



August 26, 2005

Dear TRS Member,

Recent press accounts about the investigation of persons formerly associated with TRS have angered and embarrassed all of us. We are eager to see the investigation go forward and have great confidence that justice will be served. In the meantime, the TRS Board asked me to write the membership to provide important details not contained in most public accounts.

Members have called asking why they first read in the newspapers about the investigation rather than from us. When federal investigators asked for our cooperation several months ago in obtaining information about TRS transactions, they also asked us to keep the matter confidential. Discussing confidential information could have shattered the investigation and allowed the accused to escape punishment. In order for justice to prevail, we will continue to fully cooperate with the federal prosecutors by not providing confidential information about the investigation.

At the outset, I want you to understand that the investigation is **not** an investigation of TRS. TRS and its members are the victims of crimes allegedly committed by persons with whom we severed ties over a year ago.

The investigation involves two Board members, an outside counsel, and a private equity manager *formerly* associated with TRS. These individuals allegedly misused their positions of trust and fiduciary duty for their own personal gain. Our staff members have determined there have been no investment losses as a result of their actions. This is due to the diligence of our staff that carefully screens investments to minimize risk and maximize returns. The upcoming fall edition of *Topics & Report* will provide detailed information on another year of excellent investment performance for the TRS portfolio. This past year, we earned 11 percent on our investments, raising the total fund value to \$34 billion, and landing the fund in the top quartile of the Callan Associates public fund performance database for the fourth year in a row. There is no need to worry about the stability of TRS investments; we will continue to maintain a strong and diversified investment portfolio.

Additionally, the press has reported that certain investment firms paid monies to consultants who “introduced” these firms to TRS. This arrangement, commonly called “finder’s fees,” is not unusual in the investment field. No TRS money from your pension fund has ever been used to pay any finder’s fees. The investment firm pays the consultant with their monies — separate and apart from our retirement system. Nevertheless, the practice has created an appearance of impropriety that we are anxious to dispel by taking the steps discussed below.

During the August Board meeting, our trustees approved several changes in the Investment Policy governing private markets. The changes ban third-party payments (finder’s fees), except for marketing fees paid to legitimate third-party professional marketing organizations and investment bank placement divisions. Any fees permitted under the exemption will be disclosed in public documents prior to any commitment. The change mirrors a long-standing TRS ban on

finder's fees for stock and bond investment management assignments. The Board will require that all partnership documents be completed and that legal approval be obtained prior to seeking approval from the Board. The changes took effect immediately and will be formally incorporated into the Investment Policy during the next regular Board meeting.

In the coming months, TRS will provide assistance, support, and information to the federal authorities. In keeping with accepted practices intended to ensure the integrity of the investigation, further announcements and developments in the case will come from the U.S. attorney or through the judicial process, not from TRS.

In the 66-year history of TRS, these are the first criminal indictments involving individuals associated with the System. Please feel confident that our staff and current Board members have acted and will continue to act honorably. Be assured that we will continue to improve our processes and procedures whenever we find weaknesses that need correction. We intend to maintain an environment where honesty and excellence prevail.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Bauman". The signature is fluid and cursive, with a large initial "J" and "B".

Jon Bauman  
Executive Director