment Consultant has established the following asset mix guidelines for the Fund:

Asset Class	Fund Guidelines
Equity Investments	65%
Fixed Income Investments	30%
Real Estate	5%

The Board, in conjunction with advice from the Investment Consultant, and Professional Staff is responsible for broad asset allocation decisions. A manager's cash can disrupt this position. Therefore, each equity Investment Manager's Portfolio is to be fully invested at all times, although cash may be held briefly between the time when a security is sold and a decision is made as to which new security should be purchased. Fully invested is defined as less than 5% in cash equivalents. If an Investment Manager exceeds 5% cash for greater than 30 days, the Investment Manager shall notify the System in writing. This directive is consistent with the Board's decision to have Investment Managers avoid market-timing decisions.

Fixed income Investment Managers are exempt from the requirement to not have cash exceed 5% of the Portfolio value because of the use of "barbell" strategies in constructing a fixed income Portfolio. However, each fixed income Investment Manager accepts the Board's intention to avoid market timing and acknowledges that total Portfolio performance (including cash) shall be compared to established performance objectives.

Periodic asset/liability studies provide the basis for changes to the Fund allocation policy. Guidelines will be amended when a proposed investment strategy is adopted. During times of phased transition to a new allocation, current values may deviate from the established strategic mix. The Board will review the asset allocations at least every two years, or more frequently, if warranted by a material event in either the liability structure of the Fund or the capital markets.

Rebalancing

The Board has established the strategic asset allocation mix to prudently position the assets of the System to achieve the long-term goal of providing established benefits to the participants and their beneficiaries at a reasonable cost to the employer. However, market movements may cause an allocation to differ from this strategic mix and the desire to maintain this constant strategic mix must be balanced with the very real cost of re-balancing the Fund. Therefore, a range has been set for the actual asset allocation of the Fund to allow for the fluctuations that are inherent in marketable securities. Once market movement has shifted the actual allocation outside these ranges, the Board has authorized Staff and Investment Consultant, after notifying the Investment Committee Chairperson, to rebalance the Fund back toward its long-term strategic asset allocation target. To ensure an orderly and cost-effective rebalancing process, Staff and Investment Consultant will design a rebalancing plan that determines amounts, timing and accounts involved.

Staff shall present a rebalancing plan to the Investment Committee Chairperson after final audited month-end data from the Custodian confirm that asset allocations have moved above established maximum percentage boundaries or below established minimum percentage boundaries for both the current and prior month. In addition to the major asset classes, sub-asset class targets are set within the equity category. When a rebalancing situation occurs, balances will be adjusted halfway to the target.

The amounts and timing of transfers will generally be determined by factors such as market liquidity, implementation costs, benefits from dollar-cost averaging, etc. Any elements of the rebalancing plan may be discontinued when it is determined that percentage allocation targets have been achieved. Staff will work with the Custodian and the Investment Managers of the Portfolios involved in the implementation of the rebalancing plan to provide any necessary instructions.

The target allocations and rebalancing trigger percentages are:

Asset Classes	Low Trigger	Target	High Trigger
Common Stocks	60%	65%	70%
Domestic Large Cap	17.25%	22.75%	27.75%
Domestic Non-Large Cap	4.75%	9.75%	14.75%
International	27.5%	32.5%	37.5%
Fixed Income	27%	30%	33%
Real Estate	0%	5%	10%
Combined allocation	32%	35%	38%

For ongoing rebalancing monitoring of the equity accounts, the amount held in stocks will be the sum of the market values of all equity accounts. For fixed income, the amount held in fixed income securities will be the sum of the market values of all fixed income accounts.

Real Estate and Fixed Income will be jointly considered for rebalancing purposes (as shown above.) A broader allowable range is granted to real estate because it is not a liquid investment and cannot easily be rebalanced. Real Estate and Fixed Income are similar investments in that returns primarily are produced by the income, i.e., rents and interest. Real Estate diversifies the risk-return exposure of the fixed income component, and complements the overall asset allocation.

A short-term investment fund account shall be considered a Fixed Income account for determining percentage allocations. Within asset classes, assets will generally be reallocated to achieve account level target allocation percentages.

It is the responsibility of the Custodian to calculate market values for the accounts and report these to the Staff and Investment Consultant. These reported market values will be the basis for rebalancing calculations.

Appendix II
Asset Class Diversification

Within the broad definition of equities and fixed income for allocation purposes, the Board has found it prudent to diversify within asset classes. The intra-asset class categories and their proportion of the total asset class allocation shall be:

Equities:	65%	Fixed Income:	30%	Real Estate:	5%
Large Cap Domestic	35%	Cash	0%	Real Estate	100%
Non-Large Cap Domestic	15%	Core Fixed Income	100%		
International	50%				

Diversification is prudent. However, over-diversification is detrimental to the System. Therefore, the Board shall not consider an asset segment for inclusion in the allocation of the Fund assets that does not warrant a 5% allocation of the total Fund.

Appendix III
Asset Class Sector & Individual Manager Performance Expectations

A. Fixed Income Portfolio Managers

Over a market cycle or five years, whichever is shorter:

1. The long-term objective for each fixed income Investment Manager is to add value after fees to a specified broad market benchmark. The broad market benchmark for the fixed income composite is:

	Benchmark
COA ERS Fixed Income Composite	Barclays Aggregate Bond Index

2. Different maturity ranges and sectors within the broad market categories go in and out of favor. Therefore, short-term examination of each fixed income Investment Manager's performance will focus on style adherence, duration peer comparisons and style benchmarks. The following is the reference the Board will use on a quarter-by-quarter basis to monitor each manager:

Domestic Fixed Income Managers

Style	Peer Sample	Style Benchmark
Core	Core	Barclays Aggregate Bond Index

B. Equity Portfolio Managers

Over a market cycle or five years, whichever is shorter:

1. The long-term objective for each active equity Investment Manager is to add value after fees that exceed that of a broad market benchmark. The broad market benchmarks are as follows:

	Market Benchmark
Large Capitalization Domestic Equity	S&P 500
Non-Large Capitalization Domestic Equity	Russell 2500
International Equity Composite	MSCI All Country World x-US
Domestic Equity Composite	Russell 3000

2. Passive Products are expected to match the return of their respective benchmark, gross of fees.

3. Styles within broad market categories move in and out of favor. Therefore, short-term examination of each Investment Manager's performance will focus on style adherence, style peer comparisons and style benchmarks. The following are the references the Board will use on a quarter-by-quarter basis to monitor each Investment Manager:

Large Cap Domestic Equity

Style	Peer Sample	Style Benchmark
Large Cap Core	Large Cap Core	S&P 500
Large Cap Growth	Large Cap Growth	Russell 1000 Growth
Large Cap Value	Large Cap Value	Russell 1000 Value

Non-Large Cap Domestic Equity

Style	Peer Sample	Style Benchmark
Small Cap Value	Small Cap Value	Russell 2000 Value
Mid Cap Value	Mid Cap Value	Russell Mid Cap Value
Mid Cap Growth	Mid Cap Growth	Russell Mid Cap Growth
Small Cap Growth	Small Cap Growth	Russell 2000 Growth

International Equity

Style	Peer Sample	Style Benchmark
International Developed	International	MSCI EAFE (non-hedged)
International Non-Correlated Alpha	International	90% MSCI EAFE/10% MSCI Emerging Markets (Blended Index)
International Small Cap	International Small Cap	MSCI EAFE Small Cap
Emerging Market	Emerging Market	MSCI Emerging Markets

The capitalization of each stock in an Investment Manager's Portfolio shall be within the capitalization range of the above identified style benchmark when purchased. If aggregate holdings equal to or higher than 10% of the portfolio market value fall outside the capitalization range of the assigned benchmark for a period of over 30 days, written notification and justification shall be sent to the System. For Investment Managers managing equity portfolios for the System within a commingled or mutual fund structure, special reporting and notification arrangements may be granted by the Board on a case by case basis. (e.g. notification of exception as of quarter-end, etc.)

Currency management is at the discretion of the active international manager.

C. Real Estate Managers

Over a market cycle or five years, whichever is shorter:

1. The long-term objective for each real estate manager is to add value after fees that exceeds that of the broad market benchmark for the real estate.

	Benchmark
COA ERS Real Estate Composite	NCREIF

2. Different property types and sectors within the broad market categories go in and out of favor. Therefore, short-term examination of each Investment Manager's performance will focus on style adherence, duration peer comparisons and style benchmarks. The following are the references the Board will use on a quarter-by-quarter basis to monitor each Investment Manager:

Style	Peer Sample	Style Benchmark
Diversified Core	Real Estate	NCREIF – ODCE (Open End Diversified Core Equity)

Appendix IV
Individual Investment Manager Allocation Targets

The market value of the Fund will be calculated as the current total market value of all of the investment accounts within COA ERS. This market value will be multiplied by the following percentages to determine the target stock and bond allocations. Target allocations are shown below.

	Asset Class %	Inter-Asset Class %	Manager Target %
Fixed Income	**30%**		
U.S. Fixed		**100%**	
Active Core			50%
Enhanced Index			50%
Equity	**65%**		
Large Cap U.S.		**35%**	
Index			50%
Growth			25%
Value			25%
Non-Large Cap U.S.		**15%**	
Mid Growth			25%
Mid Value			25%
Small Growth			25%
Small Value			25%
International		**50%**	
Growth			25%
Value			25%
Non-Correlated Alpha			15%
Small Cap			15%
Emerging Markets			20%
Real Estate	**5%**		
Diversified Core		**100%**	100%

Appendix V
Performance Based Fees

The System may enter into performance based fee agreements with specific managers. While each specific contract will be the ultimate authority regarding the actual arrangement, the following factors will be consistent in any arrangement the System enters into:

Base Fee: A base fee will be paid quarterly to the manager regardless of performance.

Performance Sharing Formula: A percentage of the manager's net out performance (base fee subtracted) over the predetermined benchmark for the determined period will be paid when applicable. Whatever the dollar amount calculated by the formula, the System will pay the quarterly equivalent, or one-fourth, of this amount.

Fee Ceiling: There will be a performance fee ceiling expressed in basis points that will not be exceeded regardless of performance.

Time Horizon: Each IMA will specify a rolling time period for which the annualized returns of both the total Portfolio and the benchmark will serve as the basis for the performance calculation.

The Custodian will price the Portfolio and the result will be the basis for the Investment Consultant's calculation of the specific Portfolio's performance. The publisher of the benchmark will determine the performance of the benchmark. In the event the Investment Manager has a dispute with the Custodian's pricing, the Investment Manager will express the discrepancy in writing to both the Custodian and the Investment Consultant. The Staff will work with the Investment Manager to resolve any performance fee calculation disputes.

Appendix VI
Class Action Lawsuit Policy

From time to time, the Board may determine, with the advice and assistance of the System's General Counsel, that it is in the best interest of the Fund's participants and beneficiaries to participate in class action lawsuits where the fund has been harmed due to securities fraud or other violations. In doing so, the Fund generally will not seek lead plaintiff status, opting instead for filing notice of claim when appropriate, unless so advised by the Fund's General Counsel. In any event, it shall be the Custodian's responsibility to file notice of claim and monitor all such lawsuits and report to COA ERS' Executive Director, as necessary. In addition, all investment managers shall be notified by the Custodian of any potential or pending legal action.

Appendix VII
Investment Manager Reporting Requirements

General:

Investment Managers will assist the System in monitoring the Portfolio and applicable data for compliance with the Guidelines. The Investment Manager may be required to present information in addition to that listed below as may be deemed necessary by the Board, the Investment Committee or Executive Director. Investment Managers shall immediately notify the COA ERS of any changes in the primary personnel assigned to the Portfolio. The form, content and organization of the report for each respective Investment Manager shall be presented as detailed in this appendix. Please note that there are special quarterly reporting instructions for Index and Real Estate Investment Managers.

Annual Reporting Requirements:

Each Investment Manager is responsible for monitoring trade transaction costs and settlement processes. Investment Managers shall provide information and documentation on specific broker transactions as requested. Each Investment Manager shall comply with the CFA Institute Trade Management Guidelines and CFA Institute Trade Management Soft Dollar Standards and annually provide COA ERS with all required disclosures.

Each Investment Manager shall keep accurate records as to the voting of proxies and shall provide information from such records to the Board upon request of the Board. Each Investment Manager shall annually report to the Board in writing as to actions taken with regard to proxy voting issues in cases where the Investment Manager votes in opposition to company management.

Each Investment Manager shall furnish the System and the Investment Consultant with a current copy of the approved Investment Manager's SEC ADV Form annually when filed, and thereafter when and as amended.

Each Investment Manager shall furnish the System documentation of the Investment Manager's valuation methodology.

Each Investment Manager shall furnish the System with an annual summary of commission recapture activity, if applicable.

All portions of Annual Reporting are to be combined and submitted as an attachment to the 4th quarter reporting materials.

Quarterly Reporting Requirements:

The form, content and organization of the report for each respective Investment Manager shall be as follows:

1. On the first page of the report, the guidelines, objectives and other measurements from the Investment Policy and any pertinent items from the IMA will be listed. Verify compliance status on a point-by-point basis. The Investment Manager may also summarize this section to explain the Investment Manager's position on compliance. **Sign and date this page.** If the Investment Manager recommends any change be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.

2. Current Market Values & Investment Performance: Provide Portfolio returns and composite performance. Disclose the highest performing and the lowest performing account for all time periods. If there is a dispersion of returns among the accounts, what is the source of dispersion? How is dispersion controlled among accounts? Use formats *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return*, to provide this information.

3. List for each of the last quarter, the calendar year-to-date, and last year the total commissions generated in the Portfolio. Breakdown as follows:

	Most Recent Quarter	YTD	Prior Year
Discount Brokers			
Full Commission Brokers (list individually also)			

4. For each full commission broker, separately list the amount spent each year with that broker, the soft dollar total, and a description of benefits received for the commissions paid.

Portfolio Appraisal and Transactions:

1. Provide an asset statement to include the following for each security:
   - Name
   - Number of shares
   - Average cost per share
   - Total cost for security
   - Current market value per share
   - Total market value for security
   - % of total market value
   - Gain/loss for each security
   - Categorize by sector and total at the end

2. List all purchases and sales for the period. For each sale show the following:
   - Cost per share
   - Sales price per share
   - Total proceeds from sale
   - Total cost
   - Gain/loss for each transaction

- Broker used and commission charged per share (provide for both purchase and sale). Total by brokerage firms all transactions traded with each firm. If a security was held in the portfolio for less than 30 days, explain the rationale for both the purchase and sale of the security (or securities).

Market Environment:

In this section, include information on the market environment, market analysis, sector analysis or other items deemed appropriate with regards to your particular strategy. It is not necessary for the Investment Manager to compare its style of management to others unless it impacts the investment strategy. Focus this section on the particular market environment applicable to the Portfolio.

Organizational Issues:

1. Discuss the progress and the changes of your firm over the last three years. Complete the following table:

Assets Under Management (firm-wide)	
Assets Under Management (in this Product)	
Number of Accounts in this Product	
Accounts Gained in Last 3 Years (firm-wide)	
Accounts Gained in Last 3 Years (in this Product)	
Accounts Lost in Last 3 Years (firm-wide) & explanation for the loss (list each client lost by name)	
Accounts Lost in Last 3 Years (in this Product) & explanation for the loss (list each client lost by name)	

2. What are the major initiatives planned for the firm over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group responsible for the management and investment of the Portfolio and the responsibilities of each departing person.
4. Discuss the growth in capabilities on a firm-wide basis as well as within the Product group. List new Products offered in the last 3 years and if the additional capabilities for these new Products were developed internally or purchased?
5. How are the Portfolio management, administration, research, firm management and marketing efforts separated within the firm? Identify the key decision makers in each of the above areas. What percentage of the Investment Manager's time is spent in each area (total needs to add to 100%).
6. Has a cap been placed on assets under management in this product? Why or why not?

Proxy Voting:
Domestic equity managers shall report and list, on a quarterly basis, the proxy votes by security that your firm voted against management.

Market Values and Investment Performance:

Market Value and Asset Growth Summary for Periods Ended MM/DD/YYYY

	Calendar Year-to-Date	1 Year	Inception-to-Date
Beginning Market Value			
Contributions			
Withdrawals			
Manager Fee Paid			
Return on Investment			
Ending Market Value			

Present the portfolio balance as reconciled with the Custodian's data. Complete market value reconciliation with the Custodian in writing and an explanation must be provided if your market value does not match.

Total Fund Rates of Return for Periods Ended MM/DD/YYYY

	Current Quarter	Calendar YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Rate of Return Gross of Fees							
Rate of Return Net of Fees							
Benchmark Return							
Value added/detracted vs. Return net of Fees*							
Composite Performance							
Highest returning account within composite							
Lowest returning account within composite							

*You may footnote the Value Added column to explain your rationale to value added/lost to the benchmark.

Specific Instructions for Index Fund Managers:

Index Fund Managers' Reports

General:

The Index Fund Manager will assist the monitoring of the Portfolio for compliance with the IMA. The Index Fund Manager will invest in stocks to "mirror" the applicable index. For this reason, the investments will be made by sector, category, and style to "mirror" the index and the return should approximate the index. The Index Fund Manager will not be required to make on-site presentations to the Board unless specifically requested. The Index Fund Manager may be required to present information in addition to that listed below as may be deemed necessary by the Board, Investment Committee, or Executive Director. Index Fund Managers shall immediately notify the COA ERS of any changes in the primary personnel assigned to the Portfolio.

Investment Policy Compliance & Performance Reporting:

1. On the first page of the report, list the guidelines, objectives and other measurements from the Investment Policies and any pertinent items within the body of your contract. Verify compliance status on a point-by-point basis. You may also summarize this section to explain your position on compliance. **Sign and date this page.** If you recommend any changes be made to the guidelines, list any suggested changes and the rationale behind each change.

2. Current Market Values & Investment Performance: Provide COA ERS' portfolio returns and composite performance on the assigned product using formats *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return*.

Portfolio Appraisal and Transactions:

On a quarterly basis, each Index Fund Manager will report the return of the Portfolio compared to the Index/contractual benchmark.

Annually, in the 4th quarter report, the Index Fund Manager additionally shall provide:

1. An asset statement for each security listing:
    - Name
    - Number of shares
    - Average cost per share
    - Total cost for security
    - Current market value per share
    - Total market value for security
    - % of total market value
    - Gain/loss for each security
    - Categorize by sector and then total at the end
- A summary listing of stocks bought or sold.
- A summary of commission expenses and fees paid.

2. List all purchases and sales for the year. For each sale show the following:
   - Cost per share
   - Sales price per share
   - Total proceeds from sale
   - Total cost
   - Gain/loss for each transaction
   - Broker used and commission charged per share (provide for both purchase and sale). Total by brokerage firms all transactions traded with each firm. If a security was held in the portfolio for less than 30 days, explain the rationale for both the purchase and sale of the security (or securities).

3. Provide methodology of portfolio valuation.

Organizational Issues:

1. Annually, in the 4th quarter report, the Index Fund manager will report the progress and changes in the function and organization of the manager over the last three years. The following table will be completed:

Assets Under Management (firm-wide)	
Assets Under Management (in this Product)	
Number of Accounts in this Product	
Accounts Gained in Last 3 Years (firm-wide)	
Accounts Gained in Last 3 Years (in this Product)	
Accounts Lost in Last 3 Years (firm-wide) & explanation for the loss (list each client lost by name)	
Accounts Lost in Last 3 Years (in this Product) & explanation for the loss (list each client lost by name)	

2. What are the major initiatives planned for the Investment Manager over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group responsible for investing and managing the Portfolio and the responsibilities of each departing person.
4. Discuss the growth in capabilities on a firm-wide basis as well as within the group responsible for managing and investing the Portfolio. List new Products offered in the last 3 years. Were the additional capabilities for these new Products developed internally or purchased?
5. How are the investment management, administration, research, firm management and marketing efforts separated within the Investment Manager's Organization? Identify the key decision makers in each area. What percentage of the Investment Manager's time is spent in each area (total needs to add to 100%).
6. Has the Investment Manager placed a cap on assets under management in this Product? Why or why not?

Market Values and Investment Performance:

Market Value and Asset Growth Summary for Periods Ended MM/DD/YYYY

	Calendar Year-to-Date	1 Year	Inception-to-Date
Beginning Market Value			
Contributions			
Withdrawals			
Manager Fee Paid			
Return on Investment			
Ending Market Value			

Present the Portfolio balance as reconciled with the Custodian's data. Complete market value reconciliation is required with the Custodian in writing and an explanation must be provided if the market values do not match.

Total Fund Rates of Return for Periods Ended MM/DD/YYYY

	Current Quarter	Calendar YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Rate of Return Gross of Fees							
Rate of Return Net of Fees							
Benchmark Return							
Value added/detracted vs. Return net of Fees*							
Composite Performance							
Highest returning account within composite							
Lowest returning account within composite							

*You may footnote the Value Added column to explain your rationale to value added/lost to the benchmark.

Specific Instructions for Real Estate Fund Managers:

Real Estate Fund Manager's Report

General:

The Real Estate Fund Manager will assist the monitoring of the Portfolio for compliance with the IMA. The Investment Manager may be required to present information in addition to that listed below as may be deemed necessary by the Board, Investment Committee, or Executive Director. The Investment Manager shall immediately notify COA ERS of any changes in the primary personnel assigned to the Portfolio.

Investment Policy Compliance & Performance Reporting:

1. On the first page of the report, list the guidelines, objectives and other measurements from the Investment Policy and any pertinent items within the IMA. Verify compliance status on a point-by-point basis. The Investment Manager may also summarize this section to explain the Investment Manager's position on compliance. **Sign and date this page**. If the Investment Manager recommends any changes be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.

2. Current Market Values & Investment Performance: In all reports, provide the Portfolio returns and composite performance on the Portfolio using the formats *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return*.

Portfolio Appraisal and Transactions:

1. Include the following in the quarterly report:
   - A full portfolio appraisal
   - A summary of any transactions
   - A summary of all valuation changes
   - A summary of fund income (rents)

2. Annually, the same reporting as quarterly, plus:
   - Audited financial statements
   - Provide methodology of Portfolio valuation.

Market Environment:

In this section, in the 4th quarter report, include information on the market environment, market analysis, sector analysis and or other items deemed appropriate with regards to your particular strategy. It is not necessary to compare the style of management to others unless that style impacts the investment strategy. Focus this section on the particular market environment applicable to the Portfolio.

Organizational Issues:

1. Annually, in the 4th quarter report, discuss the progress and changes of your firm over the last three years. Fill out the following table:

Assets Under Management (firm-wide)	
Assets Under Management (in this Product)	
Number of Accounts in this Product	
Accounts Gained in Last 3 Years (firm-wide)	
Accounts Gained in Last 3 Years (in this Product)	
Accounts Lost in Last 3 Years (firm-wide) & explanation for the loss (list each client lost by name)	
Accounts Lost in Last 3 Years (in this Product) & explanation for the loss (list each client lost by name)	

2. What are the major initiatives planned for the Investment Manager over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group responsible for the investment and management of the Portfolio and the responsibilities of each listed person.
4. Discuss the growth in capabilities on a firm-wide basis as well as within the Product group. List new Products offered in the last 3 years. Were the additional capabilities for these new Products developed internally or purchased?
5. How are the Portfolio management, administration, research, firm management and marketing efforts separated within the firm? Identify the key decision makers in each area. What percentage of the Portfolio manager's time is spent in each area (total needs to add to 100%).
6. Have you found it necessary to place a cap on assets under management in this Product? Why or why not?

Market Values and Investment Performance:

Market Value and Asset Growth Summary for Periods Ended MM/DD/YYYY

	Calendar Year-to-Date	1 Year	Inception-to-Date
Beginning Market Value			
Contributions			
Withdrawals			
Manager Fee Paid			
Return on Investment			
Ending Market Value			

Present the portfolio balance as reconciled with the Custodian's data. Complete market value reconciliation with the Custodian is required in writing and an explanation is required if the market values do not match.

Total Fund Rates of Return for Periods Ended MM/DD/YYYY

	Current Quarter	Calendar YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Rate of Return Gross of Fees							
Rate of Return Net of Fees							
Benchmark Return							
Value added/detracted vs. Return net of Fees*							

*You may footnote the Value Added column to explain your rationale to value added/lost to the benchmark.

Appendix VIII
Summary of Rating Symbols and Definitions

Investment Grade – High Creditworthiness

Moody's	Fitch	S&P
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

Distinctly Speculative – Low Creditworthiness

Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-

Predominantly Speculative – Substantial Risk or in Default

	CCC+	CCC+
Caa	CCC	CCC
	CCC-	CCC-
Ca	CC	CC
C	C	C
	CI	CI
D	D	D

Source: Richard S. Wilson and Frank J Fabozzi, The New Corporate Bond Market (Chicago: Probus Publishing Company, 1990).

Appendix IX
Summary of Specific Manager Policy Deviations and Clarifications

Section VII of the Investment Policy permits Investment Managers to deviate from the Guidelines only if the Board approves the deviation in writing. Below is a listing of all current deviations approved by the Board for Investment Managers:

Pzena Investment Management – Mid Cap Value

The securities representing equity of any one company shall not exceed 5% of Portfolio value at purchase cost or 7.5% of the market value of the Portfolio.

This change was reflected in the IMA.

AQR Capital Management – Small Cap Value

AQR has interpreted the notification requirement to be triggered when 10% of the Portfolio is invested in the stock of companies with market capitalizations outside the range of AQR's benchmark for over thirty days, to be a hard limit of 10%. This establishes that AQR will have a hard limit for the Portfolio at 20%, and the 10% notification requirement shall remain in effect.

Aronson + Johnson + Ortiz – Large Cap Value

The investment style employed by AJO is considered to be quantitative or enhanced index. Given that Real Estate Investment Trusts (REITs) are included in the benchmark index used to evaluate the performance of AJO, REIT's shall be allowable investments in the AJO Portfolio. Real Estate Investment Trusts (REITs) may be used in the portfolio subject to the same position limits as other securities (benchmark weight plus 1.2%) but may not, at any time, in aggregate exceed 10.00 percent of the market value of the portfolio without securing permission from the Board. The benchmark for the AJO portfolio is the Russell 1000 Value Index.

1607 Capital Partners – International Equity Non-Correlated Alpha

In recognition that 1607 will be investing in closed-end fund securities which are diversified equity portfolios, the portfolio concentration limits for individual closed-end funds shall be 20% at both cost and market. Indexed exchange-traded funds (ETFs) used for the purpose of achieving international equity market exposure (limited to country, region, or overall index trackers) as part of the initial funding of the account or subsequent additions to the account shall not be subject to portfolio concentration limitations. Additionally, due to the need to own such funds at times when opportunities within the closed-end fund universe are limited, the portfolio concentration limit for individual exchange-traded funds shall be 10% at cost. In extreme cases where the manager feels the necessity to have more than 10% in any single ETF, approval by the Board would be required. If aggregate ETF exposure reaches greater than 30% of the market value of the portfolio, 1607 will provide timely written notification to COAERS.

Furthermore, in recognition that some of the closed-end funds in which 1607 invests may employ leverage in their process, the 5% cash limitation from Appendix I paragraph three will be raised to 10%. Finally, in recognition that the market capitalization of the underlying holdings of closed-end funds may not be timely available to 1607, requirements under Appendix III, B. 3. relating to market capitalizations shall be modified to require monthly estimates of capitalization ranges.

Appendix X
Policies Regarding Third Party Marketing; Political Contributions; Improper Influence; Placement Agents and Finders

1. Scope.

This Appendix X applies to all COA ERS investment transactions in which a Placement Agent or third party marketer or revenue sharing agreement or Finder is or may be involved, including new agreements (inclusive of follow-on and co-investments), extension of existing agreements, increase in funding or capital commitment to an existing relationship or Investment Manager, or an amendment that increases management fees or compensation under an Investment Management Agreement.

This Appendix X also applies to attempts to influence COA ERS investment decisions through contacts with Trustees, or contacts with, or a political contribution made for the benefit of, one or more Texas Elected Officials, and also applies to contacts with persons employed by any such Texas Elected Official.

If any provision of this Appendix X conflicts with a provision of another policy adopted by the Board, the stricter provision shall apply.

In addition to all other requirements of this Appendix X, all persons, firms, corporations and legal entities contacting any member of the Board or any office or employee of the System for the purpose of soliciting business with, or providing any service or Product to, the System, shall fully comply with Chapter 176, Tex. Loc. Gov't Code.

2. Purpose.

The purpose of this Appendix X is to safeguard the integrity of all COA ERS investment transactions and conformity with the highest fiduciary, ethical, and legal standards by all parties involved. All investment decisions made by the Board and the Staff must be based solely on the merits in conformity with fiduciary standards and applicable law. All recommendations made regarding any Fund, Manager Party or investment, and all recommendations by the Investment Consultant, Investment Managers, and advisers, must be based solely on the merits after the necessary due diligence. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

3. Philosophy.

The Board requires the Staff to obtain full disclosure regarding all known or suspected matters having the potential to harm COA ERS's reputation or the integrity of COA ERS's investment processes, or that could constitute unethical or unlawful conduct during the investment due diligence process.

4. Required disclosures.

At a minimum, all external Fund, Manager Party(s) and Investment Managers shall provide detailed written responses to the questionnaire attached to this Appendix X as Exhibit "A" as early as reasonably possible in the due diligence process for a COA ERS investment transaction. The Board may revise this Appendix X or Exhibit "A" from time to time as it deems to be in the best interest of COA ERS and consistent with the purpose and intent of this Appendix X.

In addition, all Investment Managers, and all Funds and Manager Parties negotiating or dealing with COA ERS regarding proposed investment services, shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The System shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The System shall provide all prospective Investment Managers with a copy of this Appendix X upon commencement of due diligence.

5. Contractual representations warranties and covenants.

Each Investment Manager shall represent and warrant to COA ERS in the executed Investment Management Agreement that its responses in Exhibit "A" to this Appendix X and to all questions or enquiries presented by the System, and in any supplemental responses are true, correct, and complete in all material respects, and shall also covenant to update any such information within 10 business days of any change in the information in the responses.

In addition, each Placement Agent shall fully disclose the terms of its arrangement with a Fund, or Manager Party, or Investment Manager for payment of a Placement Fee and any political contributions by the Placement Agent to any Texas Elected Officials, and shall certify as to the matters addressed in this Appendix X, as applicable, to COA ERS in a writing executed by an authorized officer that the disclosures required by this policy are true and complete in all material respects.

Each Investment Management Agreement shall provide COA ERS with the option to receive a reimbursement of management or advisory fees equal to the amount of Placement Fees to be paid to any and all Placement Agents, and, in addition and not in the alternative, the right to terminate the Investment Management Agreement or withdraw without penalty from the investment vehicle or vehicles if any certificates or contractual representations, warranties or covenants relating to this Appendix X have been breached.

6. Prohibitions.

No COA ERS investment may be made if the Board, in consultation with legal counsel, determines that a disclosed contact with a COA ERS Board member or Texas Elected Official, or a contribution to a Texas Elected Official, has created an unacceptable risk to the integrity and reputation of the COA ERS investment program or has been made in violation of a COA ERS policy or applicable law. A contact-based referral, without more, by a Trustee of either an investment opportunity or a prospective Investment Manager or Fund contact to the Executive Director or Chief Investment Officer does not constitute such a risk or a violation of this Appendix X.

7. Reporting.

The System staff shall compile all responses to the questionnaire and report the results to the Board at least annually. Reports shall include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Elected Official, as applicable.

8. Definitions applicable to this Policy.

Affiliate – means a person or entity controlled by or under common control with another person or entity.

Fund or Manager Party – includes, (a) as to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm, (b) as to an external, separate account investment manager, the asset management entity and the parent of such asset management entity, and (c) as to (a) and (b), any Affiliate, principal, owner, officer, shareholder, director, managing member, or employee having authority to act on behalf of such fund or firm.

Placement Agent – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee or revenue sharing arrangement in connection with a COA ERS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent's Placement Fee is deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, owner, officer, shareholder, director, managing member, or employee of a Placement Agent. A "finder" is a Placement Agent.

Placement Fee – includes any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent.

Relative –means a spouse (including an ex-spouse), parent, child (including adopted), sibling, niece, nephew, aunt, or uncle.

Texas Elected Official – includes a member of United States Congress or Senate that is elected from the State of Texas, the City of Austin or the County of Travis, including but not limited to the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, the mayor, member of the city council, county judge or county commisioner and also includes a campaign fund or political action committee, or PAC for an elected official, and a Relative of a Texas elected official.

COA ERS Person – means any person listed on Exhibit A attached to Appendix X to this Policy or to any other due diligence document, and includes without limitation any current or former COA ERS board member, the Executive Director, the Chief Financial Officer, the Chief Investment Officer, the General Counsel, or any Investment Consultant or actuary, any other outside counsel engaged by COA ERS, and any Relative of a COA ERS Person, whether or not listed on an Exhibit A, COA ERS Persons.

Appendix X – Exhibit "A" -- Questionnaire

Third Party Marketing; Political Contributions; Improper Influence; Placement Agents and Finders

Capitalized terms are defined in main text of policy.

A) Contacts with State or City Officials; Political Contributions. Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Elected Official in connection with a prospective investment transaction with a Texas state or City of Austin affiliated investment entity, including COA ERS?

1) If the answer is "yes," please provide a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including COA ERS.

B) Contacts with COA ERS Board Members. Has any person lobbied or otherwise communicated on behalf of the Fund or Manager Party with a current or former member of the COA ERS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the COA ERS investment staff or a COA ERS advisor or Investment Consultant to recommend that COA ERS invest?

1) If the answer is "yes," please provide a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

C) Placement Agents and Placement Fees. Is or was the Fund or Manager Party a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent in connection with COA ERS's prospective investment in a fund or engagement of an external manager?

1) If the answer to C) is "yes," please provide a copy of the written agreement or agreements creating the obligation to pay a Placement Fee. If the agreement is not written, please provide a written summary of the agreement. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment.

2) If the answer is "yes," please list the name(s) of the person or entity. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.

3) If the answer is "yes," state whether the Placement Agent, or any of its Affiliates, is registered as a lobbyist with any state government or the federal government and identify the registrants and the applicable jurisdictions where registered.

4) Will or did any COA ERS Person or any Relative of a COA ERS Person receive, has any such person received, or might any such person receive, any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent (a "Placement Fee") in connection with COA ERS's investment? If the answer is "yes," please list the name or names of the COA ERS Person or Relative of a COA ERS Person and provide details about the terms of the Placement Fee.

5) Will or did any Texas Elected Official or a Relative of a Texas Elected Official receive a Placement Fee in connection with COA ERS's investment? If the answer is "yes," please list the name or names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

6) Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former COA ERS Person, either (a) recommend the Placement Agent or (b) receive a share of a Placement fee or any other economic benefit in connection with COA ERS's investment, whether directly or indirectly through a Placement Agent engaged by you?

7) If the answer to 6) is "yes," please list the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment.

8) State whether the Placement Agent or any of its Affiliates is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States. Provide details about registration or explain why registration is not required.

The undersigned certifies, represents and warrants on behalf of the Fund or Manager Party that, to the best of its knowledge after due inquiry, (a) the foregoing responses to this questionnaire are true and correct and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (b) no prior statements or representations, if any, whether oral or written, made on behalf of the Fund or Manager Party relating to the subject matter of this questionnaire in connection with COA ERS's due diligence inquiries and a prospective investment management agreement or subscription to the fund, as the case may be, including any side letter agreements, was untrue or misleading in any material respect when they were made.

[Signature block for Fund or Manager Party]

Attachment: Exhibit A, COA ERS Persons