STATE UNIVERSITIES RETIREMENT SYSTEM
OF ILLINOIS

INVESTMENT POLICY

Adopted by the Board of Trustees
September 11, 2015

INVESTMENT POLICY

Table of Contents

Section / Page No.			Description
I	**/**	**3**	**Mission Statement**
II	**/**	**4**	**Statement of Purpose of Investment Policy**
III	**/**	**6**	**Financial Goal & Strategic Objectives**
IV	**/**	**7**	**Role Definitions** • Board of Trustees • Investment Committee • Executive Director • Internal Investment Staff • External Investment Consultant(s) • External Investment Managers • Custodian • General Counsel's Office
V	**/**	**13**	**Asset Allocation and Rebalancing Strategy**
VI	**/**	**16**	**Investment Risk Management Policy**
VII	**/**	**17**	**Investment Manager Structure** • Public Equity • Fixed Income • Private Equity • Real Estate • Opportunity Fund • Hedged Strategies • Commodities
VIII	**/**	**24**	**Selection and Retention** • Consultant Selection and Retention • Investment Manager Selection • Quiet Period Policy • Investment Manager and Fund Monitoring
IX	**/**	**30**	**Investment Manager Termination Guidelines**
X	**/**	**32**	**Performance Measurement and Reporting**
XI	**/**	**34**	**Safeguard of Assets**
XII	**/**	**36**	**General Investment Restrictions and/or Guidelines**
XIII	**/**	**38**	**Corporate Governance** • Proxy Voting Policy • Securities Litigation Policy
XIV	**/**	**42**	**Emerging Investment Managers and Broker/Dealers** • Goals for Utilization of Minority-Owned and Women-Owned Investment Management Firms • Minority-Owned and Women-Owned Brokerage Usage Policy • Manager Diversity Program

I. Mission Statement

The Board of Trustees ("Board") of the State Universities Retirement System ("SURS", "System") has a fiduciary responsibility to the Members and Beneficiaries of the System. In recognition of this responsibility, the Board has adopted the following Mission Statement:

The SURS Mission

The mission of the State Universities Retirement System (SURS) is: To secure and deliver the retirement benefits promised to our members.

The purpose of this Mission Statement is to provide broad operational direction to the Board, Staff, and contractors of SURS.

II. Statement of Purpose of Investment Policy

This document specifically outlines the investment philosophy and practices of SURS and has been developed to serve as a reference point for the management of System assets. In order to assist System participants in achieving their financial security objectives, the Board shall adopt a long-term plan by which the assets of the System will be maintained and enhanced through prudent investments. The Board of Trustees shall at all times have a written Investment Policy that reflects and is consistent with the statutory constraints. In addition, these guidelines shall, among other things, include specification of the investment objectives of the System, the target asset allocations, and the appropriate benchmarks to be used for evaluating the performance of the funds and the asset classes within the funds.

In developing this Investment Policy, the Board and Staff understand and accept their fiduciary obligations to the Members of the System. These obligations are legal in nature, and are outlined in the Illinois Pension Code [40 ILCS 5]. Investments shall satisfy the conditions of the Illinois Compiled Statutes, and in particular, the prudent person standard of 40 ILCS 5/1-109. In summary form, the provisions specifically referring to the definitions, duties, and responsibilities of a fiduciary are these:

- a fiduciary is anyone who has discretion in managing retirement system assets or in administering the retirement system, or who renders investment advice for direct or indirect compensation. [40 ILCS 5/1-101.2.]
- a fiduciary must discharge its duties to the retirement system for the exclusive purposes of providing benefits to participants and beneficiaries, and defraying administrative expenses of the retirement system. [40 ILCS 5/1-109(a).]
- a fiduciary must discharge its duties to the retirement system with the same care, skill, prudence and diligence that a prudent person would use in a similar enterprise. [40 ILCS 5/1-109(b).]
- a fiduciary must discharge its duties to the retirement system by diversifying the investments to minimize the risk of large losses, unless prudence dictates otherwise. [40 ILCS 5/1-109(c).]
- a fiduciary must discharge its duties to the retirement system in accordance with Articles 1 and 15 of the Illinois Pension Code. [40 ILCS 5/1-109(d).]
- a fiduciary must not cause the retirement system to engage in prohibited transactions (40 ILCS 5/1-110(a)). A fiduciary must not deal with the retirement system's assets for its own interest, or act in any transaction on behalf of any party whose interests are adverse to the retirement system or its participants or beneficiaries, or receive any consideration for its own personal account from any party dealing with the retirement system in connection with a transaction involving the assets of the retirement system. [40ILCS 5/1-110(b)].

These statutes are the foundation for development of SURS' Investment Policy. For brevity and clarity, the Board adopts the following interpretation of the statute as its "Guiding Principles":

Principles Guiding SURS Investment Activity

1. Preserve the long-term principal of the Trust fund.
2. Maximize total return within prudent risk parameters.
3. Act in the exclusive interest of the Members of the System.

These principles, combined with the applicable sections of the Illinois Pension Code [40 ILCS 5], serve as the basic guideline for this Investment Policy.

III. Financial Goal & Strategic Objectives

The assets of the System will be invested solely for the benefit of participants and beneficiaries within the constraints of applicable Illinois Statutes and the guidelines contained in this document.

In addition, the following financial goal and strategic objectives for the SURS plan have been established:

The SURS Financial Goal

The financial goal as set forth in the SURS Strategic Plan is: To assure the financial soundness of the System.

The strategic objectives designed to achieve the SURS Financial Goal are as follows:

- Secure the annual required contribution (ARC)
- Achieve long term, sustainable, above average, risk-adjusted returns
- Manage the risk and volatility of assets
- Manage expense to achieve an optimal rate of return
- Manage operational expense at a prudent level

In addition, SURS has a goal of protecting assets through sound risk management and ethical practices.

IV. Role Definitions

SURS is one of the larger public pension funds in the United States; as such its operational requirements are complex. The Board relies heavily on both Internal Staff and external contractors in order to properly administer the System and implement its investment strategies. Because of the number of parties involved, their roles as fiduciaries must be clearly identified to increase operational efficiency, to ensure clear lines of responsibility, and to reduce or eliminate duplication of effort.

Board of Trustees

The Board has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the System's operation. The Board is responsible for prudent investment and expenditure of the System's funds and assets. Specifically with regard to investments, the Board takes action upon recommendations that come from its Investment Committee. The Board also approves actuarial assumptions, certifies contribution rates and determines policies pertaining to the administration of the plans and benefits under its jurisdiction and responsibility.

Trustees shall carry out their functions solely in the interest of the members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties, as required by law. The Trustees shall act in accordance with the provisions of State Statute and with the care, skill, prudence and diligence in light of 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 by diversifying the investments of the System so as to minimize the risk of large losses, unless in light of such circumstances it is clearly prudent not to do so.

All members of the Board of Trustees shall be indemnified and held harmless by the System for any reasonable cost or expenses incurred as a result of any actual or threatened litigation or administrative proceeding arising out of the performance of the Board member's duties in accordance with 40 ILCS 5/1-107. No member of the Board of Trustees may participate in deliberations or vote on any matter before the Board which will, or is likely to, result in direct, measurable gain to the Board member, to the Board member's immediate family members, or to that Board member's employer.

Formal Review Schedule

The Board recognizes that even though the System's investments are subject to short-term volatility, it shall maintain a long-term investment focus. This prevents ad-hoc revisions to the philosophy and policies in reaction to either speculation or short-term market fluctuations. In order to preserve this long-term view, the Board has adopted the following formal review schedule:

Formal Review Agenda Item	**Formal Review Schedule**
Total Fund Performance	At least quarterly
Asset Allocation Policy	At least every three to five years
Investment Policy	At least annually

Investment Committee

The Board establishes an investment committee (the "Committee") that reviews and makes recommendations to the Board on investment actions including, but not limited to, the following investment-related activities:

1. Approval of policies related to the Investment Program and oversight of compliance with the investment policy and the laws of Illinois;
2. Approval of asset allocation policy targets, benchmarks and investment manager structure;
3. Selection and termination of the master trustee/custodian ("Custodian");
4. Selection, termination and funding of external investment managers;
5. Selection and termination of investment consulting relationship(s) and other third party service providers;
6. Review of performance, asset allocation, and risk reports over various time periods.

Executive Director

The Executive Director is appointed by and serves at the pleasure of the Board. Responsibilities delegated by the Board to the Executive Director include, but are not limited to, the following:

1. Planning, organizing, and administering the operations of the System under broad policy guidance and direction from the Board. Examples of such duties include:
    a. Execution of investment management agreements or other contracts with Board-approved investment service providers, with a report provided to the Committee at the next regularly scheduled meeting.
    b. Execution of contract amendments with existing Board-approved investment service providers, with a report provided to the Committee at the next regularly scheduled meeting.
2. Monitoring of the performance of the investment portfolio;
3. Ensuring that funds are invested in accordance with Board policies;
4. Communicating with the Board, its Officers and Committee Chairs;
5. Studying, recommending, and implementing policy and operational procedures that will enhance the investment program of SURS; and
6. Ensuring that proper internal controls are developed to safeguard the assets of the System.

Employees of the System shall be indemnified and held harmless by the System for actions within the scope of their employment, pursuant to 40 ILCS 5/1-107 and 108. This indemnification extends to former employees for actions within the scope of their employment at time of employment.

In fulfilling these investment responsibilities, the Executive Director relies heavily on the internal investment staff and Consultant(s).

Internal Investment Staff
The internal investment staff reports directly to the Chief Investment Officer ("CIO") who in turn reports to the Executive Director. The internal investment staff provides internal investment management and/or consulting services to the Board and Executive Director. In the course of the CIO's normal functions, the CIO will work directly with the Board, Investment Committee and its Chair(s). The frequency and content of reports to the Board are based on the requirements of the Investment Policy Statement as well as directives from the Board and/or its Investment Committee.

The primary functions delegated by the Board to internal investment staff may include, but are not limited to:

1. Reviewing and drafting recommendations to the Investment Policy annually;
2. Analyzing and rebalancing the overall asset allocation of the System and its portfolio structure;
3. Managing cashflow and liquidating assets, as necessary, to pay monthly benefits;
4. Conducting due diligence and providing recommendations in the selection and termination of external investment managers and external investment consultant(s);
5. Implementing the decisions of the Board regarding funding modifications, hiring, and termination of external investment managers;
6. Monitoring compliance with Board-approved policies and guidelines for all investment-related activities and third party service providers;
7. Oversight and monitoring of external investment managers, including, but not limited to, performance evaluation;
8. Approving revisions to investment manager guidelines, with agreement from the external investment consultant and General Counsel required;
9. Preparing performance, asset allocation, and risk reports for the Investment Committee;
10. Managing and monitoring the custodial bank relationship;
11. Consulting with legal counsel regarding investment matters;
12. Serving on advisory boards for fund investments when appropriate and voting on issues as necessary to promote the best interests of the System in a fiduciary manner;
13. Responding to inquiries from various parties concerning the investments of the Fund in accordance with SURS communication policies;
14. Monitoring and reporting to the Investment Committee, as applicable, on programs related to the diversity of the Fund's investment managers and brokers;
15. Completing other administrative duties related to the operation of the investment program, and
16. Serving as a liaison to the investment community.

The SURS Staff has the responsibility to implement the Board decisions through negotiation, execution and enforcement of the investment management agreement and guidelines. All investment management agreements and amendments thereto, with the exception of revisions to investment manager guidelines, must be executed by the Executive Director. In the event that termination of an investment manager is warranted under the Investment Manager Termination Guidelines, and prompt termination of the investment manager is necessary to protect and preserve System assets, SURS Staff may, with the prior approval of the Executive Director, terminate the investment manager prior to Board action. The Board shall be promptly notified of the decision to terminate the investment manager, and the decision shall be presented to the Investment Committee for ratification at its next meeting.

The internal investment staff also works closely with the external investment consultant(s). Recommendations to the Investment Committee will generally be developed jointly by the Staff and Consultant with advice to the Chair. Once an item is identified as a potential agenda item, Staff and Consultant begin working together on the issue. If one group has more expertise in the particular area than the other, that party may take the lead in facilitating work outputs. In most if not all cases, however, any analysis or recommendation that is made to the Committee will be developed jointly and agreed to or approved by both parties.

External Investment Consultant(s)

The Board shall generally have under contract an investment advisor who is a paid, professional consultant ("Consultant") and who is qualified to provide the Board with investment advice by academic and professional training and experience and is considered an expert in the field of investment and finance. The Consultant's relationship with the Board shall be that of a fiduciary under 40 ILCS 5/1-101.2(2).

The Consultant is hired by and reports directly to the Board of Trustees. The Consultant's duty is to work with the Board, Investment Committee and its Chair(s), and Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the Fund's goals, structure, performance and investment managers. In the course of the Consultant's normal functions, the Consultant will work directly with the Staff to formulate and review investment goals, objectives, and policies; review performance of the total fund, asset classes and investment managers; and make recommendations to the Board as appropriate. The Consultant will assist Staff and the Committee with external investment manager selection and will promptly inform the System and discuss the impact of material changes taking place within any current investment manager's organization or investment process. The Consultant may also provide fiduciary education to inform the Board and Staff regarding significant trends in institutional investments and new investment opportunities. In addition, the Consultant will conduct an independent annual review of the Manager Diversity Program. The Board may elect to retain one or more Consultants that specialize in specific areas of asset consulting. An annual review of the Consultant will be conducted by Staff with any performance concerns communicated to the Board, if necessary.

External Investment Managers

The external investment managers ("investment managers") are selected by, and serve at the pleasure of, the Board. The Staff and Consultant will provide the investment managers with explicit written directions detailing their particular Board-approved assignments. Duties of investment managers include, but may not be limited to, the following:

1. The investment managers will select, buy, and sell specific securities or investments within the parameters specified by Staff and Consultant and in adherence to this Investment Policy or to other policies set forth by the Board.
2. The investment managers will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which the Board hired them. Discretion is delegated to the investment managers to carry out these investment actions.
3. Investment managers will provide performance reporting to the Staff at intervals specified by Staff.
4. Investment managers will also, on an annual basis, provide to SURS proof of insurance coverage in an amount and type specified in the investment manager's investment management agreement.
5. Investment managers will, on an annual basis, certify in writing that they remain a fiduciary to the System and that they have been in compliance with the investment guidelines during the past year.
6. The Investment Manager shall utilize investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and total proceeds in every transaction are the most favorable under the circumstances.
7. The investment manager shall comply with all applicable laws and regulations, including those of the State of Illinois and the United States of America, including without limitation, the provisions of Rule 206(4)5 under the Investment Advisers Act of 1940, as amended.

Specific operational information for each investment manager will be addressed at length in the individual investment manager guidelines.

Master Trustee / Custodian

The Master Trustee/Custodian ("Custodian") is selected by, and serves at the pleasure of, the Board. The Custodian(s) will, among other duties, collect income and safekeep all cash and securities, and will regularly summarize these holdings, along with both their individual and collective performance, for Staff's review. The Custodian will provide data and performance reports to the Staff and Consultant at intervals specified by the System's written policy or contract. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash flow prior to allocating it to the investment managers, and to invest such cash in liquid, short-term securities in accordance with investment guidelines. The Board shall determine asset allocation guidelines; in order to maintain these targets, Staff will direct the Custodian to allocate cash and/or securities to the System's investment managers as necessary. The Custodian may also, at the direction of the Board, engage in a Securities Lending program. Alternatively, the Board may choose to retain a third party firm to provide Securities Lending services to SURS.

General Counsel's Office

The role of the General Counsel's office is to oversee all legal services provided in connection with System matters, to perform draft document review and provide legal advice on issues, as necessary, to protect the interests of the System. The General Counsel's Office does not review or approve investment decisions. The General Counsel's Office reviews business terms for proper form and legality. However, General Counsel review does not extend to aspects of business terms that require investment or financial expertise. The following documents and issues will be brought to the attention of the General Counsel's Office:

1. Any document that the Executive Director is requested to sign.
2. New investment management agreements.
3. Contracts with investment service providers.
4. Letter agreements and side letters with any investment manager or investment service provider.
5. Amendments to investment management agreements, including revisions to investment manager guidelines.
6. Amendments to contracts with investment service providers.
7. Amendments to letter agreements and side letters.
8. Any matter that Investment Staff wishes to assign to outside counsel excluding routine matters for which the CIO or other Investment Staff may directly interact with outside counsel.
9. Correspondence to or from any investment manager or investment service provider concerning actual or potential litigation or legal issue.
10. Any material violation by an investment manager or investment service provider of any terms or obligations in a contract with the System that comes to the attention of Investment Staff.

V. Asset Allocation and Rebalancing Strategy

A. Purpose

The purpose of the asset allocation policy is to establish an Investment Policy framework for SURS that has a high likelihood, in the judgment of the Board, of realizing SURS' investment objective.

B. Targets and Ranges

The principal components of the Investment Policy are target allocation percentages for various areas of investment, known as "asset classes", and minimum and maximum percentages for each asset class. The table below contains SURS' current strategic policy target and interim policy target percentages.

ASSET ALLOCATION POLICY MIX (as of 7/01/2015)	*STRATEGIC POLICY TARGET*[1]	*INTERIM POLICY TARGET*
U.S. Equity	*23.0%*	*29.0%*
Non-U.S. Equity	*19.0%*	*19.0%*
Global Equity	*8.0%*	*8.0%*
Total Public Equity	***50.0%***	***56.0%***
Core Fixed Income	*19.0%*	*19.0%*
Emerging Market Debt	*3.0%*	*3.0%*
Treasury Inflation-Protected Securities (TIPS)	*4.0%*	*4.0%*
Total Fixed Income	***26.0%***	***26.0%***
Private Equity	*6.0%*	*6.0%*
Real Estate	*10.0%*	*9.0%*
REITS	*4.0%*	*4.0%*
Direct Real Estate	*6.0%*	*5.0%*
Hedged Strategies	*5.0%*	*0.0%*
Opportunity Fund[2]	*1.0%*	*1.0%*
Commodities	*2.0%*	*2.0%*
Total Alternatives	***24.0%***	***18.0%***
Grand Total	***100.0%***	***100.0%***

The interim policy target may change over time and reflects the necessity of a gradual shift of assets to the strategic policy target due to practical implementation considerations and liquidity constraints. Staff has discretion to gradually adjust the interim policy targets toward the strategic policy targets in coordination with the actual transition of assets.

C. Rebalancing

The Investment Policy of the State Universities Retirement System (SURS) provides an efficient allocation of assets to achieve overall risk and return objectives. Proper implementation of this guideline requires that a periodic adjustment, or rebalancing, of

[1] Policy targets approved at June 13, 2014 Board meeting.

[2] The Opportunity Fund shall be no more than 5% of SURS total market value.

assets be made to ensure conformance with asset allocation targets. Such rebalancing is necessary to reflect sizable cash flows and performance differentials among asset classes and investment managers. Rebalancing shall automatically occur whenever an asset class is three percentage points greater or lesser than the strategic policy target level or when the overall equity and/or fixed income allocation deviates from the aggregate equity and/or fixed income targets by more than five percentage points.

Rebalancing may also occur in the event of a change in the strategic policy target mix by the Trustees. Rebalancing, when required, shall occur as soon as practical and may be facilitated by the use of an investment manager providing cash overlay services, provided the Board has formally approved the retention of such a manager.

In conducting rebalancing activities, the Board expects the Staff to operate under these guidelines:

1. Whenever asset class allocation percentages fall outside the indicated range for that asset class, the Staff shall initiate rebalancing transactions to bring all percentages to values that do not exceed the range limits.[3]
2. At any time and in its discretion, the Staff may bring the actual allocation to, or nearer to, the target percentages.
3. At a minimum, the Staff will ensure that as a result of a rebalancing review, no asset class allocation is outside the allowable range.
4. To the extent that it is possible to bring the actual allocation nearer to the target percentages without incurring transactions costs, or while incurring transaction costs, which in the judgment of the Staff are unusually low, the Staff shall do so.
5. In the event of extraordinary market events that result in (a) the actual allocation being outside the acceptable ranges and (b) market conditions preventing the implementation of rebalancing activities, Staff may request from the Board temporary exceptions to this policy. Rebalancing activity will occur as soon as is prudently feasible.

The spirit of this policy is to ensure compliance with the target asset allocation percentages at a reasonable cost, recognizing that overly precise administration of policy targets can result in transaction costs that are not economically justified. Recognizing the complexity of achieving this result with a portfolio the size and complexity of SURS, as well as the vagaries of transacting in investment markets, the Board accords the Staff discretion to take those actions, which in the judgment of the Staff are within the spirit of these guidelines and in the best interest of SURS. Staff will report the results of rebalancing activity to the Investment Committee at the next regular Investment Committee meeting.

[3] When any one of the public market asset classes hits a trigger point, the entire fund may be rebalanced back to asset class target allocations, with the understanding that it may be impractical to return the real estate and private equity asset classes precisely to target in the short term. Accordingly, qualitative considerations (e.g., transaction costs, liquidity needs, investment time horizons, etc.) will be considered in determining the potential timing and extent of rebalancing real estate and private equity portfolios.

D. Periodic Review

The Board establishes the asset allocation targets and ranges and reviews them periodically. The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the System's long-term goals and objectives. Typically, every three to five years the Board will undertake a comprehensive review of the asset allocation policy designed to assess the continuing appropriateness of Investment Policy. This ordinarily involves an asset-liability study that places the development of Investment Policy into the context of future benefit payments, liabilities, required funding and the prospective funded status of liabilities.

VI. Investment Risk Management Policy

Note: This policy is one component of the broader SURS risk management function.

Risk Oversight

The SURS Mission Statement is to secure and deliver the retirement benefits promised to our members. In an attempt to deliver the desired long-term risk-adjusted investment returns with reasonable volatility levels, an assumption of risk tolerance within the investment portfolio is necessary to assist in meeting stated objectives. The risk monitoring and reporting processes are anticipated to serve as a tool in providing prudent oversight of the Investment Program.

Risk levels within the portfolio will evolve over time for various reasons, including (but not limited to) changes in asset allocation, investment return assumption revisions, correlation between asset classes, and changes in funding levels, and should be reviewed periodically.

Risk Monitoring

Risk will be monitored through various forms of analysis and reporting in an attempt to understand risks within the Fund, and to ensure adequate compensation for the level of risk assumed. Analysis will occur at various levels of detail which include individual manager, asset class and total Fund level analysis.

In addition to relative performance evaluation, an analysis of diversification, benchmark risk, active risk, total risk, value at risk, and other risk measures will be reported. Analysis will be conducted on an ex-post and ex-ante basis to identify and quantify both forward looking and backward looking risk metrics.

Staff will review portfolios, asset classes, and total Fund information on an ongoing basis in order to maintain an understanding of potential risks within the portfolio. Individual manager portfolios or asset classes demonstrating higher than expected levels of risk will be examined in greater detail and any necessary adjustments will be made immediately, or a plan for doing so will be developed. Alternatively, justification for maintaining the exposure will be provided to the Investment Committee.

Reporting

Reports will be assembled and evaluated on a quarterly basis, and provided to the Chief Investment Officer.

Summary reports will be assembled and presented to the SURS Investment Committee and the Board of Trustees on a quarterly basis.

VII. Investment Manager Structure

The Board has adopted target asset allocations and ranges to control and limit the strategic and tactical risks in the portfolio.. To control the active manager style, sector, index and benchmark risks, a structure and specific benchmarks are established for each asset class.

In order to implement these strategies, it is necessary that the Board retain external investment managers. Investment managers will be given specific tactical roles within the overall strategic investment plan. These roles are specifically set forth for each firm as investment manager guidelines, established at the beginning of the relationship with SURS as part of the contract negotiation process. The guidelines provide specific instructions with regard to permissible investments relevant to their role in the SURS portfolio. Staff and Consultant will be responsible for implementation of these strategies, supervision of the investment managers, performance monitoring and reporting. Updates will be provided to the Board (i) as requested by the Board, its Investment Committee or its Chair, and (ii) as deemed necessary by Staff and Consultant.

Public Equity Structure

A. Role
   The public equity portfolio is expected to generate attractive absolute returns in a relatively low cost manner and also expected to generate competitive returns relative to an appropriate performance benchmark. The public equity portfolio may also serve as a source of liquidity.

B. Investment Structure
   1. The public equity allocation consists of a highly diversified mix of publicly traded global equities. Common stocks, preferred stocks, or other equity securities are typically utilized.
   2. The public equity portfolio is composed of U.S., non-U.S. and global equity segments.
      - U.S. equities
         - Investment managers invest primarily in publicly traded equity securities of U.S. companies.
      - Non-U.S. equities
         - Investment managers invest primarily in publicly traded equity securities of non-U.S. companies, in both developed and emerging markets.
      - Global Equities
         - Investment managers make the allocation decisions between U.S. and non-U.S. companies, in both developed and emerging markets.
   3. Diversification
      - The policy targets for the subcomponents of the portfolio are as follows, although actual allocations may vary as a result of relative market performance:

Subcomponent	Policy Target
U.S. Equity	46%
Non-U.S. Equity	38%
Global Equity	16%
Total Equity	100%

- The portfolio is diversified by manager, sector, style, capitalization, and geography.
- Such diversification serves to enhance returns, control risk, and reduce volatility.

4. Assets may be held in commingled funds or privately managed separate accounts.
5. Leverage is not typically allowed in the public equity portfolio, with assets invested in long-only mandates. Use of leverage will be controlled as appropriate in the investment manager's investment guidelines.
6. Manager and fund level concentration limits may be considered on an individual manager basis and will reflect such issues as type of mandate, strength and stability of organization, risk characteristics, etc.
7. Implementation of the public equity portfolio is via a combination of active and passive management. Passive management is generally most prevalent in the U.S. equity portfolio, which is highly efficient, particularly in the large cap segment, but is also employed significantly in the non-U.S. equity portfolio. The global equity portfolio is implemented entirely via active management.

C. Benchmarks

Subcomponent	Benchmark
U.S. Equity	Dow Jones U. S. Total Stock Market Index
Non-U.S. Equity	Morgan Stanley Capital International All Country World Ex-US (net dividends) Index (MSCI ACW Ex-US)
Global Equity	Morgan Stanley Capital International All Country World (net dividends) Index (MSCI All Country World)

Fixed Income Structure

A. Role

The fixed income portfolio is expected to provide significant diversification to the Total Fund due to differences in correlation with other asset types. In addition, the fixed income portfolio is expected to provide capital preservation, a source of liquidity, and competitive returns relative to an appropriate benchmark.

B. Investment Structure

1. The fixed income allocation consists of a highly diversified mix of publicly traded fixed income securities, invested across multiple asset types, including Treasury, agency, corporate and mortgage securities, among others.
    - Quality standards will be specifically set forth in the investment manager's guidelines, if applicable. In the event an issue is downgraded below the minimum credit quality after purchase, the investment manager may continue to hold the security if it believes doing so is in the

best interest of SURS. The investment manager shall provide written justification of the action to SURS as soon as practicable.

2. The fixed income portfolio is composed of Core, Treasury Inflation-Protected Securities (TIPS) and Emerging Market Debt (EMD) segments.
   - Core Fixed Income – This segment is further broken down as follows:
     - Core managers invest primarily in investment grade fixed income issues with sector allocations and risk profiles similar to those of the benchmark index.
     - Core Plus managers are given additional flexibility to add instruments with greater risk and greater potential return, such as high yield, global and emerging market debt, for example, to core investment grade portfolios.
     - Unconstrained managers are less restricted in their ability to allocate between sectors and are not anchored to a traditional fixed income benchmark.
   - TIPS
     - Investment managers invest primarily in inflation-linked fixed income securities in an effort to provide a hedge against unanticipated inflation.
   - EMD
     - Investment managers invest in debt securities of emerging market countries, in both US dollar and local currency terms, providing additional diversification and opportunities for higher yield.
3. Diversification
   - The policy targets for the subcomponents of the portfolio are as follows, although actual allocations may vary as a result of relative market performance:

Subcomponent	Policy Target
Core Fixed Income	73%
TIPS	15%
EMD	12%
Total Fixed Income	100%

   - The portfolio is diversified by manager, sector, and geography.
   - Such diversification serves to enhance returns, control risk, and reduce volatility.
4. Assets may be held in commingled funds or privately managed separate accounts.
5. Leverage is not typically allowed in the fixed income portfolio, with assets invested in long-only mandates. However, short sales are permitted in certain mandates. Use of leverage will be controlled as appropriate in the investment manager's investment guidelines.
6. Manager and fund level concentration limits may be considered on an individual manager basis and will reflect such issues as type of mandate, strength and stability of organization, risk characteristics, etc.
7. Implementation of the fixed income portfolio is primarily via active management although passive management is utilized to a modest extent in the core segment for liquidity purposes. The TIPS and EMD segments are implemented entirely via active management.

C. Benchmarks

Subcomponent	Benchmark
Core Fixed Income	Barclays Capital Aggregate Index
TIPS	Barclays Capital U.S. TIPS Index
EMD	A blend of the following: 50% - JP Morgan Government Bond Index – Emerging Markets Global Diversified 25% - JP Morgan Emerging Markets Bond Index - Global Diversified 25% - JP Morgan Corporate Emerging Markets Bond Index – Broad

Private Equity Structure

A. Role

The private equity portfolio is expected to earn risk-adjusted returns in excess of the public equity markets. The private equity portfolio is also expected to decrease the volatility of the System's assets through the diversification benefits of having lower correlations with other asset classes.

B. Investment Structure

1. The private equity allocation generally consists of investments into private companies, either directly or through buyouts of public companies that result in a delisting of public equity.

2. The private equity portfolio is composed of three major subcomponents.
   - Venture Capital/Growth
     - Venture capital partnerships primarily invest in businesses still in the conceptual stage (start-up or seed) or where products may not be fully developed, and where revenues and/or profits may be several years away.
     - Growth/later-stage venture capital partnerships typically invest in more mature companies in need of growth or expansion capital.
   - Buyout
     - These partnerships provide the equity capital for acquisition transactions either from a private seller or the public, which may represent the purchase of an entire company, or a refinancing or recapitalization transaction where equity is purchased.
   - Other
     - Mezzanine/subordinated debt partnerships provide the intermediate capital between equity and senior debt in a buyout or refinancing transaction.
     - Restructuring/distressed debt partnerships typically make new investments in financially or operationally troubled companies, often for a control position, with a view to improving the balance sheet and operations for a subsequent sale.
     - Special situations partnerships include organizations with a specific industry focus or transaction type not covered by the other subclasses mentioned above, or unique opportunities that fall outside such subclasses.

3. Diversification
   - The private equity portfolio shall be diversified by time, subclass, and geography.
   - Such diversification serves to enhance returns, control risk, and reduce volatility.
4. Within the portfolio, the account structure is typically in funds. SURS commonly participates through fund of funds structures, which provide further manager diversification and the opportunity for co-investment and secondary fund opportunities.
5. Leverage may be present in private equity investments, most commonly in buyout partnerships. Levels are generally determined on a fund-level basis.
6. Manager and fund level concentration limits may be considered on an individual manager basis and will reflect such issues as type of mandate, strength and stability of organization, risk characteristics, etc.
7. Implementation of the private equity portfolio is via active management.

C. Benchmarks

	Benchmark
Private Equity	Dow Jones U.S. Total Stock Market Index plus 3%. Other performance comparisons may be used as secondary benchmarks such as peer group comparison, return multiple or public market equivalent comparisons.

Real Estate Structure

A. Role

The real estate portfolio is expected to generate attractive risk-adjusted returns through stable income and the opportunity for strong appreciation while providing diversification to the overall fund.

B. Investment Structure

1. The real estate allocation consists of highly liquid, publicly traded real estate investment trust securities (REITS) and direct real estate.
2. The direct real estate portfolio is composed of Core and Non-Core segments.
   - Core Real Estate
     - Core managers typically invest in properties that are well located and well leased with strong quality tenants. Core investments provide stable income with lower volatility.
   - Non-Core Real Estate
     - Non-core managers provide opportunities for higher returns by investing in assets in need of re-tenanting, re-development, or renovation, or are otherwise in some form of distress.
3. Diversification
   - The non-core direct real estate portfolio is in the process of being funded. The policy targets for the subcomponents of the portfolio are as follows, although actual allocations may vary until full funding takes place and as a result of relative market performance:

Subcomponent	Policy Target
REITS	40%
Core Real Estate	36%
Non-Core Real Estate	24%
Total Real Estate	100%

- Such diversification serves to enhance returns, control risk, and reduce volatility.

4. The REIT portfolios may be held in commingled funds or privately managed separate accounts. The account structure for direct real estate is typically either open-end or closed-end funds. SURS may also participate through fund of funds structures, which provide further manager diversification and the opportunity for co-investment and secondary fund opportunities.
5. Leverage is an inherent component of real estate investing and levels are generally determined on a fund-level basis.
6. Manager and fund level concentration limits may be considered on an individual manager basis and will reflect such issues as type of mandate, strength and stability of organization, risk characteristics, etc.
7. Implementation of the REIT portfolio is via a combination of active and passive management. The direct real estate portfolio is implemented via active management.

C. Benchmarks

Subcomponent	Benchmark
U.S. REITS	Dow Jones U. S. Select Real Estate Securities Index
Global REITS	FTSE EPRA/NAREIT Developed Index
Core Real Estate	NCREIF ODCE Index
Non-Core Real Estate	NCREIF ODCE Index + 1.5%

Opportunity Fund

A. Role
The opportunity fund portfolio is designed to allow flexibility for opportunistic investment in market segments not historically utilized by SURS. Investments in the Opportunity Fund may be a one-time occurrence, such as investments capitalizing on a market dislocation, or successful investments may ultimately be transitioned into the larger SURS portfolio as a permanent allocation.

B. Investment Structure – The structure of the Opportunity Fund is not fixed and may vary considerably over time. The Opportunity Fund shall be no more than 5% of the Total Fund value.

C. Benchmark

Subcomponent	Benchmark
Opportunity Fund	Weighted Average of the Underlying Investment Benchmarks

Hedged Strategies

A. Role
The hedged strategies portfolio is expected to provide downside protection and risk mitigation to the overall SURS portfolio through the diversification benefits of having lower correlations with other asset classes.

B. Investment Structure – A 5% policy allocation to hedged strategies has been approved. SURS is currently in the early stages of initial implementation, with development of the portfolio structure for the hedged strategies allocation currently underway.

C. Benchmark

Subcomponent	Benchmark
Hedged Strategies	To Be Determined

Commodities

A. Role
The commodities portfolio is expected to provide some degree of protection against the risks associated with inflation. In addition, the commodities portfolio is expected to enhance the diversification of the total investment portfolio and provide a source of liquidity to the Fund when other asset class portfolios are experiencing lower returns due to unanticipated inflation.

B. Investment Structure – A 2% policy allocation to commodities has been approved. Commodities exposure is currently being implemented passively via the cash overlay program. A search for active commodities managers and the development of the portfolio structure for the commodities allocation are currently underway.

C. Benchmark

Subcomponent	Benchmark
Commodities	Bloomberg Commodity Index

VIII. Selection and Retention

Introduction

The Trustees of the State Universities Retirement System ("SURS") have established the following guidelines for hiring consultants and investment managers. In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of plan participants and beneficiaries.

A. Consultant Selection and Retention

A Consultant is any person or entity retained or employed by the SURS Board to make recommendations in developing an investment strategy, assist with finding appropriate investment managers, or monitor SURS investments. A Consultant, as defined in this section, does not include non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy voting services, services used to track compliance with legal standards, and investment fund of funds where the Board has no direct contractual relationship with the investment managers or partnerships.

The search process for a Consultant shall be a competitive proposal process and shall generally follow the guidelines listed below:

- Advertisements for the search process shall be placed in the State newspaper and in one or more industry periodicals at least 14 days before the response to the offer is due.
- Uniform documents shall be used for the solicitation, review, and acceptance of investment services and will be posted on the SURS web site. Documents may differ based on the specific search mandate.
- All interested respondents shall return their responses to SURS investment staff, which shall open and record them, providing a list of all respondents to the Investment Committee.
- Following review and evaluation of the responses from interested firms, the field of candidates is narrowed to a smaller list of the most highly qualified firms.
- At this point, representatives from SURS meet with representatives of each firm to obtain an independent assessment of the firm's capabilities.
- Following the interview with the selected firm(s), SURS Staff recommends to the Board one or more Consultants for engagement. Generally, the finalists appear before the Board to present their firms' qualifications.
- In accordance with 40 ILCS 5/1-113.21, candidates are required to make certain disclosures regarding the diversity of their staff and vendors of investment, consulting, and professional and artistic services. These disclosures shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract,

oral or written, for investment services, consulting services, or commitment to a private market fund.

- The Board accepts or modifies the recommendation and makes the final decision with respect to the engagement, if satisfied with the firm's capabilities.
- Contracts are then completed with the selected firm(s). SURS shall not enter into a contract with a Consultant that exceeds 5 years in duration. No contract to provide consulting services may be renewed or extended. At the end of the term of a contract, however, the Consultant is eligible to compete for a new contract as provided in this section.
- SURS shall post the name(s) of the successful respondent(s) on the SURS web site, along with a disclosure including the total amount applicable to the contract, the total fees paid or to be paid, and a description of the factors that contributed to the selection of the Consultant.

Exceptions to this competitive proposal process are allowed for (i) sole source procurements, (ii) emergency procurements, and (iii) at the discretion of the SURS Board, contracts that are nonrenewable and one year or less in duration, so long as the contract has a value of less than $20,000. All exceptions granted under this section must be published on the SURS web site, shall name the person authorizing the procurement, and shall include a brief explanation of the reason for the exception.

B. Investment Manager Selection

Investment managers will be selected pursuant to the search process discussed below to fill investment needs when such needs are identified by the Staff, Consultant, or Board of Trustees.

Generally, for each investment manager search, a written recommendation to initiate a search process shall be prepared by Staff, reviewed by the Consultant, and approved by the Board of Trustees prior to its commencement. For searches affiliated with the SURS Manager Diversity Program (MDP), the investment Staff conducts the search process with the Consultant providing an independent evaluation of the program annually. The criteria used to determine the minimum qualifications of firms to be selected for an assignment are shown below:

Selection Criteria
1. Registration with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, or otherwise qualified under the Illinois Pension Code.
2. Experience of the firm in the management of institutional portfolios operated under prudent person standards, as well as related investment management experience.
3. Qualifications and/or depth of the professional Staff.

4. Soundness of the firm's investment philosophy and process.
5. The investment record of the firm and/or the firm's principals in former associations where that record is verifiable.
6. The adequacy of the firm's trading, back office, accounting and reporting, and client servicing capabilities.
7. Fees.

Using the above criteria established by the Board of Trustees, the top firms are selected using a competitive proposal process based upon the experience and qualifications of the firm's principals, the soundness of the firm's investment philosophy and process, as well as the strength of the investment record and organization.

For investment managers covered by 40 ILCS 5/113.14(b), the search process for investment manager(s) shall be conducted in a substantially similar manner to that of the Consultant search process, discussed in Section VIII(A), entitled "Consultant Selection and Retention," except that the Consultant may assist SURS staff in the search process. It is important to note that SURS does not use any criteria that would be considered a barrier to an emerging investment manager such as a minimum number of years in business or a minimum asset level under management. As a part of the selection process, SURS utilizes databases to ensure that qualified emerging investment managers are included in the pool of eligible candidates. If an emerging investment manager meets the criteria established for a specific search, then that emerging investment manager shall receive an invitation by the Board or Investment Committee to present his or her firm for final consideration of a contract. In the case where multiple emerging investment managers meet the criteria of the search, the internal investment staff may choose the most qualified firm(s) to present to the Board or Investment Committee. However, 40 ILCS 5/113 specifically excludes from the search process requirements qualified fund of funds management services[4] and investments by SURS in follow on funds to closed-end funds in which SURS has invested. Additional funding can be awarded to existing investment managers with the approval of the Board.

In accordance with 40 ILCS 5/1-113.21, candidates are required to make certain disclosures regarding the diversity of their staff and vendors of investment, consulting, and professional and artistic services. The disclosures shall be considered, within the bounds of financial and fiduciary prudence, prior to the awarding of a contract, oral or written, for investment services, consulting services, or commitment to a private market fund. Upon approval by the Board for the hiring of an investment manager, an investment management agreement and other related documents shall be executed prior to funding the account. All investment management agreements will be in compliance with the relevant section(s) of the Illinois Compiled Statutes, and the five year limitation on the duration of a contract does not apply.

[4] Per 40 ILCS 5/113.15, "qualified fund-of-fund management services" means either (i) the services of an investment adviser acting in its capacity as an investment manager of a fund-of-funds or (ii) an investment adviser acting in its capacity as an investment manager of a separate account that is invested on a side-by-side basis in a substantially identical manner to a fund-of-funds, in each case pursuant to qualified written agreements.

C. Quiet Period Policy

Purpose

The Quiet Period Policy is intended to establish guidelines by which Board Members and Staff will communicate with prospective service providers during the search process.

Policy Objectives

The objectives of the policy are to ensure that:

- Prospective service providers competing to become employed by SURS have equal access to information regarding the search parameters;
- Communications related to the selection are consistent and accurate; and
- The process of selecting service providers is efficient, diligent, and fair.

Policy Guidelines

The following guidelines will be instituted during a search process for a service provider:

- A quiet period will commence upon Committee action (or Board action if the selection is not initiated through a Committee) to authorize a search for a service provider and end once a selection has been made by the Board and accepted by the service provider;
- Initiation, continuation and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations;
- All Board members, and Staff not directly involved in the search process, shall refrain from communicating with potential service providers regarding any product or service related to the search offered by the provider throughout the quiet period and shall refrain from accepting meals, travel, hotel, or other value from the providers;
- Throughout the quiet period, if any Board member is contacted by a potential service provider, the Board member shall refer the provider to the SURS Staff directly involved in the search process;
- All authority related to the search process shall be exercised solely by the relevant Committee or Board as a whole, and not by individual Board Members;
- All information related to the search process shall be communicated by the SURS Consultant and Staff to the relevant Committee or Board as a whole, and not to individual Board Members;
- The quiet period does not prevent Board approved due diligence, client conference attendance or communications with an existing service provider that happens to be a provider in the ordinary course of services provided by such service provider; however, discussions related to the pending selection shall be avoided during those activities;
- The provisions of this policy will apply to potential service providers throughout the quiet period and shall be communicated to providers in conjunction with any competitive proposal process; and
- A potential service provider may be disqualified from a search process for a violation of this policy.

D. Investment Manager and Fund Monitoring

Investment Manager Evaluation

An evaluation of each investment manager shall be conducted annually. The evaluation will include input from both the Consultant and Staff and will take into consideration, at a minimum, the firm's organization and performance relative to an agreed upon benchmark as indicated in the individual investment manager's guidelines. If the Staff or Consultant have significant concerns about an investment manager, the Staff or Consultant will communicate to the Investment Committee, and the investment manager may be, in extreme cases, recommended for immediate termination. Recommendations for changes in funding for an investment manager, outside the rebalancing process, may be brought to the Board for consideration, if appropriate.

Generally, reasons for termination may include: changes in investment style and discipline, changes in the firm (personnel, structure, or organizational form) which may detract from future performance, changes in the total fund's investment guidelines that eliminate the need for the investment manager, repeated violations of established investment guidelines, or a loss of confidence that the firm will add value or as evidenced by failure to perform historically above their relative benchmark over a period of 3 to 5 years or a complete market cycle. A complete discussion of the termination process is found in Section X (Investment Manager Termination Guidelines).

After an investment manager is selected, the Staff and Consultant will regularly monitor the investment manager's results versus expectations. The System's Staff and Consultant will conduct periodic due diligence meetings with the outside organizations and will incorporate pertinent information from such meetings into the periodic assessment of each firm. The Staff and Consultant will provide the Investment Committee with reports summarizing the assessments made. In addition, the Staff and Consultant are responsible for reporting to the Investment Committee on any material events regarding an investment manager, along with any recommendation for action to be taken.

Fund Evaluation

Limited partnership interests in closed end private funds and investments in private markets separate accounts (i.e., private equity, real estate, infrastructure, etc.) will be reviewed by Staff annually. If SURS has significant concerns about a fund or account, a complete legal review of the exit options will be conducted. Recommendations for follow on investments or investments in subsequent funds may be brought to the Board for consideration, if appropriate.

Performance Analysis

Regarding performance, the primary measurement will be the investment manager's returns (net of fees) versus the relevant and agreed upon benchmark. Failure of an investment manager to generate excess returns in a short period of time does not require that the contract with the firm be terminated. However, the firm's returns must be within an acceptable range. A secondary performance measure is the investment manager's return versus the return of a universe of investment manager returns whose styles are similar. Again, the investment manager's returns must be within an acceptable range.

Style Analysis

Regarding conformance to style, the quarterly performance measurement will analyze the portfolios of the active U.S. equity investment managers as well as the aggregate U.S. equity portfolio and identify any significant deviations from the individual investment managers' style benchmarks and the Dow Jones U.S. Total Stock Market Index in the case of the aggregate. Significant deviations may lead to the adjustments in asset allocations or to the replacement of an investment manager whose portfolio deviates significantly from the benchmark.

Investment Manager Transitions

In the event of the need to transfer the management of the assets from one investment firm to another, Staff will effect the change in as efficient and prudent a manner as possible. The use of transition manager(s), which could include the use of a cash overlay manager, is permitted when deemed in the best interests of the System. Transition plans may include, but are not limited to, the following: a transfer of securities to an appropriate index fund, crossing securities with other institutional investors, or a transfer of securities to another approved investment manager.

Contingent and Placement Fees

Contingent and placement fees are prohibited per statute.

IX. Investment Manager Termination Guidelines

Introduction

From time to time it will be necessary for the System to terminate a contractual relationship with an investment manager and these actions must be viewed in the context of a fiduciary decision. Due to the sensitivity of this issue, the Board has established the following guidelines to assist in making these termination decisions. In establishing these guidelines, it is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of plan participants and beneficiaries and consistent with other legal requirements.

Clearly Defined Objectives

Any action to terminate an investment manager should be based on one or more of the following primary criteria:

- significant changes in firm ownership and/or structure,
- loss of one or more key personnel and/or insufficient staffing,
- significant loss of clients and/or assets under management for the firm or specific strategy in which SURS is invested,
- failure to grow assets in the strategy,
- shifts in the firm's philosophy or process,
- significant and persistent lack of responsiveness to client requests,
- changes in SURS' investment strategy eliminating the need for a particular style or strategy,
- chronic violations of SURS' Investment Policy or Parameters,
- unsatisfactory investment performance,
- identification of a new asset class or approach which has been approved in advance by the Board,
- a need for diversification of styles within an existing asset class, or
- failure to satisfy legal requirements.

Prior to the termination decision, the primary and other relevant considerations shall be identified and described. An evaluation covering the quantitative and qualitative issues to be considered will be developed for each case and the relative importance of each evaluation area will be determined. Documentation regarding any such action should include, but is not limited to, the following items:

- a full description of the reason for the action, including the specific elements serving as the basis for the evaluation and identification of the relevant issues from the System's perspective,
- the assumptions made in the evaluation, if any, and
- the results considered and/or qualitative issues upon which the action was based.

Consideration will also be given to the risks, costs, and expected benefits if appropriate to the subject matter.

Proper Documentation and Full Disclosure

When reviewing the documentation regarding the termination of an external investment service provider, the primary focus of the Investment Committee shall be on ensuring that the Board will be able to satisfy any interested party that decisions were well reasoned, thoroughly considered, and prudent. Toward this end, the Chair and Committee members will review the written supporting documentation to ensure disclosure of all relevant issues. In evaluating a termination decision, Staff, Consultant and the Committee should review documentation to ensure that the evaluation process was fair and consistently applied. Candidates for termination may, at the pleasure of the Committee or upon the recommendation of Staff and Consultant, be asked to make a formal presentation to the Staff and/or Committee prior to a termination decision, but any such meeting shall not be permitted to delay any action the Board deems appropriate.

X. Performance Measurement and Reporting

Performance Measurement

Marketable Equity, Fixed Income and Real Estate Portfolios
Time weighted returns, on a net-of-fees basis, will be calculated monthly by the Custodian to measure the performance of the fund and investment managers in comparison with the fund objectives, appropriate peer groups of investment managers, and performance benchmarks.

The results of the total fund, individual asset classes and investment managers are reported to the Board members on a monthly basis.

Private Markets Portfolios
For private equity, direct real estate, and infrastructure portfolios, internal rates of return will be calculated quarterly by the Custodian. These returns will be used to measure performance of the portfolios in comparison with the objectives of the fund and appropriate peer groups. Returns are reported quarterly in arrears.

Performance Reporting

Monthly, the total fund return shall be compared with the market goal and public fund universe for the current month; quarter; fiscal year; and rolling 1, 3, 5 and 10-year periods. The Market Goal is a passive representation of the specific asset allocation strategy pursued (as defined by the interim policy target) and is the most objective performance evaluation metric to evaluate the performance of the SURS Total Fund. The return of the Market Goal is a weighted average calculation, multiplying each asset class' interim policy target weighting times the return of the asset class benchmark, as defined in Section VII (Investment Manager Structure). Each individual asset class and investment manager shall have their returns compared to relevant benchmark returns for the current month; quarter; fiscal year; and rolling 1, 3, 5 and 10-year periods.

Quarterly, a detailed performance report will be prepared by the Consultant retained by the Board. The report will include information on the total fund, individual asset classes and investment managers. The report will be distributed to the Board of Trustees.

Annually, SURS Investment Staff in conjunction with the Consultant will prepare and present a comprehensive review of the fiscal year results at the September Investment Committee Meeting.

Market Values

All investment values shall be revised not less frequently than quarterly to reflect the values at which they could be sold. The fact that they may not be up for sale currently does not affect the continuing need for market value revisions.

A description follows of the process for accomplishing this for each category of investments.

Marketable Securities (Publicly traded)

These constitute stocks, bonds, warrants, futures, options, etc. traded on the public exchanges. The SURS custodial bank, which has access to prices for these securities, establishes their market value.

Non-Marketable Traded Securities (Private Markets, Infrastructure and Real Estate)

The investment manager has the responsibility for estimating and publishing the market value of these investments. The valuation and appraisal methods used should be consistent with current CFA Institute and industry standards.

XI. Safeguard of Assets

- Qualification of Service Providers

  Any firm which SURS retains to manage, control or have custody of assets shall be qualified by thorough due diligence. Appropriate agreements with the firms and trust agreements shall minimize any risk of loss of assets or income.

- Asset Limits

  There are cost and service advantages in firms managing or having custody of large pools of assets so that in the absence of any statutory provision(s) to the contrary, there shall be no specific limit on the size of assets controlled or held in custody by any one firm within the asset allocation guidelines. However, limits may be considered on an individual manager basis and will reflect such issues as type of mandate, strength and stability of organization, risk characteristics, etc.

- Monitoring of Service Providers

  There shall be continuous monitoring of firms which manage or have custody of assets to assure the firms continue to be stable and financially secure. Instability of any firm or financial weakness shall be reason to transfer custody and/or management of assets from the firm.

- Authorization to Transfer Funds

  Transfer of funds between accounts must be evidenced in writing or conducted electronically by an authorized Staff Member and be in compliance with the Custodial bank's procedures. The following positions have been designated by the Board to have the authority to give direction to the Custodian on any and all actions with respect to the Master Trustee relationship between the Board and the Custodian: Executive Director, Chief Investment Officer, and Deputy Chief Investment Officer. The Senior Investment Officers have been designated by the Board to have the limited authority to only approve payments initiated through the Trade Order Entry system related to initial or subsequent investments in limited partnerships, real estate, infrastructure, or other investments approved by the Board.

- Insurance Requirements

  All investment managers shall be required to secure and maintain throughout the term of the investment management relationship with SURS insurance that satisfies the requirements set forth below and that is provided by insurer(s) rated A- or better by A.M. Best & Company. Specific insurance requirements are set forth in each manager's Investment Management Agreement. Each investment manager shall be required to provide to the Board: (i) evidence of the requisite insurance policies upon initiation of the contract, (ii) an annual certification that the insurance requirements continue to be satisfied, and (iii) evidence of continued satisfaction of the insurance requirements upon request. With the exception of the Manager Diversity Program, the minimum insurance required for each investment manager shall include: (i) a bond protecting SURS assets that meets the requirements of and that is in the amount specified under ERISA and the regulations thereunder; and (ii) errors and omissions coverage in an amount equal to the greater of: a) $5 million or, b) 5% of the SURS assets under management, up to a maximum as established in the investment management agreement, but not to exceed $50 million. For investment managers in the Manager Diversity Program, the minimum insurance required for each investment manager shall include: (i) a bond protecting SURS assets that meets the requirements of and that is in the amount specified under ERISA and the regulations thereunder; and (ii) errors and omissions coverage in an amount not less than $1 million of coverage. The insurance shall protect SURS against losses from the negligent acts, errors or omissions of the investment manager.

- Custodial Credit Risk

  Pursuant to the 40 ILCS 5/15-166, the Board of Trustees has statutory authority to be the custodian of all cash and securities belonging to the System created under Article 15 of the Pension Code. Pursuant to 40 ILCS 5/15-167, the Board may deposit SURS trust funds with one or more banks, savings and loan associations, or trust companies. This policy addresses how SURS will handle custodial credit risk.

  Credit risk is the risk that an issuer or other counter-party to an investment transaction will not fulfill its obligations. Custodial credit risk is the risk that, in the event of the failure of a financial institution or counter-party to a transaction, SURS would not be able to recover the value of deposits or investments in the possession of an outside party. To minimize this risk, SURS takes the following measures:

  1. Performs due diligence for custody financial institutions and advisors with which SURS will do business and appropriately documents business relationships with these service providers.
  2. Provides investment parameters for the investment vehicles detailed in the specific investment management agreements.
  3. Monitors the financial condition of the custodian. If there is cause for concern, the Board of Trustees will determine appropriate action.
  4. Endeavors to have all investments held in custodial accounts through an agent, in the name of custodian's nominee[5], or in a corporate depository or federal book-entry system. For those deposits or investment assets held outside of the custodian, SURS will follow applicable regulatory rules.
  5. Requires the custodian to meet the following requirements:
     - The custodian or its subcustodians will provide safekeeping of all SURS securities in segregated accounts that reflect the holdings of SURS; the custodian will not commingle SURS securities with the custodian's own securities.
     - Monthly reports will be provided/made available by the custodian.

[5] Registered owner of a stock or bond if different from the beneficial owner, who acts as holder of record for securities and other assets. Nominee ownership simplifies the registration and transfer of securities.

XII. General Investment Restrictions and/or Guidelines

- Investment Authorization

No investment or action pursuant to an investment may be taken unless permitted by this Policy or the investment manager's guidelines. Exceptions may be made subject to prior review by and express written authorization from the Investment Staff and Consultant. In the event that any material exception is discovered which has not been specifically authorized, the Staff will immediately provide to the Board a detailed explanation of the exception and action being taken to remedy the situation.

- Mini-Tenders

This guideline applies to all investment managers of SURS. It should be considered as an integral part of the investment guidelines applicable to the investment manager.

This guideline applies to tender offers that are exempt from registration requirements imposed by the U.S. Securities and Exchange Commission (such tender offers are generally known as "mini-tenders"; currently where the total amount of the tender offer is limited to five percent (5%) or less of the outstanding shares of the issuer).

Investment managers may tender shares owned by SURS only upon the following terms and conditions:

1. Either the securities involved in the tender are publicly traded, and the issuer of the shares and the entity making the tender offer are the same, OR

2. The investment manager provides three (3) days' advance written notice to SURS that it is going to tender shares pursuant to a mini-tender offer.[6]

3. Each notice must be in writing and must include the following information:

    a. The identity of the offeror and what due diligence has been performed by the investment manager to satisfy itself as to the creditworthiness of the offeror.

[6]The sole purpose of the notice requirement is for the investment manager to confirm that it has conducted due diligence adequate to protect the SURS assets involved in the mini-tender, and SURS does not assume responsibility for such due diligence or for the investment decision. The investment manager shall retain full fiduciary responsibility for the investment decision, including a determination that a decision to tender SURS' securities under the terms and circumstances involved in the mini-tender is prudent, is protective of SURS' assets, and is otherwise in accordance with the investment manager's fiduciary duties to SURS, which determinations may involve due diligence and consideration of factors beyond those outlined in this section 3, in the investment manager's sole discretion.

b. The identity of the transfer or receiving agent, whether or not the transfer or receiving agent is affiliated with the offeror, and what due diligence has been performed by the investment manager to satisfy itself as to the creditworthiness of the transfer agent.

c. The expiration date of the offer, the deadline for settlement of the tender, and whether the terms of the tender offer permit the offeree to revoke the tender if payment is not received by the settlement deadline.

d. Whether securities tendered on behalf of SURS will be maintained in trust or escrow pending receipt of payment for the securities, or the other protections that will be in place to ensure the safekeeping of SURS' securities pending receipt of payment.

XIII. Corporate Governance

A. Proxy Voting Guidelines

1) Domestic Shares

A proxy voting service, pursuant to a contract with SURS, will vote the proxies of domestic shares according to the proxy voting service's proxy voting guidelines, as customized for SURS and approved by the SURS Board. All proxy votes not specifically addressed by the proxy voting service's approved proxy voting guidelines will be voted consistently with the Council of Institutional Investors' Corporate Governance Policy. Proxy votes not addressed by either of the above standards will be voted for the exclusive benefit of System participants and beneficiaries, generally in favor of enhancing shareholders' long-term value. The proxy voting service shall provide to SURS regular reports of proxy voting activity, pursuant to the terms of a contract with SURS.

2) Non-Domestic Shares

Investment managers shall vote the proxies of non-domestic shares under their discretion and report the results of those votes not less than annually. Proxies shall be voted for the exclusive benefit of System participants and beneficiaries. In general, proxies should be voted in favor of enhancing shareholders' long-term value.

As a general rule, votes that fall within the context of Routine and Non-Routine Matters should be made in accordance with the following guidelines:

- <u>Routine Matters</u>: Routine proxy proposals may be voted in support of company proposals unless doing so would be contrary to the interests of the shareholders. Routine matters include the following, unless a proxy contest is being waged with respect to such matter, in which case it becomes Non-Routine:
    - Election of directors;
    - Selection of auditors;
    - Corporate name change;
    - Amendment of Articles of Incorporation that are required to comply with federal or state regulation; and
    - Change in the date, time or location of annual meeting.

- <u>Non-Routine Matters</u>: Non-Routine proposals should be carefully analyzed and considered on a case-by-case basis. Non-Routine proposals that do not eliminate the rights of shareholders, unreasonably dilute or impair the status of securities held, or impair ownership status of the securities may be voted with management. Non-Routine proposals that would or might impair the economic interests of shareholders should be voted against management.

- Reporting: Investment managers shall report the results of their votes at least annually. The report shall contain at a minimum the name of the corporation, a brief description of the proposal, the vote cast, and whether the vote cast was with or against management.

B. Securities Litigation Policy

1) Identification Of Potential Claims

a) In order to weigh the costs and benefits of the various alternatives as specified below, SURS Staff will identify potential claims by determining if it bought or sold the securities of a company during applicable periods.

b) SURS Staff will regularly match the SURS portfolios against reports of securities litigation cases obtained from Consultants, law firms engaged for securities litigation, and from other sources deemed reliable by Staff.

c) If SURS did not buy or sell securities of a company during the applicable period, the inquiry will end. If SURS had purchases or sales during the period, evaluation of the potential claim will proceed as specified below.

2) Evaluation Of Potential Claims

a) If SURS bought or sold securities during an applicable period, evaluation of the alternatives available will begin with an initial assessment of the size of the potential claim.

b) When potential losses are deemed insignificant, further action will ordinarily be limited to monitoring as specified in Part 3 below to ensure that class member claims are filed if and when there is a right to do so, unless there are extenuating circumstances that warrant further consideration by Staff and the Board.

c) When potential losses are deemed significant, the alternative courses of action available shall be identified by the Staff. Alternatives will likely include several different courses of action, such as:

i) Monitoring the course of a class action suit and filing a claim at the end to participate in a class payment.
ii) After consultation with the Illinois Attorney General's office, monitoring the course of a class action suit, but objecting to a proposed settlement if there are reasons to object.
iii) After consultation with the Illinois Attorney General's office, seeking to control a class action by seeking designation as lead plaintiff, either singly or with others.

iv) After consultation with the Illinois Attorney General's office, opting out of a class action suit and filing a separate suit, either singly or with others.

d) The relative merits of each alternative will be weighed and considered by Staff, as well as by the Illinois Attorney General's Office.

e) Staff and the Illinois Attorney General's office will make a recommendation to the Executive Committee of any course of action beyond participating in the litigation as a passive member of the class. The Executive Committee will have the authority to approve any course of action beyond monitoring the case. If the Executive Committee approves active participation in the litigation, additional authorization is not necessary to align with other potential plaintiffs in application for named plaintiff status if such an action is agreed appropriate by the SURS General Counsel and the SURS Executive Director. In such instances, the Attorney General will be asked to represent SURS in such action.

3) **Monitoring**

a) The Staff will utilize the services of the system's custodian, as well as the services of any consultants, including Securities Litigation counsel, with expertise in this area chosen by Staff, to monitor pending cases which involve securities that SURS bought and sold during the relevant periods to evaluate any settlements proposed and to file claims as necessary for SURS to participate in distributions of funds. To the extent that Staff finds a proposed settlement inadequate to protect the interests of the System, the Executive Committee may authorize action to file legal objections. Authorization is not necessary for staff to file an objection to attorneys' fees or expenses if an objection is agreed appropriate by the SURS General Counsel and the SURS Executive Director after consultation with the Illinois Attorney General.

4) **Legal Action**

a) Where the Executive Committee has determined under Part 2 that the interests of the System will be best served by seeking designation as lead plaintiff or by opting out of a class action, the Illinois Attorney General, acting as legal counsel to the System, will choose appropriate counsel and will negotiate a fee agreement, if necessary. If the Executive Committee determines that appropriate counsel is a firm not on the approved list, the recommendation of such firm shall be made to, and approved by, the Executive Committee.

b) Where the Executive Committee and the Attorney General disagree as to the desirability of seeking designation as lead plaintiff or opting out of a class action, the Executive Committee shall act in accordance with its fiduciary obligations in making a final determination.

c) Any legal action authorized or taken shall be reported to the Board of Trustees, who shall also be provided periodic updates on the status of such actions.

5) **Approved Law Firms**

a) SURS Staff will interview and select, through a competitive proposal process, a roster of no more than three qualified securities litigation firms. This roster will constitute SURS' "approved list."

b) In cases where the initiation of litigation is a formality designed to provide support for another institutional investor, SURS Staff may recommend that the most sensible and cost-effective source of legal representation will be the SURS General Counsel or the legal counsel representing the institutional investor that SURS wishes to support.

XIV. Emerging Investment Managers and Broker/Dealers

The State Universities Retirement System of Illinois (SURS) is committed to providing opportunities for emerging investment managers and broker/dealers. SURS has taken and is continuing to take important and appropriate actions to provide increased opportunities for emerging investment managers, as well as minority-, female-, and persons with a disability-owned (MFDB) investment managers that have advanced beyond the statutory definition of emerging investment managers.[7] This program has been and will continue to be important to the SURS Board of Trustees and has received the highest priority. In determining the status of a business enterprise, SURS will use the definitions found in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act, 30 ILCS 575/2(A), (B).

The Illinois Pension Code, in 40 ILCS 5/1-109.1, encourages the trustees of the System to use emerging investment managers in managing the System's assets to the greatest extent feasible within the bounds of financial and fiduciary prudence, and to take affirmative steps to remove any barriers to the full participation of emerging investment managers in investment opportunities afforded by the System. Furthermore, in accordance with the Illinois Pension Code, SURS encourages its investment managers to use emerging investment managers as subcontractors when the opportunity arises.

A. Goals for Utilization of Minority-, Female-, and Persons with a Disability-Owned (MFDB) Investment Management Firms

It is the goal of the Board that, subject to its fiduciary responsibility, 20% of total assets be managed by emerging investment managers and MFDB investment managers. Further, an additional goal, subject to fiduciary responsibility, is that 25% of total actively managed investment assets be managed by emerging investment managers and MFDB investment managers. This goal shall be reviewed annually. SURS strives, on an ongoing basis, to improve and increase its relationships with and use of MFDB managers and broker/dealers.

It is also the goal of the Board that, subject to its fiduciary responsibility, the use of MFDB investment managers be significant in each of the broad asset classes in which SURS is invested and not concentrated in any particular asset class. In accordance with 40 ILCS 5/1-109.1, SURS has established the following goals for the management of assets in specific asset classes by emerging investment managers.[8] The table that follows identifies utilization goals for actively managed

[7] The phrase "emerging investment manager" is used throughout the text of this document. 40 ILCS 5/1-109.1(4) defines “emerging investment manager” to mean "a qualified investment adviser that manages an investment portfolio of at least $10,000,000 but less than $10,000,000,000 and is a ‘minority owned business’, ‘female owned business’ or ‘business owned by a person with a disability’ as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.”

[8] 40 ILCS 5/1-109.1 requires the establishment of “3 separate goals for (i) emerging investment managers that are minority owned businesses; (ii) emerging investment managers that are female owned businesses; and (iii) emerging investment managers that are businesses owned by a person with a disability.” Beginning January 1, 2016, per 40 ILCS 5/1-109.1(10), it shall be the aspirational goal for SURS to use emerging investment

assets in each of the major asset classes. While these objectives may not be immediately achieved, the desire is to show meaningful progress toward these goals over time. These goals shall be reviewed annually.

Asset Class	Goal for Minorities	Goal for Females	Goal for Persons with a Disability	Overall Active Goal
Equities	**20%**	**10%**	**0-2%**	**30%**
Fixed Income (includesTIPS)	**12%**	**8%**	**0-1%**	**20%**
Alternative Investments	**0-20% of new allocations**	**0-20% of new allocations**	**0-20% of new allocations**	**20% of new allocations**
Total Fund	**16%**	**8%**	**1%**	**25%**

B. Minority-Owned Broker/Dealer Usage Policy

The Board of Trustees of the State Universities Retirement System has an established policy that seeks increased participation of investment management firms owned by minorities, females, and persons with a disability. As part of this policy, the Board also adopts minimum expectations for the use of minority-owned broker/dealers[9] by the System's investment managers. Only trades executed directly with minority-owned broker/dealers will be considered in the achievement of these goals.

Summary goals for the utilization of minority-owned broker/dealers have been established for the aggregate U.S. equity, non-U.S. equity and fixed income asset classes as shown in the table below. SURS seeks to consistently exceed these high level goals while achieving best execution.

Asset Class	Goal
U.S. Equity	30.0%
Non-U.S. Equity	15.0%
Fixed Income	20.0%

In order to achieve the goals at the asset class level, minimum expectations have been established for individual investment managers. These levels are based on the asset class in which the investment manager invests. SURS encourages its

managers for not less than 20% of the total funds under management, and that not less than 20% of investment advisors be minorities, females, and persons with disabilities as those terms are defined in the Business Enterprise for Minorities, Femals, and Persons with Disabilities Act.

[9] For purposes of this section and in accordance with 40 ILCS 5/1-109.1, "minority-owned broker dealer" means "a qualified broker-dealer who meets the definition of 'minority owned business', 'female owned business', or 'business owned by a person with a disability', as those terms are defined in the Business Enterprise for Minorities Females, and Persons with Disabilities Act."

investment managers to strive to exceed the minimum expectations shown in the table that follows.

Asset Class	Minimum Expectation
EQUITY	
Active U.S. Equity	30.0%
Passive U.S. Equity	35.0%
Structured Active U.S. Equity	10.0%
Non-U.S. Equity	15.0%
Structured Active Non-U.S. Equity	10.0%
Global Equity	20.0%
Real Estate Investment Trusts (REITS)	10.0%
FIXED INCOME	
Fixed Income	20.0%
Treasury Inflation-Protected Securities (TIPS)	10.0%

U.S. Equity Separate Accounts
Subject to best execution, active U.S. equity investment managers for SURS are required to direct 30% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed using electronic trading platforms are excluded from this requirement.

Subject to best execution, passive U.S. equity investment managers for SURS are required to direct 35% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed using electronic trading platforms are excluded from this requirement.

Structured Active U.S. Equity Separate Accounts
Subject to best execution, structured active U.S. equity investment managers for SURS are required to direct 10% of the total eligible commission dollars or eligible trading volume to minority-owned broker/dealers. Trades executed using electronic trading platforms are excluded from the 10% requirement.

Non-U. S. Equity Separate Accounts
Subject to best execution, active non-U.S. equity investment managers for SURS are required to direct 15.0% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed in emerging market countries[10] or using electronic trading platforms are excluded from this requirement.

Structured Active Non-U.S. Equity Separate Accounts
Subject to best execution, structured active non-U.S. equity investment managers for SURS are required to direct 10% of the total eligible commission dollars or eligible trading volume to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from the 10% requirement.

[10] As defined by Morgan Stanley Capital International

Global Equity Separate Accounts
Subject to best execution, active global equity investment managers for SURS are required to direct 20.0% of the total eligible commission dollars to minority-owned broker/dealers, effective January 1, 2015.[11] Trades executed in emerging market countries or using electronic trading platforms are excluded from the 20.0% requirement.

Fixed Income Separate Accounts
Subject to best execution, fixed income investment managers for SURS are required to direct 20% of eligible fixed income trading volume to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from the minimum trading requirements.

Treasury Inflation-Protected Securities (TIPS) Separate Accounts
Subject to best execution, active TIPS investment managers for SURS are required to direct 10% of eligible TIPS trading volume to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from the minimum trading requirements.

Real Estate Investment Trust Securities (REITS) Separate Accounts
Subject to best execution, active REITS investment managers for SURS are required to direct 10% of the total eligible commission dollars to minority-owned broker/dealers. Trades executed in emerging market countries or using electronic trading platforms are excluded from this requirement.

Reporting Guidelines
Each investment manager will submit a compliance report within 30 days after March 31, June 30, September 30 and December 31 of each year. Reporting will be monitored over a rolling twelve-month period.

Consequences of Non-Compliance
SURS continuously monitors investment managers' compliance with this policy and has established a series of consequences for those investment managers who continually fail to meet expectations. The investment managers are expected to achieve the desired levels over rolling twelve-month periods. The following steps will occur if the investment manager continues to fall short of expectations:

1) A follow-up letter will be distributed to the investment manager not achieving the minimum level of minority-owned broker/dealer usage. The investment manager will be reminded of the usage expected by SURS. Currently, as stated in the Annual Report to the Governor and General Assembly on the Use of Emerging Investment Managers, prepared as required in Public Act 87-1265, a letter is distributed to all of the investment managers on an annual basis listing the level of expectations.

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[11] The minimum expectation for global equity investment managers increases from 17.5% to 20.0%, effective January 1, 2015.

2) Not achieving the desired level of minority-owned broker/dealer usage will be noted in the annual investment manager review presented to the SURS Board of Trustees. This could impact the evaluation of the firm.
3) SURS Staff will conduct a meeting with the investment manager to discuss the reasons for not achieving the desired level of trading.
4) Investment managers not achieving the expected levels of broker/dealer usage may be subject to a moratorium on additional funding.
5) If an investment manager fails to comply with the request, they may be invited to appear before the SURS Board of Trustees to explain why they are unable to achieve the desired level of trading.

C. <u>Manager Diversity Program</u>

<u>Objectives and Goals</u>

The State Universities Retirement System (SURS) has implemented the Manager Diversity Program (MDP), formerly known as the Manager Development Program, in its proactive efforts to assist in the development of emerging investment management firms. The Manager Diversity Program is a manager of managers program that is overseen by SURS Staff.

The primary goal of the MDP is identifying highly successful minority-, female-, and persons with a disability-owned (MFDB) investment managers that can then be awarded meaningful allocations in the actively managed portfolio.

The performance objective of the MDP is to seek annualized investment returns, net of investment management fees, in excess of the market goal for 1, 3, 5, and 10-year periods. While individual investment managers may underperform in any given year, the diversification within the program should limit the underperformance at the program level.

<u>Benchmarks</u>

The Manager Diversity Program consists of five broad components, each of which is measured by a relevant benchmark. The table below identifies the benchmark for each program component. Individual investment manager benchmarks are identified in the investment guidelines for each investment manager.

MDP Component	Benchmark
Overall Program	Custom - based on the benchmarks of the underlying MDP components
U.S. Equity	Custom - based on the benchmarks of the underlying investment managers
Fixed Income (includes TIPS)	Custom – based on the benchmarks of the underlying investment managers
Non-U.S. Equity	Custom – based on the benchmarks of the underlying investment managers
Private Equity	Dow Jones U.S. Total Stock Market Index + 3%
Real Estate	NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE) + 1.5%

Search and Selection Process
For searches affiliated with the SURS Manager Diversity Program (MDP), the Investment Staff conducts the search process with the Consultant providing an independent evaluation of the program annually. The criteria used to determine the minimum qualifications of firms to be selected for an assignment are the same as the criteria generally applicable to investment manager selection, discussed in Section VIII(B), entitled "Investment Manager Selection."

Using the criteria established by the Board of Trustees, the top firms are selected using a competitive proposal process based upon the experience and qualifications of the firm's principals, the soundness of the firm's investment philosophy and process, as well as the strength of the investment record and organization.

The search process for investment manager(s) shall be conducted in a substantially similar manner to that of the Consultant search process, discussed in Section VIII(A), entitled "Consultant Selection and Retention," except that the Consultant may assist SURS staff in the search process. It is important to note that SURS does not use any criteria that would be considered a barrier to an emerging investment manager such as a minimum number of years in business or a minimum asset level under management. As a part of the selection process, SURS utilizes databases to ensure that qualified emerging investment managers are included in the pool of eligible candidates.

Investment Manager Evaluation
Investment managers in the MDP will be evaluated in the same manner as that set forth in Section VIII (Selection and Retention). Termination decisions will follow the guidelines set forth in Section X (Investment Manager Termination Guidelines). An evaluation of each investment manager shall be conducted annually.

Authority to Hire/Retain/Terminate Investment Managers
The MDP is a manager of managers program overseen by SURS staff. As such, SURS Staff has the responsibility to identify, recruit, and monitor MDP investment managers. SURS Staff will make recommendations on the selection, retention and termination of MDP investment managers, but the Board (acting through its Investment Committee) reserves the ultimate authority with respect to all investment manager hiring, retention and termination decisions. The SURS Staff has the responsibility to implement the Board decisions through negotiation, execution and enforcement of the investment management agreement and guidelines. All investment management agreements and amendments thereto must be executed by the Executive Director. In the event that termination of an investment manager is warranted under the Investment Manager Termination Guidelines, and prompt termination of the investment manager is necessary to protect and preserve System assets, SURS Staff may, with the prior approval of the Executive Director, terminate the investment manager prior to Board action. The Board shall be promptly notified of the decision to terminate the investment manager, and the decision shall be presented to the Investment Committee for ratification at its next meeting.

Retention and termination decisions will be fully documented and will include a full description of the reason for the action, including the specific elements serving as the basis for the evaluation and identification of the relevant issues from the System's perspective.

SURS Staff has the authority to rebalance between MDP investment managers in order to maintain target allocations and style neutrality in each component of the MDP. Staff will report the results of rebalancing activity to the Investment Committee at the next regular Investment Committee meeting.

<u>Advancement</u>

The following factors are considered in determining when an investment manager should be advanced into the larger SURS portfolio:

- Stability in Organization
- Growth in Assets under Management
- Confidence in Investment Process
- Strong Investment Performance
- Product Fit

In addition to the factors mentioned above, the needs of the overall SURS investment program will be considered.

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