

**PORT OF HOUSTON AUTHORITY
RESTATED RETIREMENT PLAN**

STATEMENT OF INVESTMENT OBJECTIVES AND POLICY



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I. PREAMBLE

The Port of Houston Authority Restated Retirement Plan (the “Plan”) is a defined benefit retirement plan created by the Port of Houston Authority of Harris County, Texas (the “Plan Sponsor”) to provide retirement benefits to eligible employees during their retirement years.

In accordance with Chapter 802, Texas Government Code, the Port Commission of the Port of Houston Authority of Harris County, Texas (the “Commission”), the governing body of the Plan Sponsor, is responsible for administration of the Plan and for the investment of the Plan's assets. The Commission is authorized to retain professional consultants and investment managers to assist in the investment of the Plan's assets. The Commission also establishes investment guidelines and evaluates investment manager performance.

All participants in the investment process shall undertake their responsibilities hereunder in a prudent and proactive fashion as described herein, in compliance with the Plan Sponsor’s Code of Ethics, as amended from time to time, and adhering to applicable laws and regulations.

II. FIDUCIARY RESPONSIBILITIES

The Commission and its agents have a fiduciary responsibility to the participants and beneficiaries of the Plan regarding the investment of the Plan's assets.

In accordance with Section 802.203, Texas Government Code:

1. In making or supervising investments of the Plan, the Commission and Investment Manager shall discharge its duties with respect to the Plan solely in the interest of the participants and beneficiaries and
 - (a) For the exclusive purpose of:
 - (i) Providing benefits to participants and their beneficiaries;
 - (ii) Defraying reasonable expenses of administering the Plan;
 - (b) With the care, skill, prudence, and diligence under the 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 and with like aims;
 - (c) By diversifying the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
 - (d) In accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of this title and title V of this document.
2. In choosing and contracting for professional investment management services and in continuing the use of an Investment Manager, the Commission must act prudently and in the interest of the participants and beneficiaries of the Plan.
3. The Commission is not liable for the acts or omissions of any Investment Manager it appoints in compliance with Section 802.204, Texas Government Code, nor is the Commission obligated

to invest or otherwise manage any asset of the Plan subject to management by the Investment Manager.

III. PURPOSE

This statement of investment policy (the "Policy") is set forth by the Commission in order to:

- (a) Define and assign the responsibilities of all involved parties,
- (b) Establish a clear understanding for all involved parties of the investment goals and objectives for Plan assets,
- (c) Establish the Plan's Asset Allocation,
- (d) Offer guidance and limitations to all Investment Managers regarding the investment of Plan assets,
- (e) Establish a basis for evaluating investment results,
- (f) Ensure that Plan assets are managed in accordance with the requirements of applicable Texas law and, to the extent not inconsistent with Texas law, the Employee Retirement Income Security Act of 1974 ("ERISA") and regulations pertaining thereto, and
- (g) Establish the relevant investment horizon for which Plan assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

IV. ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Commission

The Commission is charged by law with the responsibility for the management of the assets of the Plan. The Commission shall discharge its duties solely in the interest of the Plan participants and beneficiaries, with the care, skill, prudence and diligence under the 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.

In addition, the Commission shall be responsible for ensuring the Plan investments are diversified to minimize the risk of large losses or the risk of a severe underfunding of pension liabilities, unless under the circumstances it is clearly prudent not to do so. Furthermore, the Commission shall be responsible for ensuring that Plan investments adhere to the policies, objectives and guidelines set forth in this Policy to the extent they are consistent with requirements of applicable law. The specific responsibilities of the Commission relating to the investment management of the Plan assets include:

1. Adhering to the guidelines as provided under applicable Texas law, and to the extent not inconsistent with applicable Texas law, ERISA.
2. Projecting the Plan's financial needs, and communicating such needs to the Investment Manager(s) and Pension Consultant(s) on a timely basis.
3. Determining the Plan's risk tolerance and investment horizon, and communicating these to the appropriate parties.
4. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Plan's assets.
5. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), Pension Consultant(s), Custodian(s), and Trustee(s).

6. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to Policy guidelines and monitor investment objective progress.
7. Developing and enacting proper control procedures (e.g., replacing Investment Manager(s) due to fundamental changes in investment management process, or failure to comply with established guidelines, etc.).
8. Providing necessary and updated actuarial information on future liability payouts to support the design and maintenance of a custom liability index system.

Responsibility of the Pension and Benefits Committee

The Commission may appoint a committee or task force (the "Pension and Benefits Committee") to provide advice and recommendations to the Commission and to assist the Commission in performing its responsibilities set forth above. If no Pension and Benefits Committee has been formally appointed, then the Commission shall serve as the Pension and Benefits Committee for purposes of this Policy.

Responsibility of the Pension Consultant

The Pension Consultant's role is that of a non-discretionary advisor to the Commission and the Pension and Benefits Committee. Investment advice concerning the investment management of Plan assets will be offered by the Pension Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this Policy. Specific responsibilities of the Pension Consultant include:

1. Assisting in the development and periodic review of the Policy.
2. Assisting in developing an asset/liability model and appropriate liability index.
3. Recommending the appropriate asset allocation and investment styles in order to meet the funds' long-term objectives.
4. Conducting Investment Manager searches when requested by Plan Sponsor staff, the Pension and Benefits Committee or Commission.
5. Providing "due diligence", or research, on the Investment Manager(s).

6. Monitoring the performance of the Investment Manager(s) to provide Plan Sponsor staff, the Commission and the Pension and Benefits Committee with the ability to determine the progress toward the investment objectives.
7. Communicating matters of policy, Investment Manager research, and Investment Manager performance to Plan Sponsor staff, the Pension and Benefits Committee and the Commission.
8. Reviewing Plan investment history, historical capital markets performance and the contents of this Policy with Plan Sponsor staff, any newly appointed members of the Commission and the Pension and Benefits Committee.

Responsibility of the Investment Manager(s)

Each Investment Manager will have full discretion to make all investment decisions for the Plan assets placed under its investment discretion and control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Policy and acting in accordance with the terms of any investment management agreement as may be executed by and between said Investment Manager and the Plan Sponsor. Specific responsibilities of the Investment Manager(s) include:

1. Exercising full discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this Policy.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of the investment process.
4. Informing the Pension Consultant, Plan Sponsor staff, the Commission and the Pension and Benefits Committee regarding any qualitative change to investment management organization (e.g., changes in portfolio management personnel, ownership structure, investment philosophy, etc.).

5. Voting proxies on behalf of the Plan, and communicating such voting records to Plan Sponsor staff, the Commission and/or Pension and Benefits Committee on a timely basis as may be requested.

V. DELEGATION OF AUTHORITY

The Commission is a fiduciary under applicable Texas law and would be a fiduciary under ERISA if it applied to the Plan, and is responsible for directing and monitoring the investment management of Plan assets. As such, the Commission is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

- (a) **Pension Consultant.** The Pension Consultant may assist the Commission in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate. The Pension Consultant shall provide such assistance to the Pension and Benefits Committee in its advisory role to the Commission and/or directly to the Commission, upon request.
- (b) **Investment Manager.** The Investment Manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Plan's investment objectives.
- (c) **Custodian.** The Custodian may be a bank, depository trust company, or brokerage firm and will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Plan accounts.
- (d) **Trustee.** Consistent with requirements of applicable law, the Commission may appoint an outside bank trust department or depository trust company, to be trustee. The Trustee will assume fiduciary responsibility for the administration of Plan assets. The Pension and Benefits Committee shall advise the Commission in its selection, removal and replacement of any Trustee.
- (e) **Additional specialists** such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Commission to assist in meeting its responsibilities and obligations to administer Plan assets prudently, and to assist

the Pension and Benefits Committee in providing advice and recommendations in this regard.

- (f) **Plan Sponsor Staff** has responsibility for day-to-day management and administration of the Plan under the supervision and direction of the Commission, and in accordance with applicable state and federal laws, including supervising the Pension Consultant, Investment Managers, the Trustee, and any other parties engaged by the Commission.

The Commission does not reserve any control over investment decisions, with the exception of specific limitations described in this Policy. Investment Managers shall be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper Investment Managers, each Investment Manager should request modifications which it deems appropriate.

If such experts employed are also deemed to be fiduciaries under applicable Texas law, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Plan as deemed necessary.

VI. ASSET ALLOCATION

The Commission shall be responsible for allocation of the assets among Investment Managers as well as controlling the total Asset Allocation among stocks, bonds and cash. The Commission adopts the following Asset Allocation among stocks, bonds, other investments, and cash to serve as a general guideline in investing the Plan's assets.

ASSET CLASS	MINIMUM	TARGET	MAXIMUM
Large Cap Domestic Equity	10.0%	15.0%	20.0%
Mid Cap Domestic Equity	7.5%	12.5%	17.5%
Small Cap Domestic Equity	5.0%	10.0%	15.0%
International Equity	7.5%	12.5%	17.5%
Core Fixed Income	30.0%	35.0%	40.0%
High Yield Fixed Income	0.0%	5.0%	10.0%
Real Estate	0.0%	5.0%	10.0%
Master Limited Partnerships	0.0%	5.0%	10.0%

The Commission will review the total Asset Allocation between Investment Managers and the overall Asset Allocation on a quarterly basis to keep the Asset Allocations of the various managers in line with the target Asset Allocation listed above. The need for balancing may also occur annually or more frequently if there are price movements in the financial markets which cause an Asset Class to exceed or fall below the established guideline limits.

VII. INVESTMENT OBJECTIVES

The primary objective is to maximize the rate of return on the Plan assets consistent with the preservation of the value of principal by investing in stocks, bonds and cash. The performance of the Plan assets will be evaluated against investment objectives set forth in this document for each Asset Class.

The Plan shall be managed with a philosophy of selecting and retaining individual Investment Managers who have excelled in their investment disciplines. The managers for the Plan assets shall have proven abilities in their disciplines (i.e., stocks, bonds, cash, etc.), with an ability to add value through active management in their respective market specialization. The investment objectives of the Plan are as follows:

- (a) The **Investment Managers**, when measured against other investment managers, should consistently rank in the top 33rd percentile of their most relevant universe of similar managers over the trailing three and five year periods.
- (b) The **Overall Investment Objective** of the Plan is to outperform the return of a composite mix comprised of 15.0% of the S&P 500 Index, 12.5% of the Russell Midcap Index, 10% of the Russell 2000 Index, 12.5% of the MSCI EAFE Index, 35.0% of the Barclays Capital US Aggregate Bond Index, 5.0% of the Merrill Lynch High Yield Master II Constrained Index, 5.0% of the NAREIT All REITS Total Return Index, and 5.0% of the Alerian MLP Total Return Index. This objective should be met over a full market cycle, usually three to five years.
- (c) The **Total Plan** rate of return should annually outperform, net of expenses, the actuarial return assumption as established by the Commission from time to time.
- (d) The **Total Equity Portfolio** should achieve a total rate of return that exceeds the total return of the S&P 500 Index by 1.0%, net of expenses, over a full market cycle, usually three to five years.
- (e) The **Large Capitalization Equity Portfolio** should achieve a total rate of return that exceeds the total return of the S&P 500 Index by 1.0%, net of expenses, over a full market cycle, usually three to five years.

- (f) The **Middle Capitalization Equity Portfolio** should achieve a total rate of return that exceeds the total return of the Russell Mid Cap Index by 2.0%, net of expenses, over a full market cycle, usually three to five years.
- (g) The **Small Capitalization Equity Portfolio** should achieve a total rate of return that exceeds the total return of the Russell 2000 Index by 3.0%, net of expenses, over a full market cycle, usually three to five years.
- (h) The **International Equity Portfolio** should achieve a total rate of return that exceeds the total return of the Morgan Stanley Capital International Europe, Australasia, and the Far East (ND) Index by 1.5%, net of expenses, over a full market cycle, usually three to five years.
- (i) The **Total Fixed Income Portfolio** should achieve a total return, net of expenses, that exceeds the total rate of return of the Barclays Capital US Aggregate Bond Index over a full market cycle, usually three to five years.
- (j) The **High Yield Fixed Income Portfolio** should achieve a total return, net of expenses, that exceeds the total rate of return of the Merrill Lynch High Yield Master II Constrained Index over a full market cycle, usually three to five years.
- (k) The **Real Estate Portfolio** should achieve a total return, net of expenses, that exceeds the total rate of return of the FTSE NAREIT All REITS Total Return Index over a full market cycle, usually three to five years.
- (l) The **Master Limited Partnership Portfolio** should achieve a total return, net of expenses, that exceeds the total rate of return of the Alerian MLP Total Return Index over a full market cycle, usually three to five years.
- (m) **Cash and short term securities** should achieve relative performance better than 91-day U. S. Treasury Bills.

General Investment Principles

- (a) Investments shall be made solely in the interest of the participants and beneficiaries of the Plan for the exclusive purpose of providing benefits accrued thereunder and defraying the reasonable expenses of administration of the Plan.
- (b) The Plan shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a Prudent Person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
- (c) Investment of the Plan shall be so diversified as to minimize the risk of large losses or the risk of a severe underfunding of pension liabilities, unless under the circumstances it is clearly prudent not to do so.
- (d) The Commission may employ one or more Investment Managers of varying styles and philosophies to attain the Plan's objectives.
- (e) Investments should be made in consideration of the future liability payout schedule such that no severe mismatch of assets versus liabilities develops.
- (f) Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

VIII. INVESTMENT GUIDELINES

The Investment Managers are expected to execute all transactions as efficiently as possible. There are no specific restrictions on portfolio turnover or preference for long or short term holding periods. The Commission does, however, anticipate that long-term performance will be enhanced by investment strategies, not trading strategies.

All securities transactions shall be effected through brokerage firms. Each Investment Manager shall ensure brokerage commissions paid by them for executions and other services that benefit the Investment Managers are reasonable. When Investment Managers direct commissions on behalf of the Plan, the direction shall be contingent upon the institution being competitive in both price and execution. The Commission retains the right to direct brokerage commissions.

The Pension Consultant and Investment Managers shall comply with the principles outlined below regarding **compensation**.

- (a) All contracts between the Plan Sponsor and Pension Consultant(s) shall be paid on a hard dollar basis (i.e., actual cash paid for services). All contracts between the Plan Sponsor and Investment Managers shall be paid on a hard dollar basis.
- (b) Pension Consultant(s) shall not enter into any compensation arrangements with Investment Managers for any services to be provided relating to the Plan.
- (c) Investment Managers may enter into special commission arrangements with brokerage firms whereby portions of the commissions paid to brokerage firms for executing securities transactions may be directed to a third party or retained by the brokerage firm, but only for the express purpose of obtaining research products and services that are directly related to the investment process. Investment Managers shall monitor such payments on a regular basis, and as may be requested periodically by the Plan Sponsor, shall certify that such payments are in compliance with Section 28(e) of the Securities and Exchange Act of 1934, and such products and services directly benefit the Plan.

- (d) A semi-annual report shall be prepared by the Custodian and Investment Manager(s) indicating the transactions executed. For other than direct transactions, the Investment Manager(s) shall have the discretion to execute transactions with the brokerage firm(s) of its choosing; however, its selection shall always be made in the best interest of the Plan.

The Plan assets may be invested in publicly traded common and preferred stocks, convertible bonds and preferred stocks, and non convertible fixed income securities, whether interest bearing or discount instruments, including money market instruments, subject to any restrictions herein specified. The assets of the Plan shall be invested in a manner consistent with generally accepted standards of fiduciary responsibility. The safeguards which would guide a Prudent Person shall be observed. All transactions undertaken on behalf of the Plan shall be for the sole benefit of the participants in the Plan.

The **domestic equity** portfolios should reflect the discretion of the Investment Manager(s) within the following constraints:

- (a) No options or financial futures shall be purchased unless approved in writing by the Commission.
- (b) Aggregate investment Beta (versus the applicable benchmark) of the entire portfolio should not exceed 1.20 at any time.
- (c) No private placements or venture capital investments should be purchased.
- (d) The Plan's equity Investment Manager(s) shall vote all proxies in the best interest of the Plan without regard to social issues. The equity Investment Manager(s) shall provide a written report each year to discuss the general guidelines they followed in voting proxies during the year.
- (e) No single security in each manager's portfolio will constitute more than 5% of the portfolio's equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.

- (f) Equity purchases are limited to stocks of companies with a minimum capitalization of \$200 million, unless approved by the Commission.
- (g) The funds shall remain fully invested in equities except for a nominal time between sales and repurchases.

The **international equity** portfolio should reflect the discretion of the Investment Manager(s) within the following constraints:

- (a) Investing internationally diversifies the overall Plan across the global equity markets. The international equity manager will invest in non-U.S. dollar denominated equity securities. The manager is required to invest in a prudent manner and to operate under the restrictions indicated in their prospectus. These include: regional constraints, diversification requirements, and the type of securities held.
- (b) No options or financial futures shall be purchased unless approved in writing by the Commission.
- (c) Aggregate investment Beta (versus the applicable benchmark) of the entire portfolio should not exceed 1.20 at any time.
- (d) No private placements or venture capital investments should be purchased.
- (e) The Plan's equity Investment Manager(s) shall vote all proxies in the best interest of the Plan without regard to social issues. The equity Investment Manager(s) shall provide a written report each year to discuss the general guidelines they followed in voting proxies during the year.
- (f) No single security in each Investment Manager's portfolio will constitute more than 5% of the portfolio's equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.
- (g) Equity purchases are limited to stocks of companies with a minimum capitalization of \$200 million, unless approved by the Commission.

- (h) The funds shall remain fully invested in equities except for a nominal time between sales and repurchases.

The **fixed income** portfolio should reflect the discretion of the Investment Manager(s) within the following constraints:

- a) The fixed income managers will manage their portfolios so that at least 80% of the portfolio shall be invested in bonds of at least "investment grade". The managers may, at their discretion, invest up to 20% of the portfolio in bonds rated below "investment grade" but not lower than "B". The bonds must be rated by either Moody's, Fitch or Standard and Poor's. The Investment Managers are not required to invest in securities rated below investment grade.
- b) Total fixed income exposure, from any single issuer except U.S. Government, its agencies or instrumentalities, shall not exceed 10% of the total allocation of the portfolio, except below investment grade issuers, which shall not exceed 3% of the portfolio. No more than 10% of the fixed income portfolio shall be invested in preferred stock.
- c) No options or financial futures shall be utilized unless approved in writing by the Commission.
- d) The maximum effective Duration of the portfolio will be 120% of the Barclays Capital US Aggregate Bond Index.
- e) All interest and principal payments shall be swept, as received, into a shorter money market or short duration fund for redeployment.

The **high yield fixed income** portfolio should reflect the discretion of the Investment Manager(s) within the following constraints:

- a) The high yield fixed income managers will manage their portfolios so that at least 80% of the portfolio shall be invested in bonds rated "below investment grade" by either Moody's, Fitch or Standard and Poor's. The managers may, at their discretion, invest up to 20% of the portfolio in bonds rated "investment grade" by either Moody's, Fitch or Standard and Poor's. Investment in securities that are not rated shall not exceed 10% of the total assets of the portfolio,

as determined at the time of the acquisition of any such investment.

- b) Total fixed income exposure, from any single issuer except U.S. Government, its agencies or instrumentalities, shall not exceed 10% of the total allocation of the portfolio, except below investment grade issuers, which shall not exceed 3% of the portfolio. No more than 20% of the high yield fixed income portfolio shall be invested in preferred stock.
- c) No options or financial futures shall be utilized unless approved in writing by the Commission.
- d) The maximum effective Duration of the portfolio will be 120% of the Merrill Lynch High Yield Master II Constrained Index.
- e) All interest and principal payments shall be swept, as received, into a shorter money market or short duration fund for redeployment.

The **real estate** portfolios should reflect the discretion of the Investment Manager(s) within the following constraints:

- (a) No options or financial futures shall be purchased unless approved in writing by the Commission.
- (b) Aggregate investment Beta (versus the applicable benchmark) of the entire portfolio should not exceed 1.20 at any time.
- (c) No private placements or venture capital investments should be purchased.
- (d) The Plan's real estate Investment Manager(s) shall vote all proxies in the best interest of the Plan without regard to social issues. The real estate Investment Manager(s) shall provide a written report each year to discuss the general guidelines they followed in voting proxies during the year.
- (e) No single security in each manager's portfolio will constitute more than 10% of the portfolio's allocation at the time of purchase, nor will it be more than 13% of the allocation of the portfolio after accounting for price appreciation.

- (f) The funds shall remain fully invested in real estate except for a nominal time between sales and repurchases.

The **master limited partnerships** portfolios should reflect the discretion of the Investment Manager(s) within the following constraints:

- (a) No options or financial futures shall be purchased unless approved in writing by the Commission.
- (b) Aggregate investment Beta (versus the applicable benchmark) of the entire portfolio should not exceed 1.20 at any time.
- (c) No private placements or venture capital investments should be purchased.
- (d) The Plan's master limited partnerships Investment Manager(s) shall vote all proxies in the best interest of the Plan without regard to social issues. The master limited partnerships Investment Manager(s) shall provide a written report each year to discuss the general guidelines they followed in voting proxies during the year.
- (e) No single security in each manager's portfolio will constitute more than 10% of the portfolio's allocation at the time of purchase, nor will it be more than 13% of the allocation of the portfolio after accounting for price appreciation.
- (f) The funds shall remain fully invested in master limited partnerships except for a nominal time between sales and repurchases.

Money market instruments are debt securities with maturities of less than one year. Money market purchases should reflect the discretion of the Investment Managers within the following guidelines:

- (a) Investments can be made in money market instruments that are U.S. Government or agency obligations, repurchase agreements, collateralized by U.S. Government or agency securities, commercial paper, bankers' acceptances, certificates of deposit, Euro or Yankee Dollar obligations, or time deposits.

- (b) Commercial paper shall be restricted to paper rated "A-2" or "P-2" or "F-2" or better and shall be limited such that any one commercial paper issuer shall not comprise more than 10% of the portfolio.
- (c) Bankers' acceptances, Certificates of Deposit, Euro or Yankee Dollar obligations, and time deposits shall be made in the larger banks (ranked by assets) rated "AA" or better by Moody's or the equivalent by Fitch or Standard & Poor's and in conformance with all FDIC regulations concerning capital requirements.
- (d) Investments may be in money market mutual funds that are regulated by the SEC and fully comply with rule 2a-7 of the Investment Company Act of 1940.

IX. PORTFOLIO EVALUATION

On a quarterly basis:

- (a) The Investment Managers shall provide written reports to the Plan Sponsor and the Pension Consultant detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets;
- (b) The Pension Consultant shall monitor Investment Managers' performance and consistency with respect to the investment guidelines and objectives outlined in this Policy; and
- (c) The Pension Consultant shall meet with Plan Sponsor staff, the Commission and/or Pension and Benefits Committee, and review the Investment Managers' performance relative to objectives set forth in this Policy.

X. DEFINITIONS

ADR's	(American Depository Receipt) A negotiable certificate receipt issued, in dollars, by an American depository stating that a certain number of foreign securities have been deposited with an overseas branch of the depository or with a custodian. ADR's are traded on the New York and other U.S. stock exchanges.
Add Value	The margin by which an investment advisor can outperform the relative index in a specific asset class.
Asset Allocation	Process by which the total plan is divided among the different asset classes.
Asset Class	Categories of investments that include equity securities, fixed income securities and cash equivalents.
Beta	A measure of an equity portfolio's risk level which indicates its sensitivity to changes in the S&P 500 equity index. A portfolio with a Beta greater than one is more volatile than the S&P 500 (e.g., a Beta of 1.20 indicates the portfolio is 20% more volatile than the S&P 500).
Cash	Instruments or investments of high quality and safety (e.g., money market funds, treasury bills, etc.). Maturity is usually less than one year.
Commission	The Port Commission of the Port of Houston Authority of Harris County, Texas, which shall serve as the governing body responsible for administration of the Plan as specified by applicable state or local law or ordinance.
Custodian	Any bank, depository trust company, or brokerage firm appointed by the Commission to serve as custodian over all or part of the Plan's assets.
Duration	A measure of a fixed income portfolio's risk level which indicates how sensitive a fixed income portfolio is to a change in interest rates. The longer a portfolio's duration is, the more volatile it will react to changes in interest rates. Duration is calculated by finding the net present value of all cash flows of a bond until maturity.
Equities	Ownership interest possessed by shareholders in a corporation; stock as opposed to bonds.
ERISA	The Employee Retirement Income Security Act of 1974, any amendments thereto, and any regulations issued pertaining to ERISA.

Fiduciary	Any individual or group of individuals as defined in applicable Texas law and, to the extent not inconsistent with applicable Texas law, ERISA, section 3(21)(a).
Fixed Income	Any interest bearing or discounted government or corporate security that obligates the issuer to pay the holder a specified sum of money, usually at specified intervals, and to repay the principal amount of the loan at maturity. The Fixed Income portfolio may include preferred stock.
Inflation	The rise in the prices of goods and services as measured by the Consumer Price Index ("CPI").
International Equity Portfolio	An equity portfolio composed of companies based outside of the United States.
Investment Consultant	The firm employed to consult on matters relating to the effective management of the Plan assets.
Investment Grade	Securities rated Baa3 or higher by Moody's Investor Service, or BBB- or higher by Standard and Poor's or Fitch Ratings.
Investment Horizon	The time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Plan based on active lives is 24 years (duration) and on retired lives 8 years (duration). This will not preclude the committee from reviewing manager performance over shorter periods of three to five years.
Investment Manager	An entity appointed in accordance with Section 802.204, Texas Government Code, that provides investment advice and/or manages investments for a fee. All Investment Managers shall be registered with the Securities and Exchange Commission and abide by the rules of the Investment Advisers Act of 1940.
Large Cap Equity Portfolio	An equity portfolio composed of large sized companies. Large capitalization portfolios buy stocks with market capitalizations generally above \$10.0 billion.
Long-term	An investment approach to the markets in which an investor seeks appreciation by evaluating securities over a complete business cycle, usually three to five years.
Master Limited Partnership	A limited partnership that is publicly traded on a securities exchange. MLPs are a relatively liquid way to invest in asset-rich energy infrastructure companies. The partnerships themselves do not pay entity-level taxes. All tax items flow to the partners as long as 90% of the MLP's income comes from qualifying sources.

Mid Cap Equity Portfolio	An equity portfolio composed of middle sized companies. Middle capitalization portfolios buy stocks with market capitalizations generally between \$2.0 billion and \$10.0 billion.
Pension and Benefits Committee	The committee appointed by the Commission pursuant to the Plan, which may serve as an advisor to the Commission and provide recommendations to the Commission from time to time concerning the administration and management of the Plan. If no committee is formally appointed, then the Commission shall serve as the Pension and Benefits Committee for purposes of this Policy.
Prudent Person	A fiduciary charged with utilizing the care, skill, prudence, and diligence that a prudent person who is familiar with such matters would use under the circumstances then prevailing.
Rate of Return	A return that includes appreciation (depreciation), realized capital gains (losses), and income. A quarterly return is computed and then chain-linked to calculate time-weighted rates of return for the periods under study.
Real Estate Investment Trust	A publicly traded security (also known as a REIT) that invests in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate.
Securities	Marketable investment securities and instruments which are defined as acceptable in this statement.
Small Cap Equity Portfolio	An equity portfolio composed of small sized companies. Small capitalization portfolios buy stocks with market capitalizations generally up to \$2.0 billion.
Trustee	Any bank trust department or depository trust company appointed by the Commission to serve as trustee over all or part of the Plan assets.
Total Plan	Aggregate total of all assets in the Plan.

XI. POLICY REVIEW AND ADOPTION

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy (the "Policy") for the Port of Houston Authority Restated Retirement Plan (the "Plan"), the Port Commission of the Port of Houston Authority of Harris County, Texas (the "Commission") will endeavor to review the Policy at least annually.

The Commission officially finds, determines and declares that this Policy was reviewed, carefully considered, and adopted at a regular meeting of the Commission, and that a sufficient written notice of the date, hour, place and subject of this meeting was posted as required by the Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting had been open to the public as required by law at all times during which this Policy was discussed, considered and acted upon and is herewith adopted. The Commission further ratifies, approves and confirms such written notice and the contents and posting thereof.

This Policy is adopted on February 24, 2015 and supersedes all previously adopted statements of investment policy with respect to the Plan.



Chairman, Port Commission
Port of Houston Authority of
Harris County, Texas

ATTEST:



Assistant Secretary,
Port Commission
Port of Houston Authority of
Harris County, Texas

Minute 2015-0224-29