TERS BOARD OF ADMINISTRATION

POLICY AND PROCEDURES REGARDING APPROPRIATE STEPS IN RESPONSE TO TURBULENT MARKET CONDITIONS

BACKGROUND

TERS' investment portfolio is comprised of a mix of public and private investments, each with its own projected risk and return characteristics and each with its own set of liquidity constraints. As documented in the Investment Policy Statement (IPS), the TERS Board has constructed the portfolio with an eye towards diversification and liquidity.

The IPS establishes targets for asset classes and permitted ranges above and below those midpoint targets. TERS Staff is allowed by the IPS to initiate rebalancing actions when the asset class weights move away from their targets, and Staff is required to initiate rebalancing actions when the asset class weights move outside of the permitted ranges. Cash has a target of 0%, but under normal market conditions will generally comprise between zero and two months' worth of anticipated cash requirements.

Abrupt declines in public markets, when they occur, can lead to dramatic changes in the System's asset allocations. Investments that are priced on a daily basis will be observable more quickly in the case of a sudden price decline than will investments that reprice on a monthly or quarterly basis. TERS Staff and the TERS Board recognize that this lag in observed valuation does not indicate those asset prices have not declined; rather, it is likely that only the timing of the recognition of the price decline has been delayed.

> *EXAMPLE: TERS invests in real estate using both public and private vehicles. The public investments are exchange-traded and reprice on a daily basis; the private investments are appraised and a net asset value struck on a quarterly basis. Should a sudden decline in real estate market prices occur, the impact will be seen more quickly in TERS' public real estate investment holdings and on a more delayed basis in TERS' private real estate investments.*

Due to the repricing lags, private investments may appear more overweight (in the case of price declines) versus their intended targets than public investments. Care should be taken to carefully interpret the true impact of asset allocation changes resulting from sudden market declines prior to initiating any rebalancing actions.

Volatile markets tend to manifest via sudden and substantive price declines in public equity markets. Frequently (but not in all cases), these periods are accompanied by price increases in Treasury securities, as investors initiate "flight-to-quality" transactions. Other forms of fixed income (including high yield and emerging market debt) may experience price declines, a reduction in liquidity and/or corresponding increases in transaction costs (i.e., wider bid/ask spreads).

Lastly, it is important to note that TERS is in a net negative cashflow position, meaning that the amount of monthly benefit payments exceeds the amount of monthly contributions; the difference must be made up by liquidating investment portfolio assets. TERS may look to hold slightly higher than normal cash balances in periods of volatile market conditions so as to reduce the asset sales necessary to meet benefit payment requirements.

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POLICY

While it can be difficult to discern what constitutes a crisis in the midst of a turbulent period, one or more of the following indicators may be present:

a. Extreme market volatility (including, but not limited to, equity market volatility);
b. Extreme market price changes (including, but not limited to, equity markets);
c. Public market trading suspensions or other forms of halted trading;
d. Substantive geo-political/international events;
e. Extraordinary fiscal, monetary or regulatory actions; and/or
f. Other events that in the professional judgment of the Chief Investment Officer (CIO) merit consideration of the actions contained within this Turbulent Markets document.

The CIO is charged with continuously monitoring market conditions; if one or more of the above conditions are judged to be present and corrective rebalancing actions are merited, the CIO must notify the Retirement Director and Assistant Director in writing of his/her intentions.

In that event, TERS' CIO will then recalculate asset allocation positions based on current reported values from the System's custodian. To the extent possible, estimates of the potential impact on less frequently priced investment assignments will be made to provide the best estimate of the current portfolio positioning. The results will then be reviewed with the Retirement Director.

TERS' CIO is responsible for compiling a list of proposed rebalancing actions which will be discussed with TERS' Investment Consultant in advance of implementing any transactions. Once consensus has been reached between TERS' CIO and the Investment Consultant, a list of the rebalancing actions will be communicated by the CIO to the Retirement Director, the Assistant Retirement Director and all members of the TERS Board. Such rebalancing actions will be presented by the CIO to the TERS Board and the Investment Advisory Committee (IAC) at a subsequent Board Meeting, but Board and IAC pre-approval of rebalancing actions is not required. NOTE: A special TERS Board meeting can be called with at least twenty-four hours of public notice.

The TERS CIO then has the responsibility to draw up the precise sale and purchase transactions, aligning settlement dates in order to maintain market exposure to the fullest extent possible. The CIO will then communicate the transactions to the appropriate asset managers. The CIO has the authority to direct TERS Staff to communicate the transactions to the System's custodian using the Trade Order Entry system. Finally, once the rebalancing transactions have fully settled, the CIO is responsible for compiling a summary report for the Board to be presented at a subsequent meeting.

The rebalancing actions initiated by the CIO can only move the portfolio towards or into the permitted asset class ranges as established in the Investment Policy Statement. No rebalancing actions that move away from or outside of the permitted asset class ranges will be permitted. In more volatile times, cash holdings can increase from the normal 0-2 months' worth of anticipated cash requirements up to 6 months' worth of anticipated cash requirements. Cash holdings above 1% of the portfolio must be pre-approved by the TERS Board.

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SOURCES OF FUNDS –

The targeted liquidity sources for TERS (based on liquidity, immediacy of settlement, and transaction costs) are listed below (T=Trade Date):

1) Cash

Instant liquidity to be redeployed as needed
Notification: n/a Settlement: T
Strategic Target Portfolio Weight: 0.00%

2) BlackRock U.S. Debt

Passive U.S. Aggregate fixed income commingled fund
Notification: T-2 (3 p.m. EST) Settlement: T+2
Strategic Target Portfolio Weight: 2.25%

3) BlackRock Treasury Inflation Protected Securities

Passive U.S. TIPS fixed income commingled fund
Notification: T-2 (3 p.m. EST) Settlement: T+2
Strategic Target Portfolio Weight: 5.00%

4) TCW/Metropolitan West fixed income

Active U.S. Aggregate fixed income separately managed account
Notification: ASAP Settlement: T+ 1-3 business days
Strategic Target Portfolio Weight: 13.25%

5) Additional Sources of Liquidity

TERS has designated continuous reinvestment as the default for dividends and coupon income in our investment vehicles in order to more closely maintain our strategic asset allocation targeted balances. In the event of a sudden downturn, TERS can toggle this income to redeploy in rebalancing actions in several of our mandates as follows:

Adelante – U.S. REITs:

Formal written notification must be sent to Adelante - coupon income will be retained and distributed as soon as the month following the notification.

BlackRock – U.S. Debt, TIPS and ACWI Min Vol:

Provide written standing authorization to COM to receive quarterly generated income in the form of a unit redemption beginning in the subsequent month.

Dimensional Fund Advisors – World Core Equity:

Complete a Dividend Option Change Form and return it to DFA Operations Team; dividend income collection will begin in the subsequent month.

Eaton Vance – Bank Loans:

Written instructions must be sent to Eaton Vance - monthly income will be aggregated and distributed beginning in the subsequent month.

INVESCO – Private Core Real Estate:

Written instructions on revising the reinvestment option (including wire instructions) must be sent and will take effect after 90 days.

Met West/TCW – Core Plus:

A formal request must be sent to Met West/TCW specifying the retention of income - it should take effect two weeks after such a request.

Tortoise – MLPs:

Income is paid quarterly – written notification to Tortoise can turn reinvestment off at any time. Most income is distributed in Feb/May/Aug/Nov.

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USES OF FUNDS –

Funds raised in rebalancing actions will first be used to ensure pension benefit payments can continue to be made in a timely manner. Once that prerequisite condition has been met, the CIO will use his/her discretion to redeploy funds into existing equity vehicle(s) in order to regain equity market beta exposure in the most expedient manner. Truing up balances across various TERS equity mandates that have lengthier notification/settlement periods will occur thereafter as markets permit.

As of 2018, potential redeployment vehicles for TERS are listed below (T=Trade Date):

1) Dimensional Fund Advisors World Core Equity

Systematic global public equity mutual fund
Notification: T (4:30 p.m. EST) Settlement: T+1
Strategic Target Portfolio Weight: 4.75%

2) Northern Trust MSCI ACWI IMI

Passive global public equity commingled vehicle
Notification: T-1 (9:30 a.m. CST) Settlement: T+1
Strategic Target Portfolio Weight: 16.00%

POSSIBLE ADDITIONAL ACTION – BANK LOANS

TERS invests in two bank loan vehicles, both managed by Eaton Vance. While both funds focus on higher quality (BB- and B-rated issues), the Institutional Senior Loan Fund Plus also employs discretionary leverage while the Institutional Senior Loan Fund does not. TERS has the right to move funds from one vehicle to the other on a monthly basis.

Should a sharp equity market selloff lead to substantive price declines in the loans held in both funds, the Board should consider redeeming funds in the unlevered vehicle and redeploying in the levered vehicle in an attempt to capture the eventual price recovery in a levered fashion.

NOTE: This Policy is meant to provide a crisis response framework; actual responses to volatile market actions initiated by the CIO may be substantively different depending on the prevailing market conditions and perceived investment opportunities.