



CITY OF AUSTIN  
EMPLOYEES' RETIREMENT SYSTEM

## Board Approved Policy

Subject: Investment Implementation Policy

Review Committee: Investment Committee

Date Implemented: December 11, 2018

Date Updated: March 30, 2023 [effective April 1, 2023]

Signature of Chairperson:

A handwritten signature in purple ink, appearing to read "Yuejiao Liu", is written over a solid black horizontal line.

Yuejiao Liu

Revised  
March 30, 2023

# Investment Implementation Policy (IIP)

*for*

## City of Austin Employees' Retirement System (COAERS)

### *Table of Contents*

I.	PURPOSE, SCOPE AND REVISION.....	1
II.	STRATEGY AND PHILOSOPHY.....	1
III.	FIDUCIARY CONDUCT.....	2
IV.	MANAGER RESPONSIBILITIES.....	2
V.	MANAGER SELECTION.....	3
VI.	MANAGER CONTRACTING.....	5
VII.	PORTFOLIO GUIDELINES.....	6
VIII.	PERMISSIBLE INVESTMENTS.....	8
IX.	REPORTING, EVALUATION AND MONITORING.....	10
X.	RETENTION.....	13
XI.	TRANSITION MANAGEMENT.....	15
XII.	PROXY VOTING.....	16
Appendix I:	Summary of Specific Manager Guidelines.....	17
Appendix II:	Onsite diligence.....	18
Appendix III:	Manager Reporting Requirements.....	20
Appendix IV:	Policies Regarding Third Party Marketing; Political Contributions; Improper Influence; Placement Agents and Finders.....	24
Appendix IV:	Exhibit "A" -- Questionnaire.....	27

---

---

## **CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM INVESTMENT IMPLEMENTATION POLICY (IIP)**

### **I. PURPOSE, SCOPE AND REVISION**

This Policy aims to support the ability of the Board of Trustees and Investment Staff of the City of Austin Employees' Retirement System (the "System") to carry out their responsibilities with respect to selection, contracting, monitoring, and retention of Managers. This Policy is intended to complement the Investment Policy Statement (IPS) and is hereby incorporated into that document by reference. The Board will formally review this Policy at least annually to determine whether it remains appropriate considering the Board's investment philosophy and objectives, changes in the capital markets, and/or Fund structure. Any revisions to this document will be supplied to the appropriate parties promptly in written format.

This Policy and all addenda hereto are to be construed and administered such that they comply with all applicable federal, state, laws and regulations, as such may be amended from time to time. The Executive Director is authorized to approve variances from the policies set forth herein in furtherance of such compliance. The Executive Director is also authorized to update this Policy for strictly administrative items subject to approval by the General Counsel. The Executive Director shall report any variances or updates to the Board via the Investment Committee at its next quarterly meeting.

### **II. STRATEGY AND PHILOSOPHY**

The Board has granted authority to the Investment Committee to oversee Managers and make recommendations to the Board regarding the System's Premier List. The Board believes that a superior process for developing and maintaining these relationships is critical to achieving the System's strategic goal of consistently delivering results that are in the top quartile of peers. In this regard, the Board intends this process to deliver long-term performance that is superior to the traditional approach to manager selection that focuses heavily on recent returns relative to a benchmark.

The Fund will develop long-term, mutually beneficial partnerships with Managers that meet or exceed the objectives of their specific mandates. To that end, the Board supports disciplined and rigorous processes for selection, monitoring, and retention of Managers, processes that are to be set forth in greater detail within internal Investment Staff procedures.

Implementation decisions should be made with particular attention to the Board's stated Investment Beliefs regarding the potential benefits of diversification and the significant impact of costs. Within that context, implementation of the investment strategy and Strategic Asset Allocation parameters set forth in the IPS may be carried out through:

- 
- both public and private market vehicles, with public markets representing the default given their lower cost structure and greater liquidity. Specifically, private markets investments should be expected to add meaningful amounts of diversification to the Fund and/or earn returns that compensate at least fairly for the incremental risks (such as illiquidity, governance, etc.) that such structures typically entail.
  - through both active and passive strategies, with passive strategies representing the default option given their lower cost structure and greater liquidity. Specifically, active management should be expected to add meaningful amounts of diversification to the Fund and/or earn returns that compensate at least fairly for the incremental risks (including tracking error, turnover, etc.) that active strategies typically entail.
  - through both pooled vehicles and separate accounts, with separate accounts representing the default option given their greater transparency, customization, and liquidity. However, it is recognized that in some strategies and geographies (such as emerging markets) pooled vehicles may offer significant advantages over separate accounts such that they become the preferred implementation approach.

While the System may find great strategic benefit and economies of scale in concentrating its assets with certain managers, such concentration also carries potential risks. In active strategies no more than 15% of the System's investments shall be managed on a permanent basis by a single investment firm and for passive index strategies no more than 30%. Under no circumstance may any Manager oversee more than 30% of the System's investments. The System's investments shall not permanently constitute more than 20% of any firm's assets under management within the asset class managed for the System. Quarterly reporting on these restrictions shall be provided by Managers and presented by Investment Staff to the Board via the Investment Committee.

### **III. FIDUCIARY CONDUCT**

In all cases, relationships with Managers should seek to mitigate agency problems and conflicts of interest that prevail in the financial services industry. Specifically, the use of performance-based contracts should be considered whenever possible. Conflicts of interest shall be disclosed at least annually or as required in accordance with the System's Ethics Policy. The process for selecting, monitoring, and terminating Managers shall protect against improper and/or unethical behavior including bribery, corruption and other contact between System representatives and Managers intended to influence the outcome inappropriately. Direct inquiries by Managers to individual Trustees regarding the System's investment program will be referred to Investment Staff.

### **IV. MANAGER RESPONSIBILITIES**

The Board, acting through its Investment Committee and with advice from Investment Staff and its Investment Consultant(s), hires Managers to carry out its duties to implement the System's investment program. The terms, provisions, and

---

requirements set forth in this Policy, the IPS, applicable laws (which shall include US sanctions programs), relevant fund documents, and the agreement(s) executed by the Manager with the System (sometimes referred to herein as the “IMA”) establish the requirements governing the investment of System assets. Such requirements are sometimes collectively referred to as the “Guidelines” hereinafter.

The execution and delivery of an Investment Management Agreement (IMA) or other agreement approved by the Board by the Manager is an acknowledgement by the Manager that it has received the IPS and this policy, and that it will fully comply with the applicable terms and provisions therein as well as those of the IMA and all other Guidelines. No deviation or exemption from these requirements is permitted unless specifically authorized by the Board.

Within these Guidelines, Managers with live mandates are granted full discretion to manage the assigned Portfolio(s) by selecting specific investments as appropriate, either in a pooled vehicle or separate account as agreed with the System. Within this context of the strategy or strategies it is assigned, each Manager is expected to:

- maintain a consistent philosophy and strategy,
- perform well on a risk-adjusted basis versus peers pursuing a similar strategy,
- add value net of all costs, and
- provide investment management in accordance with the Guidelines.

Each Manager with a live mandate shall comply with all Annual and Quarterly Reporting Requirements set forth in Appendix III. Each Manager shall promptly inform the Investment Staff and Investment Consultant regarding all significant matters pertaining to its assigned mandate(s).

Each Manager with a live mandate shall maintain the insurance coverage established in their IMA with the System. If this insurance coverage lapses or violates established minimums, the Manager shall promptly notify the Investment Staff and Investment Consultant.

Each Manager with a live mandate is responsible for monitoring transaction costs and settlement processes. Each Manager is hereby authorized and empowered to vote proxies unless this delegation is revoked by the System, and all such voting shall be performed in good faith and for the exclusive benefit of the System participants and beneficiaries.

The Board via the Investment Committee shall be kept informed by the Investment Staff and Investment Consultant of major changes in investment strategy, portfolio structure, market value, strategy/fund assets, and other matters. The Board via the Investment Committee shall also be informed regularly of significant changes in the ownership, affiliation, organizational structure, financial condition, or professional staffing of the Manager’s organization.

## **V. MANAGER SELECTION**

The Board believes that developing long-term relationships with a small group of high potential managers allows for a more thoughtful and robust evaluation of potential candidates than starting each search from scratch. As such, the

---

Investment Staff, in coordination with the Investment Consultant, will develop and maintain a “Premier List” of 3-4 viable managers (including at least one passive index option, which for Multi-Asset shall include allocating back to the Fund) for potential inclusion within each sub-asset class of the Fund. Doing so is intended to allow for (1) ongoing competitive benchmarking of existing managers and (2) rapid, effective replacement of any Manager that may be deemed by the Board to no longer be able to accomplish its mandate(s), including an emergency termination by the Executive Director as described in this Policy.

**Mandate specification.** The evaluation of potential Premier List candidates will begin with Investment Staff working with the Consultant to outline the specific needs of the particular mandate for which a Manager would be considered. Key characteristics to be articulated include the portfolio role, potential mandate size, and an evaluation of the likelihood of success for active managers within these mandates. For example, Investment Staff should evaluate the median universe returns within an asset class or strategy to determine whether a typical manager adds value net of all costs, which can in turn inform the extent to which active managers should even be considered.

**Initial diligence.** Once the specifications of the mandate have been established, available managers should be sourced and filtered from a variety of sources, including:

- Direct sourcing from inbound inquiries, conferences, etc.
- Commercial databases such as eVestment, Preqin, Bloomberg, etc.
- Investment Consultant diligence materials and research

This pool of managers should be screened on minimum performance metrics using performance analysis, Investment Consultant analytics, and philosophical agreement on investment style. Strategies that look promising will be subject to more detailed analysis, including via the use of statistical tools to the maximum extent possible to capture all quantitative information from the available data. For example, the analysis should look beyond the simple time period performance data and consider the trajectory of those returns over time using techniques such as CUSUM analysis. Managers should also be evaluated for fit within the existing portfolio using historical analysis of performance, risk measures, factor exposures, etc.

**Finalist evaluation.** Potential finalists should complete a strategy-specific Due Diligence Questionnaire (DDQ) on matters that shall include, but not be limited to:

- Investment style/process
- Historical risk and return
- Factor exposures
- Assets under management
- Organization/personnel
- Fees and other costs
- Trading capabilities
- Conflicts of interest

Onsite diligence with potential finalists shall be conducted according to the policies set forth in Appendix II and as supplemented by internal policies. Following the completion of onsite diligence that it deems successful, Investment Staff is authorized to negotiate an Investment Management Agreement (or other fund

---

documents as appropriate) for the potential mandate as a means to establish the fees and other terms under which an investment could be made by the System.

**Review by IC/Board.** Investment Staff shall propose successful candidates for the Premier List to the Investment Committee for potential recommendation to the Board, with all proposals including a proposed neutral and maximum allocation. Once approved by the Board, transitions between managers on a Premier List will typically occur with prior notification to the Investment Committee except in the cases of risk management or an emergency as determined by the Executive Director on the advice of Investment Staff and in consultation with the Investment Consultant. If the allocation to a manager breaches the maximum approved by the Board on a quarter end report, Staff shall report this variance to the Investment Committee at its next regularly scheduled meeting as well as any recommendations to bring the allocation to within guidelines. In the event of a transition, the Executive Director will notify the Board (1) by email within one business day of initiating the transition and (2) in writing at the next quarterly meeting of the Investment Committee. In all cases the potential benefits of transition must be weighed against the costs, including explicit transaction costs such as commissions and market impact as well as opportunity costs such as Staff time and focus.

Investment Staff shall also propose any removals from the Premier List to the Investment Committee for potential recommendation to the Board. The Premier List for each asset class shall be presented to the Investment Committee for ongoing review at least annually.

## **VI. MANAGER CONTRACTING**

General investment guidelines are described within the asset class guidelines contained in this Policy and the IPS. In addition, guidelines more specific to a Manager's mandate may be appropriate and will be documented in the Manager's contract, side letter, or other agreements with the System. The Board may delegate to the Executive Director authority to contract with Managers subject to approval of the General Counsel and/or Investment Counsel regarding the form of the agreement and its consistency with Board intent.

In advance of funding, consensus should be reached among the Investment Staff, Investment Counsel, and the Manager regarding specific parameters to be contained in the Manager's contract which will include:

- authority of the Manager
- specific descriptions of the mandate
- relevant restrictions reflecting the risk management policies
- benchmarks and performance standards
- communication and reporting requirements
- proxy voting responsibilities
- fees
- termination clauses

The IPS, IIP and subsequent revisions must be referenced and become a part of all agreements related to separately managed accounts.

---

While managers will typically be compensated based on assets under management, the System may also enter into performance-based fee agreements with managers as a means to enhance alignment. While each specific contract will be the ultimate authority regarding the actual compensation arrangement, the following features should be consistent in any such contract unless otherwise determined to be favorable to the System:

- A **base fee** will be paid quarterly to the manager regardless of performance.
- A **percentage sharing formula** shall calculate the dollar amount of manager's net outperformance (net of the base fee) over the assigned benchmark for the determined period subject to a highwater mark, hurdle rate and/or loss carryforward as appropriate.
- A **performance fee ceiling** expressed in basis points that will not be exceeded regardless of performance.
- A rolling **time horizon** period for which the returns of both the Portfolio and the benchmark will serve as the basis for the performance calculation.

The Custodian's pricing of the Portfolio will serve as the primary basis for calculation of the specific Portfolio's market value for fee calculations and performance by Investment Staff and Investment Consultant. If such data from the custodian is unavailable or unreliable, verifiable manager data may instead be used as the basis for these calculations. Publisher data will determine the performance of the benchmark. If a Manager has a dispute with the Custodian's pricing, the Manager will express the discrepancy in writing to the Custodian, Investment Staff, and the Investment Consultant. Investment Staff will work with the Manager to resolve any fee calculation disputes.

## **VII. PORTFOLIO GUIDELINES**

All portfolios will be invested exclusively as described here and in the Permissible Investments section. Managers are expected to avoid market-timing decisions by being fully invested at all times except as noted below. Managers will acknowledge that the effects of cash holdings on performance will be included for evaluation purposes.

### **Strategy Consistency**

The most important feature any individual manager brings to the multi-manager diversification approach of the Fund is strategy adherence. Fundamental portfolio characteristics and strategy benchmark comparisons will be continually monitored for adherence to the Manager's assigned strategy.

For equity managers, the market capitalization of each stock in the portfolio shall be within the market capitalization range of the assigned benchmark (e.g., large cap, small cap, etc.) at the time of purchase. If more than 10% of aggregate holdings of the portfolio on a market value basis fall outside the capitalization range of the assigned benchmark for a period of over 30 days, written notification and justification shall be provided to Investment Staff and Investment Consultant.

---

For portfolios managed 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 within individual portfolios is at the discretion of the active managers with international exposure wherever permitted by the Guidelines.

### **Diversification**

Appropriate diversification of the securities held in the Portfolio among sectors and issuers within the context of the mandate is the responsibility of the Manager. The Manager shall comply with the concentration limitations as presented in this Policy and the Guidelines. SEC Rule 144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager's portfolio.

### **Eligible Holdings**

Managers shall not initiate any transaction that is in violation of this Policy or the Investment Policy Statement. In the event that changes in market conditions beyond the control of the Manager (e.g., changes in benchmark construction, change in credit rating, and change in security prices) occur that cause the Manager's Portfolio to violate these guidelines, the Manager shall promptly notify Investment Staff and the Investment Consultant.

If the Manager (as a fiduciary) deems it in the best interest of the Fund to remain in violation of the guidelines, the Manager shall prepare a written recommendation to Investment Staff stating as such. Following the receipt of the written Manager recommendation, Investment Staff shall accept, amend, or reject the recommendation and provide notification to the Board via the next quarterly meeting of the Investment Committee. The Manager shall be notified whether the recommendation has been accepted, and if it is not accepted the Manager will be provided with written instructions. During the period between the occurrence of the violation and the notification of the determination, the Manager (as a fiduciary) shall act as it deems appropriate in the sole interest of the System.

### **Equity Portfolios**

Equity portfolios will be invested in publicly traded equity securities or via strategies that otherwise seek to achieve equity-like levels of risk. Initial Public Offerings are permissible investments, but restricted or letter stock are not permitted. Portfolios invested in publicly traded equities are to be fully invested (defined as less than 5% in cash equivalents) at all times, though 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. If a manager remains less than fully invested for more than 30 days, the manager shall notify Investment Staff and the Investment Consultant in writing.

### **Fixed Income Portfolios**

Fixed income portfolios will be invested in publicly traded fixed income securities unless otherwise authorized by the Board. Fixed income Managers may be exempted from the requirement to not have cash exceed 5% of the Portfolio value to allow the use of "barbell" strategies in constructing a fixed income Portfolio.

---

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 authorization is granted to a Manager by the Board or the mandate provided to a Manager specifies otherwise. Split-rated securities in which the middle rating is below investment grade shall not comprise more than 5% of the market value of any Manager's Portfolio unless specific authority has been granted.

The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (S&P, Fitch) may have a 7% position at market value. Issues of individual entities rated below Aa3 (Moody's) or AA- (S&P, Fitch) may have a 3% position at market value.

The ratings criteria and percentage limit requirements do not apply to direct obligations of the U.S. Government and its agencies (including GNMA, FNMA and FHLMC) as defined in the Permissible Investments section of this Policy, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.

If specific 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.

## **VIII. PERMISSIBLE INVESTMENTS**

Commingled vehicles including mutual funds and limited partnerships must always be invested in accordance with the relevant fund documents such as the prospectus, limited partnership agreement, etc. Managers of such investments must also comply with side letters or other such agreements with the System and promptly notify Investment Staff of any deviations.

For portfolios that are implemented in the public markets, the investments listed below are specifically permitted under this Policy. They are categorized according to the asset allocation guidelines in this Policy and the Investment Policy Statement.

Unless given authorization in writing, managers of public markets portfolios are allowed to invest only in the investments listed below for the asset classes for which they have been retained and, when included in this Investment Policy or the relevant agreement with the System, the assigned benchmark.

### **Global Equities**

- Common Stocks
- Preferred Stocks
- Exchange Traded Funds (ETFs)
- Equity Futures
- Options on Equity Indices, Futures and ETFs

### **Fixed Income**

- Domestic and Yankee Bonds
- Mortgages and Mortgage-Backed Securities
- Asset-Backed Securities
- Global Corporate Bonds
- Global Sovereign Debt
- Fixed Income Futures
- Interest Rate Futures

### **Cash & Equivalents**

- Cash on deposit
- Cash-Equivalent Securities
- Money Market Funds, Bank STIF and STEP Funds
- Foreign currency deposits or futures

---

### **Real Assets**

- Real Estate Investment Trusts
- Infrastructure Equities

- Options on Fixed Income Indices, Interest Rates, Futures and ETFs

- Digital currencies backed by a sovereign entity

### **Multi-Asset**

- Assets allowable in other asset classes
- Commodity Futures

1. The above asset types may be held in separately managed accounts as well as commingled funds. If held in a Board-approved commingled fund or mutual fund, the prospectus, organizational document, or Declaration of Trust (including the associated list of permissible investments) takes precedence over this document solely to the extent of any conflict with this document, unless provided otherwise in a written agreement between COAERS and the Manager. If held in a collective investment trust, the terms of the relevant group trust governing such collective investment trust shall be incorporated by this reference and become a part of the System's plan solely with respect to the management of the assets held by such collective investment trust.
2. No investment may be made that is prohibited by the Internal Revenue Service, the Department of Labor, or other federal, state, law.
3. SEC Rule 144(a) fixed income securities are allowable but private placement bonds are not.
4. Cash equivalent securities are defined as any fixed income investment with less than one year to maturity or reset date and may also include fully collateralized cash & carry futures strategies with a duration of less than one year.
5. Staff is authorized to select Money Market Funds that offer a constant net asset value (CNAV) and a minimum quality rating comparable to A3 (Moody's) or A- (S&P or Fitch).
6. The following portfolio concentration limitations will apply.
  - The securities representing equity of any one company shall not exceed 6% of the market value of any manager's Portfolio.
  - Fixed income securities of any corporate issuer 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. This restriction does not apply to any agency mortgage-backed securities (including agency commercial mortgage-backed securities).
  - The total holdings of a federal agency-issued mortgage-backed security of the same coupon and maturity series of the same agency (i.e., issuance by issuance as identified by the same CUSIP) shall not exceed 20% of the Portfolio at market (such securities include, but are not limited to GNMA's, FNMA, and FHMLC).

- 
- The direct debt of the US government (Treasury bonds, TIPS, bills and notes) and its agencies (including any mortgage-backed securities issued or guaranteed by GNMA, FNMA and FHLMC) shall not be restricted as a percentage of the Portfolio.
7. Quantitative or Enhanced Index strategies may deviate from the above concentration limitations provided the manager is following a pre-established 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 manager of passive index replication strategies may also deviate from the above concentration limitations to the extent the underlying index does. The Manager shall monitor the account and shall promptly inform Investment Staff and Investment Consultant if the concentration restriction noted above is exceeded regardless of authorization or specifically granted exception.
  8. Equity managers may invest in depository receipts if 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.
  9. Domestic equity managers can 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.
  10. Managers may be hired to invest primarily in closed-end and open-end funds as approved by the Board. In such accounts, closed-end and open-end funds are permissible holdings.
  11. Derivatives are permissible for the purpose of equitizing cash (e.g., an overlay program, reducing cash exposure, or in Portfolio transitions and rebalancing activities).
  12. Managers may be authorized to manage portfolios that gain exposure to asset classes by investing in futures and other derivative instruments.
  13. Securities are not allowed that use any form of leverage in which interest or principal position is tied to anything not specifically allowed in this Investment Policy or the IMA unless otherwise specifically authorized by the Board.
  14. The use of futures to invest in commodities shall include the ability to take delivery of warrants (i.e., legal document of title) as may be advantageous to the Fund.

## **IX. REPORTING, EVALUATION AND MONITORING**

### **Manager Reporting**

Managers with live mandates are required to assist the System in monitoring the Portfolio(s) and applicable data for compliance with the Guidelines. The form, content, and organization of the required report(s) for each Manager shall be presented as detailed in Appendix III. Managers shall immediately notify Investment Staff and the Investment Consultant of any changes in the primary personnel assigned to the

---

Portfolio, who shall in turn provide notification to the Board via the Investment Committee.

Managers that do not currently have live mandates will assist the System in monitoring the performance of the relevant strategy by proactively supplying regular updates to Investment Staff and Investment Consultant.

All Premier List Managers may be required to provide additional information as may be deemed necessary by the Board, the Investment Committee or Investment Staff.

### Valuation Practices

Liquid assets (e.g., publicly traded securities held in SMAs) shall be valued using custodian pricing based on public market data unless an alternative pricing source has been documented in the agreement(s) executed by the Manager with the System.

Less liquid assets (e.g., commingled funds with daily NAVs, etc.) shall be valued using custodian pricing based on third-party sources unless an alternative pricing source has been documented in the agreement(s) executed by the Manager with the System.

Illiquid assets (e.g., limited partnerships and other funds that do not strike a daily NAV, etc.): shall be valued consistent with industry best practices and reported by funds on at least a quarterly basis. The scope of the valuation work must be sufficient to demonstrate that the value of the underlying assets has been appropriately determined. These practices should include but are not limited to:

- Documenting and following their internal written valuation policies.
- Using appropriate, established, industry-specific valuation techniques.
- Notifying Investment Staff and Investment Consultant of any changes to internal valuation policies.
- Ensuring oversight, review, and approval is independent of the portfolio manager.
- Reconciling any significant variance(s) from the prior appraisals.
- Providing sufficient documentation for auditors to re-compute key calculations

If an external valuation firm is used to conduct any part of the appraisal process, they must be performed in accordance with the appropriate authoritative standard for the country in which the asset is domiciled. Any material differences between external valuation and the valuation used in reporting by the Funds, as well the reason for the differences, must be disclosed to Investment Staff and Investment Consultant.

Investment Staff is required to confirm compliance by such funds with appropriate valuation procedures on an annual basis.

### Performance Evaluation

Performance evaluation is designed to monitor the process of making manager selection decisions, to test the continued validity of the resulting decisions, and to develop a well-informed assessment of the results achieved related to the risks taken.

Comprehensive reviews will include an appraisal of the Manager's historical performance, current investment strategy or style, and other issues related to the

---

Manager's organization, personnel, investment philosophy and process. Evaluations may be made using the criteria below and other applicable standards:

- Against appropriate benchmark indices on both a risk-adjusted and nominal basis,
- Against peers within their style groups if data is available,
- Adherence to their stated investment styles,
- Adherence to the IPS, IIP and relevant Guidelines, and
- Against the specific expectations attributed to them within the framework of the System's Strategic Asset Allocation process and parameters.

Passive strategies are expected to produce gross of fees returns that match those of their assigned benchmark (and before accounting for any securities lending income) with low amounts of tracking error.

For actively managed strategies, the total return of portfolios should rank above the peer median on a risk-adjusted absolute and relative basis. Such mandates are to exceed, after fees and long-term on a risk-adjusted basis, the total return of the assigned benchmark. Actively managed mandates should target an Information Ratio of at least 0.5 to ensure that the associated risk is adequately compensated.

When relying on relative measures of risk to evaluate actively managed strategies, it is critical to note that tracking error calculations do not distinguish between strategies that increase absolute risk from those that reduce it. As such, relative measures should be evaluated in conjunction with the absolute level of risk incurred by that strategy. For example, a strategy that has outperformed its stated benchmark with substantially more absolute risk than the benchmark may in some cases be deemed unsuccessful. Likewise, underperforming a stated benchmark with substantially less risk may in some cases be deemed a success.

When performance or organizational issues arise for a specific mandate or Manager, Investment Staff should be in contact with the Manager on a regular basis until the issues are resolved. On a timely basis, normally quarterly, but not less than annually, the Board via the Investment Committee will review actual investment results achieved by each live mandate to determine whether:

1. Each Manager's strategy remains consistent with the Guidelines and the process represented by the Manager.
2. Managers performed in accordance with the Guidelines and objectives set forth herein and satisfactorily when compared with peers and assigned benchmark indices.
3. On an annual basis, Investment Staff and Consultant will review the Manager proxy voting procedures and proxy voting records as submitted in accordance with this Policy; and
4. On an annual basis the Investment Staff and Consultant will review commissions paid, commission rates incurred, and brokerage firms used by Managers. Compliance with specific directives regarding commission cost management will be regularly reviewed.

---

Shorter term examinations of the performance of each mandate will focus on strategy adherence, peer comparisons and assigned performance benchmarks.

Investment Staff and Investment Consultant, in consultation with the Executive Director, shall on a quarterly basis provide to the Board in writing a summary of the Fund's performance at the mandate level. This report shall include a comparison to performance benchmark objectives as well as the investment performance of other appropriate funds. Both absolute and relative results will be considered in the evaluation of the investment performance by Managers in the execution of the mandates they are assigned.

#### Staff Reporting

At least annually Investment Staff shall provide a report to the Board via the Investment Committee regarding compliance with the provisions regarding manager assets under management with this Policy. Investment Staff shall also provide a report to the Board via the Investment Committee of investment costs including management fees and commission costs not less than annually.

A comprehensive review of each Premier List Manager, both with and without live mandates, is to be conducted and documented at least annually. These reviews shall include quantitative as well as qualitative factors and should incorporate an onsite visit at least once every three years. The results of these reviews, any ad hoc review, and any resulting recommendations will be reported to the Board via the Investment Committee.

### **X. RETENTION**

Manager retention decisions can have the same potential impact on performance as the initial selection of the Manager, and as such should be afforded the same degree of attention. As in the search process, a discipline is needed which will minimize the probability of retaining an underperforming Manager that will continue to underperform (i.e., a Type 1 error) or terminating a currently underperforming Manager just before a period of strong performance (i.e., a Type 2 error). Statistical methods shall be employed to maximize the probability of making sound decisions, recognizing that such decisions are probabilistic in nature and rooted in inherent uncertainty across all feasible time horizons.

Investment Staff shall maintain a Manager Watch List for the purpose of ensuring that concerns regarding any Manager with a live mandate are appropriately recognized, addressed, and resolved. At the discretion of the CIO based on written internal procedures and in consultation with the Investment Consultant, a Manager may be included on the Manager Watch List. The contents of this list will be reported to the Investment Committee at each regular meeting. Performance for each of these Managers will be subject to additional scrutiny until either (1) the Investment Staff removes the Manager from the Watch List, or (2) a recommendation to terminate the mandate(s) assigned to the Manager and/or remove the Manager from the Premier List is made to the Board via the Investment Committee.

---

In addition to quantitative factors, adverse qualitative events may be considered a reason to include a Manager on the Manager Watch List. Examples include, but are not limited to:

- Significant changes in firm ownership and/or structure,
- Loss of one or more key personnel,
- Significant loss of clients and/or assets under management,
- Shifts in the firm's philosophy or process,
- Lack of adherence to best execution policies,
- Significant and persistent lack of responsiveness to client requests,
- Chronic violations of this IPS or guidelines, or
- Any other material issue of which Investment Staff and/or Consultant become aware.

Each situation should be handled on a case-by-case basis. Under certain circumstances, the Executive Director may exercise the authority granted within this Policy and the IPS (see Roles and Responsibilities) and act to terminate the mandate(s) assigned to a Manager in accordance with this section and transfer those assets to other manager(s) on the Premier List.

Investment Staff and Consultant shall provide notice to the Board via the Investment Committee when it is judged unlikely that a Manager will achieve the System's performance objectives for its mandate(s). The Board shall then require further action which may include, but not be limited to, special reporting, onsite diligence, or termination. Investment Staff shall notify the Custodian of potential action prior to termination of any live mandate(s), and upon termination shall notify the Custodian as soon as possible to eliminate the Manager's authority to trade the account(s) as appropriate.

Managers are expected to maintain a robust compliance system that tests compliance with the Guidelines on a daily basis, and ideally to do so on a pre-trade basis to ensure that they are in accordance with the Guidelines at all times. However, in the event of a violation of any Guideline(s), Managers must notify Investment Staff within one business day of detection of the violation and must provide a written plan for curing that violation or request an exception specific to the violation, subject to approval by the CIO.

To the extent the criteria above are not met, Managers may be removed from the Premier List and the associated mandate(s) terminated. Notice shall be given pursuant to any agreements between the Manager and the System.

In rare cases where it would be imprudent to delay termination of a Manager's mandate(s) pending formal approval, the Board delegates to the Executive Director the authority to terminate a Manager's mandate(s) and/or initiate redemption from a Fund in which the System is invested. Such termination(s) or withdrawal(s) must be based on recommendation by both the CIO and Investment Consultant, supported by proper documentation and, at the discretion of the Executive Director, reviewed by Investment Counsel and/or General Counsel.

---

If a Manager is terminated in accordance with this section, the Executive Director is authorized to act on the following, as appropriate, based on recommendation by the Investment Staff and Consultant:

- Transfer assets from the terminating Manager to another Premier List Manager under contract with the System; or
- Transfer authority to manage the assets to another Premier List Manager under contract pending selection of the replacement Manager.

If necessary, the Executive Director is authorized to negotiate a contract with the Manager receiving the assets to reflect the revised scope of their responsibility and related fees in regard to the assets. In determining the proper course of action, consideration will be given to the actual asset and sub-asset allocations relative to target allocations, impending portfolio structure changes, and Investment Manager exposure. If any such action affects Board-approved asset and sub-asset allocation targets, the Board will ratify this action or otherwise direct Investment Staff at the next scheduled Board meeting.

If the Executive Director terminates a Manager's mandate(s) or initiates a redemption process under these circumstances, the Executive Director will immediately notify the Board regarding such action and provide a full report on the matter at the next scheduled Board meeting.

## **XI. TRANSITION MANAGEMENT**

One or more Transition Managers (TMs) may be retained by COAERS to assist in the transfer of assets from one mandate to another. In this capacity TMs may serve as a liaison between the Investment Staff, the Custodian, the Manager distributing assets, and the Manager receiving assets. A key role of TMs is to facilitate clear communication between all parties, work to minimize market impact, trading costs, and opportunity cost. Transitions may occur either within an asset class or between asset classes.

The Executive Director and CIO, with advice from the Investment Consultant, will determine the most efficient and prudent manner to perform the transition, including determining whether to use a Transition Manager, the legacy Manager(s), or the target Manager(s) to effect the contemplated asset restructuring. If the use of TMs is deemed appropriate, Investment Staff will select a Transition Manager from the Board's pre-approved list of TMs after review of pre-trade analysis submitted by the TMs, as well as each Transition Manager's expertise for the asset class(es) to be transitioned.

The Executive Director is authorized to engage a Transition Manager on the Board's pre-approved list of Transition Managers under the terms of a master agreement executed with each such Transition Manager. Such agreements shall require that TMs:

- be a registered investment advisor under the Investment Advisers Act of 1940 as amended (unless properly exempted from registration by the SEC) or

- 
- otherwise regulated by an appropriate governmental regulatory oversight organization (unless exempt from such registration requirement),
  - act as a fiduciary to the System and not delegate such fiduciary responsibility, and
  - provide agency-only execution services.

TMs are specifically authorized to utilize derivatives to manage exposures and risks efficiently in any transition.

Following the completion of each transition event, Investment Staff will report to the Board on the results of the selection process as well as the estimated and actual costs of the transition. The Transition Manager will provide a detailed post-trade analysis to Investment Staff, which Investment Staff will summarize for the Board as needed. On a periodic and as-needed basis, Investment Staff and Investment Consultant will provide analysis and a written opinion to the Board as to the status of the Board's pre-approved list of Transition Managers, the qualifications and performance of its members, and other relevant information.

## **XII. PROXY VOTING**

Active voting of proxies is an important part of the investment program and a key fiduciary responsibility of the System. For separately managed accounts, proxy voting is generally delegated to Managers and will be authorized via the Manager's contract to represent COAERS prudently on issues of corporate governance regarding the portfolio. Records of proxy votes will be maintained by the Managers and submitted to Investment Staff and/or external service providers on request or at specified intervals. In representing the System, external managers and proxy voting agents are to consider only those pecuniary factors that relate to the economic value of System investments and are not to subordinate the interests of the System's participants and beneficiaries to unrelated objectives. Should the Board decide that the interests of the Fund are best suited by voting according to a different set of rules, it may revoke this delegation at its discretion.

Investment Staff will monitor the proxy voting practices of the Managers. External service providers may be retained by the Board to assist Investment Staff in its monitoring efforts. This monitoring will be coordinated with each Manager to reasonably assure the Investment Staff that Managers are fulfilling their fiduciary responsibilities with respect to proxy voting. Investment Staff will provide a proxy voting summary report for separately managed accounts to the Executive Director, on an annual basis as soon as practical after fiscal year-end. At a minimum, the summary report will contain, for each applicable Manager, the number of ballots cast, the number of issues voted upon, and percent of issues voted with management, against management and designated as abstaining.

---

## **Appendix I: Summary of Specific Manager Guidelines**

For the purposes of performance evaluation, current COAERS Investment Managers are assigned benchmark indices and peer universes. They are also given tracking error budgets to achieve target levels of excess return above the assigned benchmark net of fees. These guidelines are to be described in the relevant Premier List document that is reviewed by the Board at least annually.

Managers are permitted to deviate from the Guidelines of the IPS and this Policy only if the Board approves the deviation in writing. Below is a current listing of such approvals:

### **1607 Capital Partners – International Equity**

In that 1607 invests in listed closed-end funds which are typically diversified equity portfolios, the portfolio concentration limits for individual holdings shall be 20% at both cost and market. Index 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 ETFs 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 Staff (as delegated 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 is 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 relating to market capitalizations shall be modified to require monthly estimates of capitalization ranges.

### **Mellon – Dynamic US Equity (DUSE) and Dynamic Equity ex-US (DEXUS)**

These strategies are authorized to invest in futures and other derivative instruments to carry out the strategy as described in the relevant fund documents.

---

## Appendix II: Onsite Diligence

Onsite diligence is considered a key part of the System's investment decision making process to ensure that proper initial and ongoing due diligence is conducted with respect to investment related service providers and to fulfill the fiduciary responsibilities of the System's fiduciaries. The purpose of onsite diligence is to provide a means for these fiduciaries to assess the current state of the process, personnel, operations and facilities of both retained and prospective investment service providers including, but not limited to, investment managers, custodians, and investment consultants.

A primary goal of these visits is to provide valuable due diligence information and insights, which are often best gathered by an onsite examination of the offices of Managers, Custodians, and other service providers. While meetings conducted in the System's offices may provide some level of information regarding current or prospective investment service providers, full due diligence is best achieved by conducting onsite diligence to verify information received and to inform the investment process further. Though onsite diligence is best conducted in person and at the location of the vendor, virtual diligence may be substituted as necessary during times of emergency such as pandemics or other extenuating circumstances.

Common examples of areas of onsite appraisal would include consistency of investment philosophy, management's ongoing commitment to the business, staffing levels and turnover, technology infrastructure, and the suitability of facilities. Communications with principals and staff may also seek to determine the degree of consistency between what has been stated in any representations made to the System's representatives and what the diligence may reveal, including compliance with Investment Policy.

Routine onsite diligence will be conducted with each retained service provider every five years, or more frequently if necessary. These visits will be planned at the convenience of the diligence team. Onsite diligence will be conducted to allow the team to review the firm's office procedures and practices. It is to be understood by all involved parties that these visits are for the purpose of conducting formal due diligence rather than providing a venue for receiving marketing presentations.

Other basis for onsite diligence would include diligence on a prospective service provider and to assess concerns and/or problems with performance, staffing, or other significant issues. Onsite diligence may also be conducted when traveling, for any reason, when nearby a service provider's office(s).

Common areas of inquiry during onsite diligence would include:

- visit with all persons involved with the COAERS portfolio
- visit with all firm principals in the office at time of diligence
- visit with custodian bank liaison
- evaluate the firm's current client roster
- meet trading staff and review trading process
- attend a meeting of the firm's investment committee
- review current issues in markets and their impact on the COAERS portfolio

- 
- discuss other products available through the firm
  - examine the firm's other lines of business

The Chief Investment Officer and the Investment Consultant should be included on all onsite diligence to provide continuity. Investment Staff shall prepare a written report summarizing the diligence findings for review at future Investment Committee meetings and for future reference. The Executive Director may participate in any diligence at his or her discretion, and Trustees will generally not participate in such diligence. No decision-making authority is vested with the onsite diligence team. Funding for upcoming onsite diligence will be considered by the Board during the annual investment budget process, and onsite diligence shall be conducted in accordance with the System's Code of Ethics.

---

## Appendix III: Reporting Requirements for Investment Managers

### **Annual Reporting Requirements**

Each Manager who complies with the CFA Institute Trade Management Guidelines and CFA Institute Soft Dollar Standards will annually provide COAERS attestation of compliance and all required disclosures. If a Manager determines that it is no longer in compliance with either the CFA Institute Trade Management Guidelines or the CFA Institute Soft Dollar Standards, the Manager shall promptly notify COAERS and, without waiting for annual reporting deadlines, promptly provide COAERS with disclosures as described in the following paragraph.

Each Manager who does not claim compliance with the CFA Institute Trade Management Guidelines and the CFA Institute Soft Dollar Standards shall annually disclose to COAERS the areas of non-compliance in particular noting and detailing the extent to which any area of non-compliance impacts trading for the investment product in which COAERS is invested.

Each Manager shall:

- provide information and documentation on specific broker transactions as requested.
- keep accurate records of proxy voting of and provide such information upon request.
- report annually to the Board in writing as to actions taken regarding proxy voting issues in cases where the Manager votes in opposition to company management.
- furnish the System and the Investment Consultant a current copy of the approved Manager's SEC ADV Form annually when filed, and thereafter as and when amended.
- furnish documentation of the Manager's valuation methodology.
- furnish audited financial statements at least annually.
- report in writing any information required under the Board Approved Policy C-3 "Code of Ethics" Section VI.C.

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

### **Quarterly Reporting Requirements**

Quarterly Reporting Requirements for Managers with live mandates have both general (applicable to all managers) and specific (applicable only to managers described herein) requirements. Specific reporting requirements are dependent on investment vehicle, investment strategy and asset class.

#### **General Quarterly Reporting Requirements (All Managers):**

1. 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 tables *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return*, to provide this information.

- 
2. **Market Environment:** In this section, include information on the market environment, market analysis, sector analysis or other items deemed appropriate regarding your strategy. It is not necessary for the Manager to compare its strategy of management to others unless it impacts the investment strategy. Focus this section on the market environment applicable to the Portfolio. Provide a brief discussion of market liquidity for the portfolio during the quarter, including a basis point estimate of the cost to liquidate 10% of the portfolio.
  3. **Investment Process:** Please detail any changes to the investment process (i.e., change(s) in geographic focus, addition/removal of investment factors, benchmark changes, etc.)
  4. **Stewardship:** Please detail any changes to the stewardship process or philosophy (i.e., change(s) to proxy voting guidelines, compliance with sustainability reporting standards or organizations, etc.)
  5. **Organizational Issues:** Discuss the progress and the changes of your firm over the last three years.
    - Complete the *Organizational Issues* table.
    - What are the major initiatives planned for the firm over the next 3, 5 & 10 years?
    - List all personnel departures from the group responsible for the management and investment of the Portfolio and the responsibilities of each departing person.
    - 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?
    - 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 Manager's time is spent in each area (total must add to 100%).
    - Has a cap been placed on assets under management in this product? Why or why not?
    - The percentage of strategy assets and firm assets represented by the account.
  6. **Reconciliation of Assets and Returns:** Provide a brief discussion of your process for reconciling portfolio assets with our Custodian and portfolio returns with our Investment Consultant.
  7. **Regulatory Compliance Reporting:** combine with your quarterly report a copy of any regulatory or compliance-related reporting you have provided the System during the quarter.
  8. **Most Favored Nation (MFN) Provision Certification:** If applicable, certify that more favorable pricing has not been given to a similar account as described by applicable policy documents.
  9. List for each of the last quarter, the calendar year-to-date, and last year the total commissions generated in the Portfolio. 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.

### **Specific Reporting Requirements:**

#### **By Investment Vehicle:**

- **Separate Accounts:** 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 Manager may also summarize this section to explain the Manager's position on compliance. Sign and date this page. If the Manager recommends any change be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.
- **Commingled Funds:** On the first page of the report, the guidelines, objectives, and other measurements from any pertinent items from the side letter agreement (if applicable) will be listed. Verify compliance status on a point-by-point basis. The Manager may also summarize this section to explain the Manager's position on compliance. Additionally, certify that the Manager is in compliance with governing fund documents. Sign and date this page. If the Manager recommends any change be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.

#### **By Asset Class:**

- **Equity Strategies:**
  1. Portfolio Appraisal: Provide an asset statement to include the following for each security: Name, Number of Shares, Current Market Value Per Share, Total Market Value for Security, % of Total Market Value, Gain/Loss for each Security, Categorize by Sector, Totals.
  2. Transactions (active strategies only): List all purchases and sales for the period. Show the sales price per share, total proceeds from sale, and gain/loss for each transaction. 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.
  3. Brokerage: broker used, and commission charged per share for both purchases and sales. Total by brokerage firms all transactions traded with each firm.
  4. Proxy Voting: domestic equity managers shall report and list, on a quarterly basis, the proxy votes by security that your firm voted against management.
- **Real Estate Strategies:** Portfolio Appraisal: include the following information: a full portfolio appraisal, a summary of any transactions, a summary of all valuation changes, and a summary of fund income.
- **Multi Asset Strategies:** Include the following information: a full portfolio net asset value, a summary of the net asset value changes, a description of whether there have

been any impairments in liquidity necessary to meet participant redemptions during the quarter (if such an impairment occurs).

**Tables:**

**Organizational Issues**

Assets Under Management (firm-wide)	
Assets Under Management (in this Product)	
Number of Accounts in this Product	
Accounts Gained in Last Quarter (firm-wide)	
Accounts Gained in Last Quarter (in this Product)	
Accounts Lost in Last Quarter (firm-wide)	
Accounts Lost in Last Quarter (in this Product)	

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

	Calendar Year-to-Date	1 Year	3 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							
---	--	--	--	--	--	--	--

The Value-Added column above may be footnoted to explain your rationale to value added/lost to the benchmark.

**Appendix IV: Policies Regarding Third Party Marketing; Political Contributions; Improper Influence; Placement Agents and Finders**

**1. Scope.**

This Appendix applies to all COAERS 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 IV also applies to attempts to influence COAERS 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 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, 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. Links to Chapter 176, Tex. Loc. Gov’t Code and a copy of the Vendor Conflict of Interest Questionnaire can be found at [CIQ.pdf \(coaers.org\)](http://CIQ.pdf(coaers.org)) .**

**2. Purpose.**

The purpose of this Appendix is to safeguard the integrity of all COAERS 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 COAERS’s reputation or the integrity of COAERS’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 as Exhibit “A” as early as reasonably possible in the due diligence process for a COAERS investment transaction. The Board may revise this Appendix or Exhibit “A” from time to time as it deems to be in the best interest of COAERS and consistent with the purpose and intent of this Appendix.

In addition, all Investment Managers, and all Funds and Manager Parties negotiating or dealing with COAERS 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 upon commencement of due diligence.

**5. Contractual representations warranties and covenants.**

---

Each Investment Manager shall represent and warrant to COAERS in the executed Investment Management Agreement that its responses in Exhibit "A" to this Appendix IV 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, as applicable, to COAERS 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 COAERS 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 have been breached.

## **6. Prohibitions.**

No COAERS investment may be made if the Board, in consultation with legal counsel, determines that a disclosed contact with a COAERS 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 COAERS investment program or has been made in violation of a COAERS 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.

## **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 COAERS 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 commissioner and also includes a campaign fund or political action committee, or PAC for an elected official, and a Relative of a Texas elected official.

---

**COAERS Person** – means any person listed on Exhibit No. 1 attached to Exhibit “A” to Appendix IV to this Policy or to any other due diligence document, and includes without limitation any current or former COAERS 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 COAERS, and any Relative of a COAERS Person, whether or not listed on Exhibit A, COAERS Persons. The Executive Director shall cause a current list of COAERS Persons to be kept on file with the System and shall cause the current list to be provided to persons required to complete the Questionnaire.

---

## Appendix IV: 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 COAERS?
- 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 regard to the investment with any Texas state investment entity, including COAERS.
- B) Contacts with COAERS 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 COAERS 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 COAERS investment staff or a COAERS advisor or Investment Consultant to recommend that COAERS 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 regard 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 COAERS's prospective investment in a fund or engagement of an external manager?
- 1) If the answer 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, and managing members of the Placement Agent and any employees or third parties who had contact or involvement with the COAERS prospective investment 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 COAERS Person or any Relative of a COAERS 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 COAERS's investment? If the answer is "yes," please list the name or names of the COAERS Person or Relative of a COAERS 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 COAERS's investment? If the answer is "yes," please list the name or names of the official(s) 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 COAERS Person, either (a) recommend the Placement Agent or (b) receive a share of a Placement fee or any other economic benefit in connection with COAERS'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 COAERS'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, were untrue or misleading in any material respect when they were made.**

[Signature block for Fund or Manager Party]

**Attachment: Exhibit No. 1, COAERS Persons**