



**PLAN DE ACCIÓN CORRECTIVA**

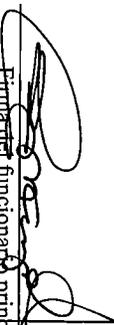
Informe de auditoría o Especial: DR-10-03 Número de unidad: 1429 Entidad auditada: SISTEMA DE RETIRO PARA MAESTROS (SRM)

Fecha del informe: 22 de octubre de 2009 Período auditado: 1 DE ENERO DE 2000 al 31 DE DICIEMBRE DE 2008

Indique:  PAC  ICP - 1-junio-2009

Funcionario enlace: SR. EDWIN MERCADO BRIGNONI Puesto: DIRECTOR, OFI. AUDITORÍA INTERNA Teléfono: (787)754-4545, Ext. 4272  
 Funcionario principal o su representante autorizado: SR. HÉCTOR M. MAYOL KAUFFMANN Puesto: DIRECTOR EJECUTIVO SRM Teléfono: (787)754-8611, Ext. 2801

CERTIFICO QUE ESTA INFORMACIÓN ES CORRECTA Y COMPLETA

  
 Firma del funcionario principal o su representante autorizado

Fecha: 4 de junio de 2010

RECOMENDACIÓN	ACCIÓN CORRECTIVA	RESULTADO
<p><b>AL PRESIDENTE DE LA JUNTA DE SÍNDICOS</b></p> <p>1. Adoptar políticas de inversiones aplicables a todas las inversiones que mantiene el Sistema y crear la reglamentación necesaria para regir dichas operaciones. Las políticas de inversiones deben contener disposiciones específicas como las mencionadas en el <b>Hallazgo 1-a.</b></p>	<p>Entendemos que las políticas de inversión aprobadas el 30 de marzo de 2009, por la Junta de Síndicos del Sistema de Retiro para Maestros cumplen con las disposiciones mencionadas por su Oficina en este Hallazgo. <b>Anejo 1</b></p>	<p><b>CUMPLIMENTADA</b></p>

(Véase instrucciones al final del modelo)

Iniciales 



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Informe de auditoría: DR-10-03 Número de unidad: 1429 Entidad auditada: SISTEMA DE RETIRO PARA MAESTROS (SRM)

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RECOMENDACIÓN	ACCIÓN CORRECTIVA	RESULTADO
<p><b>AL DIRECTOR EJECUTIVO</b></p> <p>3. Relacionado con la formalización y la administración de contratos:</p> <p>b. Asegurarse de que se formalicen contratos escritos conforme a la ley antes de solicitar la prestación de servicios, y que no se repita una situación como la que se comenta en el <b>Hallazgo 2-b.</b></p>	<p>Mediante la Orden Administrativa Núm.: 2010-001 del 27 de enero de 2010, el Sr. Héctor M. Mayol Kaufmann, Director Ejecutivo del Sistema de Retiro para Maestros, aprobó el Manual de Procedimientos Fiscales para la Sección de Cuentas por Cobrar.</p> <p>Incluimos un listado de los contratos otorgados a partir del 1 de julio de 2009 con la información correspondiente a la registración y formalización de los mismos ante su Oficina. <b>Anejo 2</b></p>	<p><b>CUMPLIMENTADA</b></p>

(Véase instrucciones al final del modelo)

Iniciales 

# **Anejo 1**



## **Investment Policy Statement**

## Statement of Purpose

The Puerto Rico Teacher's Retirement System (TRS) was created by Act No. 91 of March 29, 2004 that superseded Act No. 218 of May 6, 1951. The System is considered an integral part of the Commonwealth of Puerto Rico. The System, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Per Act 91, the TRS Board of Trustees has fiduciary duties with respect to the investment activities of the Puerto Rico Teacher's Pension and Annuities Fund (Fund). With regard to this responsibility, the Board of Trustees follows the Statement of Investment Guidelines for the Public Retirement Plans of the Government of Puerto Rico issued by the Government Development Bank (GDB Guidelines).

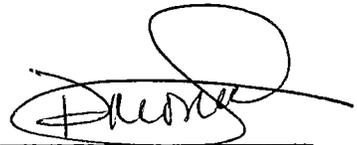
In order to comply with the GDB Guidelines, the Investment Committee of the TRS Board of Trustees, with the assistance of the TRS Management and the Investment Consultant, compiled in the Investment Policy Statement (IPS) all the current investment policies that have been adopted by the Board of Trustees. The primary objective of the IPS is to establish in one document sound policies adopted by the TRS Board of Trustees for the investment activities of the Fund.

The parties involved in the development of the IPS acted with prudence, in accordance with the "prudence investor rule". This rule states that "investment shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived". The guidelines also require that the highest standards of ethics and avoidance of conflict of interest must be firmly embedded in any decision making process related to the investment in public funds.

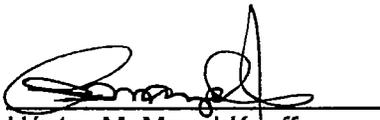
Signed by:



Juan Carlos Puig-Morales  
President  
PRTRS Board of Trustees



Denisse Marie Ocasio-Rivera  
Act Secretary  
PRTRS Board of Trustees



Héctor M. Mayol-Kauffmann  
Executive Director  
PRTRS

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## **Investment Policy Statement**

### **I. PURPOSE**

The Board of Trustees, governing body of the Puerto Rico Teachers Retirement System (the System or TRS), has authority to invest the assets for the exclusive benefit of the plan participants and beneficiaries. This Statement of Investment Policy and Performance Objectives is created, maintained, and monitored by the System's professional staff and consultants and is approved by the Board of Trustees. The purpose of this Statement is to:

- Define and assign the responsibilities of all the involved parties;
- Outline the expected return and risk profile for the Fund;
- Establish the target asset allocation mix and acceptable rebalancing ranges;
- Describe overall plan characteristics; and
- Make reference to the investment policies, objectives and performance standards to which the individual investment managers are accountable.

### **II. FUND INVESTMENT OBJECTIVES**

 The primary investment objectives are to preserve Fund assets and generate an appropriate level of risk-adjusted return to meet future pension obligations. The System completes an asset allocation and liability study as needed, but at least every five years, to determine the optimal portfolio diversification expected to generate a risk-adjusted return sufficient to meet the Fund's actuarial investment requirements. Specific investment objectives for the Fund are to:

- Preserve capital;
- Produce a total return which meets or exceeds the actuarial assumed rate over rolling five-year periods;
- Maintain a risk level, as defined by standard deviation of returns, commensurate with the Total Fund Benchmark described in Appendix B, over rolling five-year periods;
- Generate returns over complete market cycles that exceed the passive Fund Target Benchmark determined by the asset allocation. This Target Benchmark is described in Appendix B;
- Generate cash liquidity (i.e., investment income)

### **III. INVESTMENT POLICY**

The System's investment portfolio includes strategic, long-term commitments in the following asset classes: Domestic Equities, Domestic Fixed Income, International Equities, and Alternative Investments, as applicable. Asset allocation is reviewed in conjunction with the plan liabilities a minimum of every five years by the investment consultant.

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The Board of Trustees' policy is to establish a long-term strategic asset allocation that mitigates overall expected portfolio risk (volatility) and maximizes expected return without unduly constraining the discretionary, tactical decision-making process of the investment managers.

**A. Asset Allocation**

The current target asset allocation, which has a reasonable probability of achieving the long-term performance objectives, is listed below. Also included are the target rebalancing ranges:

Asset Class	Allocation Target*	Rebalancing Range
Domestic US Equity	47%	43%-51%
International Equity	18%	14%-22%
Domestic Fixed Income	10%	7%-13%
Loans & Mortgages**	20%	0%-20%
Alternative Investments	5%	0%- 5%
Total	100%	

Within Domestic US Equity

	Allocation Target*
Index	65.0%
Large Cap Growth	12.5%
Large Cap Value	12.5%
Small Cap Growth	5.0%
Small Cap Value	5.0%
Total	100%

\* Target Asset Allocation was ratified by the Board of Trustees on June 6, 2003. This target asset allocation was implemented during the second half of calendar year 2003.

\*\* In the event that this asset class is under its target asset allocation, the pending percentage should be part of the Domestic Fixed Income asset class so that the total target allocation for Fixed Income is 30%.

**1. Rebalancing Ranges**

The ranges around the allocation represent rebalancing limits. Rebalancing is an essential part of an overall strategic asset allocation policy, which not only ensures an optimal risk structure for the portfolio, but also has been demonstrated to maximize long-term performance. The contributing factor to performance comes from reducing an asset class which has undergone considerable price appreciation, and reallocating those funds into an asset class which has undergone a period of recent under performance relative to the long term objectives of the Total Fund. Similarly, if an asset class falls below the established range, funds will be re-allocated to bring the asset class within the range. The rebalancing discipline forces the Fund to sell assets with relative high prices and purchase assets which have comparatively low prices. Rebalancing ranges are determined by both the commitment size and liquidity of each individual asset class.

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2. Responsibility for Rebalancing

On a quarterly basis, actual asset allocation should be reviewed. Asset classes which have exceeded and those that have significantly fallen under its target allocation ranges must be considered for rebalancing. The investment portfolio may be rebalanced at any time, provided that asset classes fall outside of target ranges.

Over time, the first defense against having the portfolio deviate significantly from its target asset allocation policy will be regular cash flows. At the time of any contribution or distribution from the portfolio, Staff will make a decision as to how to most cost-effectively invest new monies or, conversely, disburse money from the portfolio. Asset allocation, liquidity and transaction costs will all be considered in the management of these cash flows.

On those occasions when the portfolio has exceeded its stated policy limits, the process of rebalancing is initiated through a recommendation to the Board of Trustees presented by the System's management in conjunction with the investment consultant. The Board of Trustees should evaluate and authorize the rebalancing. The rebalancing process should occur two weeks after approval.

 **B. Manager Selection and Due Diligence**

To implement the manager structure, the Board of Trustees, supported by the System's staff and the investment consultant, shall select appropriate money management experts to invest the Fund assets. This selection process shall include the creation of specific search criteria, with the direct assistance of the investment consultant. The investment consultant performs the manager search following the established criteria. Search results on potential candidates are presented by the investment consultant to the Investment Committee of the Board of Trustees for selection of a certain number of possible candidates (finalists) for further evaluation. The finalists may present their qualifications to the Board of Trustees. The Board of Trustees evaluates the finalists and selects the one or ones that are to be contracted.

External managers must meet the following minimum criteria:

1. Registered Investment Advisor as defined in the 1940 Investment Advisors Act or be a qualified bank or insurance company affiliate;
2. Provide historical quarterly performance data that complies with the parameters established in each search and the investment strategy under consideration (must be presented according to the CFA Institute Standards);
3. Articulate a clear, logical investment philosophy and process;
4. Demonstrate financial and professional staff stability and provide requisite historical company information.

Each investment manager shall acknowledge in writing that it is a fiduciary with respect to the System and assumes the duties, responsibilities and obligations of such fiduciary. In its performance as a fiduciary, each investment manager is required to discharge each of its duties and exercise each of its powers with the care, skill, prudence and diligence under

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circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. This acknowledgement must be included in the Investment Management Agreement to be signed by each respective investment manager.

**IV. INVESTMENT GUIDELINES AND RESTRICTIONS**

All investment managers are expected to perform their fiduciary duties as prudent experts and to conform to all statutes or contractual relationships governing the investment of these types of funds. All managers shall also operate within the limitations that have been established under the laws of the Commonwealth of Puerto Rico including but not limited to the Government Development Bank for Puerto Rico Statement of Investment Guidelines for Public Retirement Plans (GDB guidelines).

The GDB guidelines specify the allowable assets to invest in, the restricted assets and transactions for which the GDB must be consulted prior to investing in them, among other topics.

Beyond this, further guidelines and restrictions which apply to the individual investment managers are included in each of their respective investment guidelines according to their specific mandate and individual manager contracts.

 For purposes of alternative investments, the System has established specific private equity guidelines that should be followed when considering an investment in this asset class.

**General Requirements**

1. **Cash Investment (Residual Investment Process or Held for Disbursement)**

Investment managers may hold varying levels of cash equivalents awaiting permanent investment. All such funds will be invested in the custodian short-term investment fund (STIF) unless otherwise specified within the managers' specific investment mandate or instructed in writing by the System's management or Board of Trustees.

2. **Proxy Voting**

Proxy responsibilities will be handled by the investment manager together with the custodian bank, as applicable, unless otherwise instructed by the System's management or Board of Trustees.

3. **Communications**

Investment managers are expected to communicate with the System on a quarterly basis, at a minimum. Quarterly reporting requirements include performance investment reports, a summary of the portfolio holdings, reports on issue quality and relative weightings at quarter end. Additionally, investment managers must perform presentations to the Board of Trustees, the System's staff or the investment consultant, as requested.

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Quarterly communications should include:

- Current Investment Strategy (Detail Recent Changes);
- Recent Investment Performance;
- Demonstration of Compliance with Guidelines;
- Personnel or Organization Changes;
- New/Lost Accounts; and
- Current or ongoing litigation regarding the firm.

4. Securities Lending

The lending of securities is permitted. Specific guidelines for the securities lending program will be described in the custody agreement between TRS and its custodian bank. The GDB must be consulted before implementing the program.

5. Trade Commissions

As stated in the GDB guidelines, among the responsibilities of the Governing Board of each public retirement plan is "Ensuring that the fees and other costs incurred by the public retirements plan in paying for the services of professional investment managers and other organizations is reasonable, given the market for such services. In this regard, the method of payment must be examined and determined to be devoid of real or potential conflicts of interest. For this reason, soft-dollar compensation arrangements should be prohibited. Other methods of reducing overall costs such as commission recapture programs are acceptable and should be analyzed."

Therefore, the use of soft-dollars should be avoided and used only on exceptional basis to respond to the System's best interest. If soft-dollars are used, the details of the arrangement must be clearly addressed in the investment manager's contract and the manager is obligated to inform the total commissions and other compensation received as part of the soft-dollar compensation arrangement. (For example, transition management).

In accordance with the GDB guidelines the system adheres to the following additional guidelines with regard to trading practices:

1. Investment managers shall not execute or clear trades with affiliates.
2. Investment managers shall not trade with independent brokerage entities when such entities intend to enter into principal trades, as per Section 206 (3) of Investment Advisors Act regarding Principal Trading.
3. When replacing or adding investment managers and strategies or rebalancing portfolios the system may consult with trained professional in the transition management field. Both implicit and explicit transaction cost should be monitored and minimized.



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**V. PERFORMANCE MEASUREMENT**

The Board of Trustees, the System's staff together with the investment consultant have developed performance expectations for each asset class which are used to develop the asset allocation strategy. Such strategy contemplates that the investment managers' expected performance in aggregate should support the actuarial assumed rate of return. Aggregate performance and performance by investment manager must be measured by the investment consultant and provided to the Board of Trustees and the Systems' staff at least quarterly (Such reports must adhere to the standards set forth by the CFA Institute).

**A. Evaluation Time Periods**

The measurement period for individual manager evaluation will be rolling three-year and / or five-year periods depending on the benchmark being used. Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there may be quarters during which performance deviates from the longer-term objectives and the broad market indices. During such times, greater attention shall be focused on performance comparisons with managers employing similar investment styles.

**B. Total Plan Performance Analysis**

 Total Plan performance will be measured against a hypothetical Target Portfolio of passively managed indices. The Target Portfolio is weighted similarly to the approved asset allocation. The comparative target indices for each asset class are outlined below:

Asset Class	Comparative Target Index
Domestic Equity	S&P 500 / S&P 500 Barra Growth / S&P 500 Barra Value / Russell 2000 Growth / Russell 2000 Value
International Equity	MSCI EAFE
Domestic Fixed Income	Barclay's Aggregate Bond Index
Alternative Investments	Venture Economics Private Equity Performance

The Total Fund Target Benchmark is derived by weighting the appropriate passive indices (such as the S&P 500 for domestic stocks and the Lehman Aggregate for domestic bonds) in amounts equal to the Target Asset Allocation (see Appendix B). This benchmark is a tool that facilitates comparison of the Fund's active manager performance relative to the passive indices.

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**C. Manager Performance Comparisons**

Each active manager's investment portfolio shall be evaluated on two levels: against appropriate market indices (the passive benchmark); and against specific investment manager style groups. The most appropriate index benchmarks and peer comparisons are as follows:

Asset Class	Style	Passive Market Index	Style Group
Domestic Equity	Large Cap Core	S&P 500	Large Cap Core Equity Style 50 <sup>th</sup> Percentile
Domestic Equity	Large Cap Growth	S&P 500 Barra Growth	Large Cap Growth Equity Style 50 <sup>th</sup> Percentile
Domestic Equity	Large Cap Value	S&P 500 Barra Value	Large Cap Value Equity Style 50 <sup>th</sup> Percentile
Domestic Equity	Small Cap Growth	Russell 2000 Growth	Small Cap Growth Style Manager Database / 50 <sup>th</sup> Percentile
Domestic Equity	Small Cap Value	Russell 2000 Value	Small Cap Value Style Manager Database / 50 <sup>th</sup> Percentile
International Equity	Core	MSCI EAFE	Core Non-U.S. Equity Database / 50 <sup>th</sup> Percentile
Fixed Income	Core Domestic	Lehman Aggregate	Core Fixed Income Manager Database / 50 <sup>th</sup> Percentile

*Handwritten initials*

Specific performance measurement standards and investment guidelines and restrictions for each individual investment manager are contained in each of their respective investment guidelines according to their specific mandate and individual manager contracts. For Alternative Investments, internal rate of return (IRR) must be computed on a quarterly basis by the investment consultant and include the IRR performance information in a separate section of the quarterly performance report.

**VI. CONSULTANT RESPONSIBILITIES**

The investment consultant shall be responsible for providing the following:

- Quarterly performance evaluation reporting;
- Brokerage Commission report;
- Monitoring the need for portfolio rebalancing;
- Investment manager searches when needed;

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- Custodian bank search;
- Commission Recapture search;
- On-going review of the investment manager structure;
- Periodic reviews of the asset allocation policy;
- On-going review of this investment policy;
- On-going review of manager investment guidelines according to each respective mandate;
- Research and educational materials; and
- Assist the System in other matters related with the investment area.

**VII. INVESTMENT MANAGERS RESPONSIBILITIES**

The investment manager shall be responsible for providing the following:

- 
- The expected rate of return and risk control for the assigned investment sector and mandate.
  - Certify within 90 days after the close of every fiscal year (June 30th) that it's internal portfolio accounting statements reconcile with those of the for the year just ended, providing a list of discrepancies along with an explanation of how they will be resolved if a reconciliation cannot be completed within the designated period.
  - Reconciliation of Market Value, on a monthly basis with a summary of all discrepancies with the custodian bank that have been outstanding more than 90 days.
  - Performance Results for the most recent quarter, year, three-year period, five-year period and since inception.
  - Brokerage commission report.
  - Certify that the portfolio is being managed in accordance with the assigned investment guidelines.
  - Report to PRTRS any matters relevant to the well-being of the Fund.
  - The investment manager is required to provide PRTRS with prompt notification regarding any of the following items:
    - ~ Notice of any material changes in organizational structure, ownership, key personnel, strategy or philosophy of the firm.
    - ~ Any material litigation pending against the firm or any of it's' members whether criminal, civil, or administrative.

**VIII. CUSTODIAN BANK RESPONSIBILITIES**

The custodian bank shall be responsible for providing the following:

- Safekeeping of the fund investment assets;

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- Trade processing of the investment assets as directed by the investment managers and the system;
- Book of record of the investment assets of the Fund;
- Line item reporting and reconciliation for Commingled funds investments;
- Being the book of record of the publicly traded investment securities, provide monthly and cumulative audited reports regarding the number of positions, assets value, accruals and all period transactions per portfolio account and fund consolidated;
- Reconciliation of Market Value, on a monthly basis with a summary of all discrepancies with the managers that have been outstanding more than 90 days;
- Report on a weekly basis all overdraft charges incurred per account, if any;
- Investment guideline compliance reporting;
- Disaster recovery plan;
- Online web base access to all account information;
- Investment idle cash of all the accounts in a short term investment fund vehicle;
- Class action, Corporate Governance and Proxy voting supporting; and
- The custodian bank is required to provide PRTS with prompt notification regarding any of the following items:
  - Notice of any material changes in organizational structure, ownership, key personnel, strategy or philosophy of the firm.
  - Any material litigation pending against the firm or any of its' members whether criminal, civil, or administrative.
  - Change of insurance provider or coverage.

**IX. ADOPTION STATEMENT**

This document revokes any other investment guideline or policy established previously by the Puerto Rico Teachers Retirement System.

This statement of investment guidelines is adopted on March 30, 2009 by the Board of Trustees of Puerto Rico Teachers Retirement System.

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**APPENDIX B**

**Target Portfolio  
(Active Assets Only)**

The target portfolio is developed in the asset allocation study and approved by the Board of Trustees. The current target portfolio is outlined below:

<b><u>Asset Class</u></b>	<b><u>Lower Limit</u></b>	<b><u>Target</u></b>	<b><u>Upper Limit</u></b>	<b><u>Comparative Target Index</u></b>
Domestic Equity	43%	47%	51%	S&P 500, S&P 500 Barra Growth & Value, Russell 2000 Growth & Value
International Equity	14%	18%	22%	MSCI EAFE
Domestic Fixed Income	7%	10%	13%	Lehman Aggregate Index
Alternative Investments	0%	5%	5%	Venture Economics Private Equity Performance
Loans & Mortgages	0%	20%	20%	

*df*

## **GLOSSARY OF TERMS**

**Board of Trustees** – Members of the Board responsible for the oversight of pension plan assets.

**Capitalization** – The value of a corporation as determined by the price of its issued and outstanding common stock. It is calculated by multiplying the number of outstanding shares by the current market price of a share of stock.

**Growth Style** - A style of equity management that focuses on companies with above average prospects for future growth in earnings and/or profitability.

**Investment Committee** – Committee composed of members of the Board of Trustees

**Investment Consultant** – firm selected by the Board of Trustees to provide professional consulting investment management services.

**Large Cap** – Refers to companies with a market capitalization on the high end of the range available at a point in time. These companies tend to be more seasoned and, as a group, less volatile than their smaller capitalization counterparts. For example, as of September 30, 2007, stocks in the S&P 500 (a large cap index) have a weighted average market capitalization of \$109 billion; whereas, stocks in the S&P 600 ( a small cap index) have a weighted average market cap of \$1.7 billion.

**Lehman Aggregate Index** – A broad representation of the U.S. fixed income markets representing U.S. Treasury bonds, U.S. government agency bonds, investment grade corporate bonds, mortgage-backed and asset backed securities, and Yankee bonds.

**Management** – represents TRS Executive Director or its designee.

**Morgan Stanley Capital International Indices** – Capitalization-weighted indices measuring the performance of the global equity markets. The MSCI Europe, Australia, Far East (EAFE) Index is comprised of large to mid capitalizations companies located in developed markets outside of the U.S. The MSCI All Country World Index Ex. U.S. (ACWI) is comprised of companies located outside of the U.S. and differs from the EAFE Index in that it includes the securities located in Canada and emerging economies. The MSCI Emerging Markets Free Index is comprised of companies located in developing or emerging economies.

**Portfolio Rebalancing** - Rebalancing is a portfolio management tool mandating the sale of assets from superior performing asset classes to fund Plan cash flow requirements and rebalance into asset classes demonstrating relatively lower recent performance. Rebalancing is a passive portfolio management technique that allows increasing expected incremental returns while reducing expected portfolio volatility or risk over long periods by selling higher priced and appreciating assets, and reinvesting in undervalued capital market sectors.

**Percentile** – Refers to the placement of a value within a range of observations. That range of values is arrayed into 100 buckets, with each “bucket” representing a percentile. The value which falls in the middle of the distribution, is the 50<sup>th</sup> percentile or median. This indicates that

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50% of the observations are above that value and 50% are below. An investment return which ranks in the 20<sup>th</sup> percentile, indicates that 20% of the managers/funds in that universe performed better and 80% performed worse. The 25<sup>th</sup> percentile is also referred to as the top quartile; and, the 75<sup>th</sup> percentile as the bottom quartile.

**Russell Indices** – Indices published by Frank Russell & Company of Tacoma, Washington. The Russell 3000 Index consists of the largest U.S. stocks in terms of capitalization. It represents approximately 98% of the investable U.S. equity market. The highest ranking 1000 comprise the Russell 1000 Index, while the Russell 2500 includes the bottom 2500 stocks in the Russell 3000 Index. The Russell 200 Index is a commonly used proxy for the US small capitalization equity market. It measures the performance of the smallest 2000 companies in the Russell 3000 and represents about 10% of the total market capitalization.

**S&P 500 Indices** – A family of indices published by the Standard & Poor's Corporation. The US indices are constructed to reflect the US equity markets. The most widely known index is the S&P 500, a sample of the "leading companies" in the US and a proxy for the large cap domestic equity markets. The S&P Mid-Cap 400 represents the mid-cap range of companies and the S&P 600 represents small cap companies.

 **Small Cap** - Refers to companies with a market capitalization on the low end of the range available at a point in time. These companies tend to be less seasoned and, as a group, more volatile than their larger capitalization counterparts. For example, as of September 30, 2007, stocks in the S&P 500 (a large cap index) have a weighted average market capitalization of \$109 billion; whereas, stocks in the S&P 600 ( a small cap index) have a weighted average market cap of \$1.7 billion.

**Staff** – Professional staff who are responsible for the day-to-day operations of the Puerto Rico Teachers Retirement System, including the Executive Director, the Subdirectors, Finance Department, Investment Committee of the Board of Trustees.

**Target Asset Allocation (Also Called Target Portfolio)** – The portfolio composition suggested by the asset allocation and liability study and approved by the Board. The Target Portfolio is expected to provide optimal risk adjusted returns that meet the Plan funding requirements.

**Target Benchmark** – The total plan benchmark, which is derived by weighting the appropriate passive indices (such as the S&P 500 index) in amounts equal to the Target Asset Allocation. The benchmark allows comparison to a passive portfolio.

**Value Style** – A style of equity management that focuses on identifying companies that are selling at a discount to their fair value. A variety of valuation metrics are commonly used to identify the mispricing, such as: price/earnings ration; price/book value ratio; and price to cash flow.