

STATE UNIVERSITIES RETIREMENT SYSTEM

INVESTMENT POLICY



Adopted by the Board of Trustees
September 10, 2021

INVESTMENT POLICY

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I. Purpose of Investment Policy

This document specifically outlines the investment philosophy and practices of the State Universities Retirement System (“**SURS**” or the “**System**”) and has been developed to serve as a reference point for the management of the Defined Benefit Plan¹.

1. Capitalized terms not defined in the text of this document can be found in the Glossary of Terms attached hereto as Exhibit I.

II. Strategic Objectives

The Strategic Objectives of this Policy are as follows:

- Achieve long-term, sustainable, investment performance necessary to meet or exceed the System's Assumed Rate of Return (set forth in Appendix 1), net of investment management fees;
- Manage the risk and volatility of financial assets in the Portfolio;
- Control fees and expenses related to managing the Portfolio;
- Manage Staff operational expense at a prudent level;
- Manage the System's Liquidity, in order to meet Member and other System obligations in a timely manner;
- Provide ongoing financial education to the Board and Staff in order for them to carry out their responsibilities; and
- Comply with all applicable laws and regulations applicable to the investment of the Portfolio.

III. Role Definitions

The following sections outline the roles of the principal parties involved, their responsibilities and performance evaluation.

Board of Trustees

The Board is responsible for establishing the Policy for the System and overseeing the investment of the Portfolio and the expenditures required to meet System obligations. Specifically with regard to investments, the Board takes action based on information presented at Board and/or Investment Committee meetings and after considering recommendations made by Staff or Consultants.

The Board maintains a long-term investment focus and has adopted a formal review schedule, as set forth in Appendix 2.

Investment Committee

The Investment Committee shall be comprised of all of the members of the Board, and shall be empowered to act as the Board with respect to the broad range of issues covered by this Policy including, but not limited to, those set forth in this Investment Policy.

Executive Director

The Executive Director, in connection with such person's duties regarding this Investment Policy, shall be responsible for the following, among other things:

1. Execution of agreements and contracts, and amendments thereto, with Board-approved Managers, Consultants, Custodians and Vendors;
2. Ensuring that funds are invested in accordance with Board policies;
3. Communicating with the Board, its Officers and Investment Committee chair;
4. Studying, recommending, and implementing policy and operational procedures that will enhance the investment program of SURS;
5. Monitoring the performance of the Portfolio and the Staff; and
6. Ensuring that proper internal controls are developed to safeguard the assets of the System.

Internal Investment Staff

The internal investment staff ("**Staff**") provides internal investment management and/or consulting services to the Board and Investment Committee, implements Board decisions and manages the Portfolio, consistent with this Policy. Staff is expected to provide written recommendations to the Board and Investment Committee on investment related matters.

The Chief Investment Officer ("**CIO**") heads the Staff and oversees the performance of its members. The CIO reports to the Executive Director, but works directly with the Board and the Investment Committee on Policy-related issues.

The primary functions delegated by the Board to the CIO and the Staff may include, but are not limited to, working with the Executive Director and the Board to implement this Investment Policy and Board decisions made in connection with the Investment Policy. In connection therewith, Staff will be expected to manage cash-flow and liquidate assets, as necessary to pay

benefits and other System obligations; to approve revisions to Manager Guidelines, with the approval of the Consultant and General Counsel; to serve on advisory boards where in the best interests of the System; to respond to inquiries relating to the Portfolio in accordance with SURS' communications policies; and to complete other administrative duties related to the operation of the Portfolio, not inconsistent with this Investment Policy.

External Investment Consultants

The Board may retain an investment advisor who is a paid, professional consultant (“**General 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 Board may also elect to retain one or more additional Consultants (“**Special Consultants**”), and together with the General Consultant, the “Consultant”) that specialize in specific areas of asset consulting. Each Consultant's relationship with the Board shall be that of a fiduciary under 40 ILCS 5/1-101.2(2).

Consultants are hired by, and report directly to, the Board. Their duties are to work with the Board, Investment Committee and its chair, and Staff in the management of the investment process. Consultants are expected to provide written recommendations to the Board and Investment Committee on investment related matters.

An annual review of each Consultant will be conducted by the Board, with input from the Staff.

External Investment Managers

External investment managers (“**Managers**”) are selected by, and serve at the pleasure of, the Board. Staff implements the Board's decisions through negotiation, execution and enforcement of Investment Management Agreements, including Manager Guidelines. Staff works with Consultants to design Manager Guidelines specific to Board-approved assignments. Duties of Managers include, but may not be limited to, those set forth in Appendix 3. Each Manager's relationship with the Board shall be that of a fiduciary under 40 ILCS 5/1-101.2(2).

Criteria for selection, retention and termination of Managers are covered in Sections VII and VIII.

Master Trustee / Custodian

The Master Trustee/Custodian (“**Custodian**”) is selected by, and serves at the pleasure of, the Board. The Custodian will, among other duties, collect income and keep safe 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 Consultants at requested intervals. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to Managers and to invest such cash in liquid, short-term securities in accordance with Manager Guidelines. Pursuant to approved Strategic Policy Targets, Staff will direct the Custodian to allocate cash and/or securities to the System's Managers as necessary. The Custodian may also, with the approval of the Board and at the direction of the Staff, engage in a Securities Lending program. Alternatively, the Board may choose to retain a third party firm to provide Securities Lending services.

General Counsel's Office

The role of the General Counsel's office is to oversee internal and external legal services provided to the System in connection with this Policy and to ensure compliance with all applicable legal requirements.

External Counsel

External Counsel may be retained to provide legal services in connection with the review and negotiation of Investment Management Agreements or investment transactions where specialized experience is required or where General Counsel Office resources are unavailable.

IV. Strategic Allocation and Rebalancing Strategy

A. Purpose

The purpose of the Strategic Allocation and Rebalancing Strategy is to establish a framework that has a high likelihood, in the judgment of the Board, of realizing the System's long-term funding success.

B. Targets and Ranges

Strategic Allocation involves establishing Target Allocation Percentages for each approved Strategic Class and their sub-class components. Target Allocation Percentages are established and amended from time-to-time by the Board, based on recommendations from the General Consultant. Target Allocation Percentages are selected based upon a review of various combinations of Strategic Classes and their respective Components designed to sustain the System's funding progress while incurring an acceptable level of risk.

In developing its recommendation, the General Consultant takes into consideration Expected Returns, Volatility of Returns and Covariance of Returns, and certain scenario and Liquidity risks. SURS' current Strategic Policy Target and Interim Policy Target Percentages are set forth in Appendix 4.

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.

C. Rebalancing

Investment returns on each Strategic Class in the portfolio (both positive and negative) cause the balance of each such Strategic Class to increase/decrease. Such changes cause the resultant Strategic Class Percentages to deviate from the Strategic Policy Target, potentially requiring Rebalancing.

Rebalancing shall automatically occur whenever a Strategic Class is three (3) percentage points greater or lesser than the Strategic Policy Target level or when the overall Broad Growth allocation deviates from the aggregate Broad Growth target by more than five (5) percentage points. Rebalancing may also be initiated by the Staff as part of its annual review or at any time when Strategic Class Percentages deviate significantly from Strategic or Interim Policy Targets, as applicable. Rebalancing may also occur in the event of a change in the Strategic Policy Target mix by the Board.

Rebalancing, when required, shall occur as soon as practical and may be facilitated by the use of a Cash Overlay Manager approved by the Board. In the event of extraordinary market events that (i) result in Strategic Class Percentages deviating significantly from Strategic Policy Targets or Interim Policy Targets, as applicable, but (ii) prevent the implementation of Rebalancing activities, Staff may request from the Board temporary exceptions to these guidelines.

Because certain Strategic Classes and sub-class Components are illiquid or less liquid than others, it may be costly or impractical to rebalance 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 to the extent illiquid/less liquid Strategic Classes/Components require adjustment.

The Target Allocation Percentages shall be established at a reasonable cost, recognizing that overly precise administration of policy targets can result in transaction costs that are not economically justified. Consequently, 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.

D. Periodic Review

The Target Allocation Percentage will be reviewed annually for reasonableness relative to changes in the General Consultant's recommendation. The Board will undertake a comprehensive review of the Strategic Allocation policy every three to five years, or to the extent there are any significant changes made to the System's Strategic Objectives. This review will take into consideration the ongoing effectiveness of the Consultant's recommendation, an updated Asset/Liability Study, System Liquidity and other factors that may influence the Strategic Policy Target or Rebalancing strategies.

V. Investment Risk Management

Risk Oversight

Investment risk shall be undertaken in order to achieve long-term investment objectives. The Board shall monitor investment risk and set guidelines for the Staff to manage such risk within acceptable tolerance levels.

Portfolio Risk

Risk levels within the Portfolio will evolve over time for various reasons, including (but not limited to) changes in: (i) Strategic Allocation; (ii) volatility in Strategic Class/Component returns; (iii) Strategic Class/Component relationships; and (iv) portfolio Liquidity.

Other System Risks

The System also incurs risks associated with: (i) amount and timing of Appropriation payments; (ii) the amount and timing of Member benefits and other System obligations; and (iii) changes in the System's Asset/Liability Position.

Risk Monitoring

Portfolio risk shall be monitored through multiple forms of analysis. Analysis will occur at various levels of detail, including individual Manager, Strategic Class and Total Portfolio.

For Marketable Securities' portfolios, individual Managers will be reviewed quarterly using risk measures that may include: (i) Beta (ii) Standard Deviation; (iii) Tracking Error and (iv) R-squared. For private markets, individual Managers will be periodically reviewed using risk measures tailored for each Asset Class.

For major Strategic Classes and their Components, the Board will review quarterly risk measures that may include Standard Deviation.

For the Portfolio as a whole, the Board will review on a quarterly basis various risk measures that may include: (i) Actual vs. Target Allocation Percentages; (ii) Total Portfolio Risk; (iii) market Volatility Index; (iv) Standard Deviation; (v) Value at Risk; (vi) Sharpe Ratios; and (vii) Liquidity Profile.

Other system risk metrics may include: (i) System Cash Flow analysis and (ii) Asset/Liability gap analysis.

To the extent that risk thresholds at the individual Manager, Strategic Class or Portfolio level exceed those established by the Board, Staff will recommend remedial action for Board approval at the next scheduled Board Meeting.

Reporting

Reports will be assembled on a quarterly basis by Staff, Consultant or Custodian, as applicable and provided to the CIO for review. Summary reports will be assembled and presented to the Investment Committee on a quarterly basis.

VI. Portfolio Construction and Performance Benchmarks

The Board has adopted Target Allocation Percentages in accordance with its Strategic Allocation and Rebalancing strategy described in Section V. Within each Strategic Class, the Board will determine the amount of such class that will be (i) managed internally vs. externally; (ii) managed actively vs. passively; (iii) allocated to a particular sub-class, sector or style, if any, and (iv) allocated to each approved Manager. Strategic Class allocations will be reviewed annually in connection with the Target Allocation Percentage review.

The choice of internal vs. external management shall be based on a periodic comparison of (i) the cost and availability of qualified Staff and systems support and (ii) the cost and availability of Managers. Currently, the Board makes exclusive use of external Managers.

The portfolio will be managed in a combination of active and passive management. Active management will be used to a greater extent in less efficient markets while passive management will be used more heavily in more efficient markets.

Amounts allocated to each Manager, within a Strategic Class, sub-class, sector or style shall be based on: (i) the total dollar amount to be allocated to such category; (ii) the relative ongoing performance of applicable Managers; (iii) the unique attributes of such Manager's investment style and potential benefits from diversification; and (iv) the overhead cost of managing the number of Managers within such category. Subject to SURS' MFDB Manager Utilization Goals and Manager Diversity Program, the Board has a bias toward fewer Managers and more meaningful allocations.

Managers selected by the Board will be given specific roles within each Strategic Class, sub-class, sub-sectors, and styles, as applicable. These roles are specifically set forth for each firm as Manager Guidelines, established at the beginning of the relationship with SURS as part of the contract negotiation process. These guidelines cover such items as Benchmarks, permissible investments, use of leverage, obligor concentrations, currency denomination, etc. Staff and Consultant will be responsible for implementation of these guidelines, supervision of the Managers, performance monitoring and reporting. Updates will be provided to the Board or Investment Committee as requested, or as deemed necessary by Staff and Consultant.

Broad Growth Class and Its Underlying Components

A. Role

The Broad Growth Class is expected to generate relatively high levels of absolute and real (i.e., inflation-adjusted) returns, net of all costs. The Broad Growth Class is considered the main return driver of the overall/aggregate total SURS investment portfolio. While over time volatility is expected, the Broad Growth class must achieve its relatively high returns on a sustainable basis in order for the overall SURS pension plan to achieve its long-term objectives. In addition, each of the three Broad Growth components (described below) are expected to produce relatively high returns when compared to other SURS class portfolios.

B. Investment Structure

The Broad Growth class consists of three components: Traditional Growth, Stabilized Growth, and Non-Traditional Growth. The structures and roles of these three components are described in detail below. Allocation levels to the Broad Growth Class and its three components are set forth in Appendix 4. The structure of each major component should cause investment performance outcomes to be complementary of the respective outcomes of the other two components, allowing for a more robust and sustainable long-term growth path for the combined SURS growth-oriented assets.

C. Benchmark

Benchmarks for the overall Broad Growth Class and its three components are set forth in Appendix 5.

Traditional Growth Component Structure

A. Role

The Traditional Growth portfolio is expected to generate attractive absolute returns in a relatively low cost manner. The Traditional Growth portfolio also typically invests in securities that exhibit reasonable levels of Liquidity.

B. Investment Structure

1. The Traditional Growth 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

▪ Managers invest primarily in publicly traded Equity securities of U.S. companies.

○ Non-U.S. Equities

▪ Managers invest primarily in publicly traded Equity securities of non-U.S. companies, in both developed and emerging markets.

○ Global Equities

▪ Managers make the allocation decisions between U.S. and non-U.S. markets, in both developed and emerging markets and invest in publicly-traded securities of U.S. and Non-U.S. companies, in both developed and emerging markets.

3. Allocation

The allocations to the above subcomponents of the Traditional Growth portfolio are overseen and managed by Staff. To ensure consistency with investment policy, overall regional allocations (e.g., the allocation proportion to the U.S. versus non-U.S. regions and/or developed vs. emerging markets, etc.) of the Traditional Growth portfolio will be assessed versus the commensurate proportional allocation levels exhibited within the MSCI ACWI IMI Index, the Benchmark for the overall Traditional Growth portfolio. Taking these considerations into account, Staff has discretion to manage the allocation levels among the above three portfolio segments.

4. Assets may be held in Commingled Funds or privately managed Separate Accounts.
5. Use of leverage will be controlled as appropriate in the Manager's Guidelines.
6. Implementation of the Traditional Growth portfolio is via a combination of Active Management and Passive Management. Allocation to active and passive mandates takes market efficiency into account across and/or within the above three major Traditional Growth segments.

C. Benchmarks

Benchmarks for the Traditional Growth portfolio and its three subcomponents are set forth in Appendix 5. Benchmarks for specific subcomponent, sector, style, and/or manager portfolios will be established to ensure consistency with both the overall Traditional Growth benchmark as well as the specific subcomponent Benchmark under which the portfolio resides.

Stabilized Growth Component and Its Underlying Sub-Components

D. Role

The Stabilized Growth Component is expected earn Risk-Adjusted returns in excess of the Traditional Growth Component, primarily as a result of (i) achieving absolute return levels that are near-or-equivalent to those achieved by the Traditional Growth component while also (ii) achieving lower volatility (risk) over a full investment cycle, particularly during Traditional Growth bear markets.

E. Investment Structure

The Stabilized Growth component consists of three sub-components: Options Strategies, Public Credit, Private Credit, and Real Assets. The structures of these three sub-components are described below. Allocation levels to the Stabilized Growth component and its three sub-components are set forth in Appendix 4.

F. Benchmark

Benchmarks for the overall Stabilized Growth component and its three sub-components are set forth in Appendix 5.

Stabilized Growth Sub-Components:

I. Options Strategies Structure

A. Role

The Options Strategies portfolio is expected to provide similar, but higher Risk-Adjusted Returns than public equity. This expectation should be due to these strategies (i) producing compound returns that are modestly below traditional long-only public equities over a full investment cycle while (ii) also incurring significantly lower volatility than long-only public equity. In addition, Options Strategies produce a return pattern that is significantly different from traditional public equity over time – specifically, periodic outlying returns should be reduced. In summary, Options Strategies are utilized to achieve downside protection and risk mitigation to the overall SURS Portfolio (and, in particular the traditional public equity portfolio).

B. Investment Structure

1. SURS has implemented its initial Options Strategies through direct allocations to multiple managers that exhibit specific expertise in this strategy.
2. The aggregate Options Strategies portfolio consists of managers that apply a limited range of collateral-supported options selling programs (i.e., (i) writing call options associated with a specified long position in an equity index fund or long positions of specified equity securities or (ii) writing index put options associated with a commensurate level of cash or very-near-cash collateral).
3. The Options Strategies portfolio may seek to invest globally across U.S. and non-U.S. markets, replicating the general risk characteristics of industry-standard equity market indices.
4. Within the portfolio, the account structure utilized may be a blend of separate account(s) and fund(s), depending on the assigned strategy/mandate.
5. Leverage is not typically employed in Options Strategies. Any degree of leverage requires SURS Board approval.
6. Implementation of the Options Strategies portfolio is via Active Management.

C. Benchmarks

Benchmarks for the Hedged Strategies portfolio are set forth in Appendix 5.

II. Public Credit Structure

A. Role

The public credit portfolio is expected to provide income, yield and diversification to the total Portfolio due to a moderate correlation with other Asset Classes. In addition, the public Credit portfolio is expected to provide return, a source of Liquidity, and positive returns relative to an appropriate performance Benchmark.

B. Investment Structure

1. The Credit allocation consists of a diversified mix of publicly traded Credit securities, invested across multiple asset types.
 - Quality standards, such as credit, concentration, duration, liquidity, etc., will be specifically set forth in each Manager's Guidelines, as applicable. In the event a security no longer meets the quality standards referenced above, the Manager may continue to hold such security if it believes doing so is in the best interest of SURS. The Manager shall provide written justification of the action to Staff [and Consultant] as soon as practicable.
2. The public credit portfolio is composed of Global Investment Grade, High Yield, Global Bank Loans and Emerging Market Debt ("**EMD**") segments.
 - Global Investment Grade
 - Managers may invest primarily in global investment grade securities of corporation and governmental agencies.
 - Global Investment Grade is defined as those with a rating of at least "BBB-" or equivalent by two or more of the credit rating agencies.

- High Yield
 - Managers are permitted to invest in high yield bonds with an understanding that these bonds provide greater risk, potential for capital loss but with greater potential yield/return.
 - High Yield bonds are defined as those that are rated lower than “BBB-” by at least one of the credit rating agencies.
 - Global Bank Loans
 - Managers may invest in global bank loan debt
 - EMD
 - Managers invest in Investment Grade corporate and high yield debt securities of emerging market countries, in both U.S. dollar and local currency terms, providing additional diversification and opportunities for higher yield.
 - 3. Allocation
 - The policy targets for the subcomponents of the portfolio are set forth in Appendix 4.
 - 4. Assets may be held in Commingled Funds or privately managed Separate Accounts.
 - 5. Use of leverage and short sales will be controlled as appropriate in the Manager’s Guidelines.
 - 6. Implementation of the Credit portfolio is via Active Management.
- C. Benchmarks
- Benchmarks for subcomponents of the Fixed Income portfolio are set forth in Appendix 5.

III. Private Credit Structure

A. Role

The Private Credit portfolio is expected to earn absolute returns in excess of the Public Credit markets over time, reflecting a modest illiquidity premium. The Private Credit portfolio is also expected to produce stable income and downside collateral protection.

B. Investment Structure

1. The Private Credit allocation is generally defined as non-bank financing and/or private placements while incorporating multiple collateral types (including but not limited to corporate credit, mortgage credit, structured credit, specialty finance, asset-based, and consumer credit) and strategies.
2. The Private Credit portfolio is composed of two major subcomponents.
 - Yield-Oriented
 - Yield-Oriented investment strategies target primary/origination-based transactions that focus on generating returns through performing cash flows.
 - Opportunistic
 - Opportunistic investment strategies target secondary/asset purchases that rely more heavily on generating returns through appreciation.
3. Allocation

- The Private Credit portfolio shall be diversified by time, subclass, manager, collateral, and geography.
- Such diversification is expected to enhance returns and control risk.
- 4. The account structure is typically in commingled Closed-end Funds, but may utilize other structures such as evergreen vehicles including Separate Accounts and/or Fund of Ones.
- 5. Leverage may be utilized by some Private Credit strategies.
- 6. Implementation of the Private Credit portfolio is via Active Management.

C. Benchmarks

Benchmarks for the Private Credit portfolio are set forth in Appendix 5.

IV. Real Assets Structure

A. Role

The Real Asset portfolio is expected to generate attractive Risk-Adjusted Returns through stable income and the opportunity for capital appreciation, while providing diversification to the overall Portfolio.

B. Investment Structure

1. The Real Asset allocation consists of Core/Core-Plus Real Estate and Core/Core-Plus Infrastructure.

- Core Real Estate
 - Core Real Estate Managers typically invest in properties that are well located and well leased with strong quality tenants. Core investments provide stable income with lower volatility.
- Core-Plus Real Estate
 - Core-Plus Real Estate Managers typically invest in properties that are well located and may have re-financing, re-leasing or re-furbishment requirements. Core-Plus strategies may have modestly higher leverage than Core strategies. Core-Plus investments should provide moderate income. Core-Plus Real Estate may have modestly higher return expectations than Core Real Estate.
- Core Infrastructure
 - Managers typically invest in a variety of assets in the transportation, power/utilities, midstream energy, renewables, communications, and waste management sectors globally. Core investments should exhibit low-to-moderate levels of leverage, as well as income and appreciation return orientation. Core investments should provide stable income with lower volatility.
- Core-Plus Infrastructure
 - Managers typically invest in a variety of assets in the transportation, power/utilities, midstream energy, renewables, communications, and waste management sectors. Core-plus investments typically exhibit moderate levels of leverage, as well as income and appreciation return orientation. Core-plus

infrastructure may have modestly higher return expectations than Core infrastructure.

2. Allocation
 - The policy allocation for the Core/Core-Plus Real Estate is 85% of the Real Assets component, with a range of 75-100%.
3. The account structure for Core/Core-Plus Real Estate and Infrastructure is typically either Open-end Funds 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.
4. Leverage is an inherent component of Real Assets investing and levels are generally determined on a fund-level basis. Leverage levels in Core/Core-Plus Real Assets are typically lower than those for Non-Core Real Assets.
 - Core/Core-Plus Real Estate: funds may have up to 40% leverage, maximum of 50%
 - Core/Core-Plus Infrastructure: funds generally do not have stated leverage limitations
5. Diversification
 - Core/Core-Plus Real Estate: Portfolio will be broadly diversified and measured against the NCREIF Fund Index - Open End Diversified Core Equity (“NFI-ODCE”) Value Weighted Index property type weightings (office, retail, industrial, apartment, other)
 - Core/Core-Plus Real Estate: Portfolio will be broadly diversified and measured against the NFI-ODCE Value Weighted Index regional weightings (East, South, West, Midwest)
 - Infrastructure: Minimum 75% invested in Organisation for Economic Co-operation and Development (“OECD”) countries
 - Up to 25% of the Real Asset allocation may be invested outside the U.S.
6. The Real Assets portfolio is implemented via Active Management. SURS will seek to diversify the portfolio by utilizing various Managers and limiting a Manager’s concentration within the portfolio. Subject to Emerging Investment Manager and MFDB Utilization Goals and Board exception, concentration limits are set forth in Appendix 4. The optimal number of investment vehicles in the portfolio and their vintage year exposure varies with market opportunities and will be evaluated as part of the Real Assets Strategic Plan and Pacing Model developed by Staff and Consultants.

C. Benchmarks

Benchmarks for subcomponents of the Real Assets portfolio are set forth in Appendix 5.

Non-Traditional Growth Component and Its Underlying Components

A. Role

The Non-Traditional Growth Component is expected earn Risk-Adjusted returns in excess of the Traditional Growth Component, primarily due to the Liquidity Premium demanded by investors across various types of private markets.

B. Investment Structure

The Non-Traditional Growth component consists of two sub-components: Private Equity and Non-Core Real Assets. The structures of these two sub-components are described below. Allocation levels to the Non-Traditional Growth component and its two sub-components are set forth in Appendix 4. Specific manager/partnership investments and allocations are overseen by SURS' specialty consultants.

C. Benchmark

Benchmarks for the overall Non-Traditional Growth component and its two sub-components are set forth in Appendix 5.

Non-Traditional Growth Sub-Components:

I. Private Equity Structure

A. Role

The Private Equity portfolio is expected to earn Risk-Adjusted Returns in excess of the public Equity markets, primarily due to the Liquidity Premium demanded by investors. The Private Equity portfolio is also expected to decrease the volatility of the Portfolio, 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 limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows in B(2).
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. Allocation
 - The Private Equity portfolio shall be diversified by time, subclass, and geography.
 - Such diversification is expected to enhance returns, control risk, and reduce volatility.
 4. SURS currently participates in Private Equity through various structures including commingled Fund-of-Funds, Separate Accounts and primary fund commitments.
 5. In addition to limited partnership interests, SURS may participate in co-Investments, which are direct investments alongside a general partner.
 6. Leverage may be present in Private Equity investments, most commonly in buyout partnerships. Levels are generally determined on a fund-level basis.
 7. Implementation of the Private Equity portfolio is via Active Management.
 8. To manage private equity exposure or to rebalance the portfolio, SURS may consider a sale of private equity interests on the secondary market.
- C. Benchmarks
- Benchmarks for the Private Equity portfolio are set forth in Appendix 5.

II. Non-Core Real Asset Structure

A. Role

The Non-Core Real Asset portfolio is expected to earn Risk-Adjusted Returns in excess of the public Equity markets, primarily due to re-positioning and development of real asset projects, the use of leverage, and to a Liquidity Premium demanded by investors. At the margin, the Non-Core Real Asset portfolio is also expected to diversify the broader Non-Traditional Growth Portfolio, which also includes Private Equity (see above).

B. Investment Structure

1. Non-Core Real Asset investments provide access to opportunities for higher returns by investing (typically with the use of leverage) in assets in need of re-tenanting, development, re-development, operational improvements, or renovation, or are otherwise in some form of distress, exhibit sub-optimal capital structures, or experiencing market dislocation(s). They may also be located in emerging/non-institutional market segments and/or product/asset types. Such investment may utilize more aggressive financial structures in order to raise the return/risk profile, emphasize capital appreciation, and exhibit relatively high return objectives.
2. The Non-Core Real Asset portfolio may consist of equity or debt investments in real estate, infrastructure, agriculture, energy-related investments, or timberland.
3. Allocation
 - The Non-Core Real Asset portfolio shall be diversified by time, subclass, and geography.

- Such diversification is expected to enhance returns, control risk, and reduce volatility.
 - 4. The account structure is typically in funds. SURS may also consider investments through a Fund-of-Funds structure, which provides Manager diversification and the opportunity for co-investment and secondary fund opportunities.
 - 5. Leverage is typically present in Non-Core Real Asset investments. Levels are generally determined on a fund-level basis.
 - 6. Up to 25% of the Real Asset allocation may be invested outside the U.S.
 - 7. Implementation of the Non-Core Real Asset portfolio is via Active Management.
- C. Benchmarks
Benchmarks for the Non-Core Real Asset portfolio are set forth in Appendix 5.

Principal Protection Class Structure

A. Role

The principal protection portfolio is expected to provide a modest absolute return, be an anchor to the overall portfolio and significant diversification to the total Portfolio due to low correlation with other Asset Classes. In addition, the principal protection portfolio is expected to provide capital preservation, a source of Liquidity, lower volatility and competitive returns relative to an appropriate performance Benchmark.

B. Investment Structure

1. The principal protection allocation consists of a diversified mix of publicly traded Fixed Income securities, invested across multiple asset types.
 - Quality standards, such as credit, concentration, duration, liquidity, etc., will be specifically set forth in each Manager's Guidelines, as applicable. In the event a security no longer meets the quality standards referenced above, the Manager may continue to hold such security if it believes doing so is in the best interest of SURS. The Manager shall provide written justification of the action to Staff [and Consultant] as soon as practicable.
2. The principal protection portfolio is composed largely of Treasuries, Agency backed mortgage securities, and other agency backed bonds.,
 - Mortgage Backed Securities - Agency
 - Managers invest primarily in Mortgage backed Securities (MBS) issued by the U.S. government agencies (Fannie Mae, Freddie Mac, or Ginnie Mae).
 - Treasuries
 - Managers invest in treasury securities of the U.S. government.
 - Other
 - Managers may invest in other high quality segments as clarified in manager specific guidelines, however these must be Investment Grade credit that is rated "BBB" or higher by two or more of the credit rating agencies.
3. Allocation
 - The policy targets for the subcomponents of the portfolio are set forth in Appendix 4.
4. Assets may be held in Commingled Funds or privately managed Separate Accounts.

5. Use of leverage and short sales will be controlled as appropriate in the Manager's Guidelines.
6. Implementation of the Principal Protection portfolio is primarily via Active Management..

C. Benchmarks

Benchmarks for subcomponents of the Fixed Income portfolio are set forth in Appendix 5.

Inflation Sensitive Class Structure

A. Role

The Inflation Sensitive portfolio is expected to provide the portfolio with a hedge against structural inflation. In addition, the inflation sensitive portfolio is expected to provide competitive returns relative to an appropriate performance Benchmark.

- Quality standards, such as credit, concentration, duration, liquidity, etc., will be specifically set forth in each Manager's Guidelines, as applicable. In the event a security no longer meets the quality standards referenced above, the Manager may continue to hold such security if it believes doing so is in the best interest of SURS. The Manager shall provide written justification of the action to Staff [and Consultant] as soon as practicable.

B. Investment Structure

The Inflation Sensitive Class consists solely of Treasury Inflation Protected Securities:

- Implementation of the TIPS portfolio is currently via Passive Management.

C. Benchmarks

Benchmarks for the Inflation Sensitive Class are set forth in Appendix 5.

Crisis Risk Offset Class Structure

A. Role

The Crisis Risk Offset (CRO) portfolio is expected to produce significant positive returns during an extended recessionary-type equity market crisis, while maintaining purchasing power during more normal market environments. In this respect, the CRO portfolio is expected to enhance the long-term risk-adjusted performance of the Total Portfolio, by substantially mitigating significant drawdowns that the Total Portfolio might experience.

B. Investment Structure

1. The CRO allocation generally consists of investments in highly-liquid portfolios that are meant to capture key risk premia that should prove largely beneficial during an equity-related market crisis. Along these lines, the underlying investments and strategies may utilize both long positions and short-selling positions to capture the desired return patterns/behavior.
2. The CRO portfolio is composed of three major subcomponents.
 - a. Long U.S. Treasury Duration
 - i. U.S. Treasuries represent the leading "flight-to-quality" investment since they are backed by the U.S. Government. The U.S. Dollar (the base

- denomination of U.S. Treasuries) is also considered the world's highest-quality reserve currency.
- ii. Exposure to U.S. Treasury Duration can take place via cash markets (i.e., actual bonds) or the futures markets (virtual bond proxies).
- b. Systematic Trend Following
 - i. Long-short portfolios utilizing derivatives-based instruments to capture both periodic appreciation and periodic depreciation trends that evolve and dissipate across a very wide array of liquid global markets. Risk/volatility is calibrated to a pre-determined level derivatives-based leverage.
 - ii. Assets will be invested in highly liquid underlying securities (cash, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.
 - iii. In order to appropriately calibrate the expected volatility of this component and the overall CRO class, significant levels of derivatives-based leverage may be applied. Effects of leverage are adjusted daily through market-based exchanges/facilities, ensuring appropriate and timely mark-to-market valuations.
 - c. Alternative Risk Premia
 - i. Long-short portfolios utilizing both cash and derivatives-based instruments to capture well-researched/documented non-market risk premiums (e.g., momentum, carry, value, low-volatility, etc.) on a continuous basis, utilizing an array of liquid global markets. Risk/volatility is calibrated to a pre-determined level utilizing cash and derivatives-based leverage.
 - ii. Assets will be invested in highly liquid underlying securities (cash, stocks, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.
 - iii. Strategies should be designed to exhibit "market-neutral" outcomes, exhibiting lack of relationship with the major market-based risk premia (e.g., equity risk premia, duration risk premia).
3. Allocation to Subcomponents
 - a. Capital allocation ranges to the various subcomponents will be as follows:
 - i. 30%-40% - Long Duration
 - ii. 30%-40% - Systematic Trend Following (STF)
 - iii. 25%-35% - Alternative Risk Premia (ARP)
 - b. Assuming the capital weights above are consistently maintained, it is highly likely that the volatility associated with the Systematic Trend Following component will contribute the most to overall CRO class volatility over time.
 4. Fund account structures (versus separate accounts) will be emphasized in the STF and ARP subcomponents. Use of fund account structures will likely reduce the monitoring, accounting, and administrative burdens of these relatively unconstrained and dynamic strategies.
 5. Derivatives-based leverage will be utilized significantly across these strategies. Leveraged positions are typically adjusted on a daily basis to conform to pre-established guidelines (see below).

6. Implementation of the CRO portfolio will utilize both replication (passive) and active management where deemed appropriate and prudent within each subcomponent.

C. Risk Profile of CRO Class and its Subcomponents

- a. The aggregate CRO class has a total risk (standard deviation) range/budget set at a level to effectively counterbalance the volatility experienced in the SURS portfolio’s major growth-oriented components:

- i. Lower risk level limit (annualized standard deviation): 8%
- ii. Upper risk level limit (annualized standard deviation): 15%

If the behavior of the CRO class causes its recent historical volatility to deviate significantly beyond these limits, then a rebalancing process and/or target volatility adjustment should occur among the CRO managers based on recent risk profiles of each manager/component as well as on prospective risk views for each manager/component.

2. The expected volatility ranges for the three components are shown below:

Risk Budget Ranges – CRO Components (% of Net Asset Value)

Component	Annualized Volatility Expectation
Long Duration Capture	12% - 20%
Systematic Trend Following	10% - 20%
Alternative Risk Premia	8% - 15%

While the expected volatility ranges for each subcomponent are high relative to the expected risk budget level of the aggregate CRO class, the diversifying aspects of each subcomponent (and its underlying manager(s)) will combine to reduce volatility at the aggregate class level.

D. Benchmarks

Benchmarks for the CRO portfolio are set forth in Appendix 5.

Opportunity Fund Structure

A. Role

The Opportunity Fund portfolio is designed to allow flexibility for opportunistic investment. Investments in the Opportunity Fund may be a one-time occurrence, such as investments capitalizing on a market dislocation. Successful investments that evolve into a more permanent opportunity may ultimately be transitioned into another Strategic Class with similar characteristics.

B. Investment Structure

The structure of the Opportunity Fund is not fixed and may vary considerably over time.

C. Benchmark

Benchmarks for the Opportunity Fund portfolio will be established and set forth in Appendix 5 prior to implementation.

VII. Selection and Retention

Introduction

The processes used for selection and hiring of Consultants, Managers and Custodians are set forth in the ***SURS Investment Procurement Policy***. In general, 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.
8. Sustainable Investing Principles, as discussed below.

Sustainable Investing Principles: In accordance with 40 ILCS 5/1-113.17, the Board will regularly consider material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. These factors shall be considered in addition to other material risk factors influencing investment decision making. The consideration of sustainability factors will be considered in monitoring SURS's proxy voting, and in the selection and ongoing monitoring of SURS's investment managers and mandates, and other service providers as appropriate.

Such factors include, but are not limited to: (1) corporate governance and leadership factors; (2) environmental factors; (3) social capital factors; (4) human capital factors; and (5) business model and innovation factors. Staff, in conjunction with the General Consultant and any Specialty Consultants, will perform periodic evaluations of these factors to ensure they are relevant to the investment portfolio and the evolving marketplace.

Investment Manager and Fund Monitoring

Monitoring of investment managers and fund investments will take place as described in this section.

Marketable Securities Portfolios

An evaluation of each Manager shall be conducted annually by the Staff and the Consultants. The evaluation shall be based on a number of factors, including, but not limited to, organizational and personnel issues and whether the Manager has complied with its Manager Guidelines and met performance objectives. Evaluation will include the results of periodic due diligence meetings and phone calls. Documenting the annual evaluation, Staff and Consultants shall issue Manager Evaluation Reports. Reports shall include a recommendation to: (i) retain the Manager; (ii) retain or change the Manager's funding allocation; or (iii) terminate the Manager (see Section VIII, 'Investment Manager Termination Guidelines.')

Between annual reviews, subject to Manager Termination Guidelines, the Staff or Consultants may recommend immediate Termination.

Closed-end Fund and Separate Account Evaluation

Limited partnership interests in private Closed-end Funds and investments in private markets Separate Accounts (i.e., Private Equity, Real Estate, infrastructure, etc.) will be reviewed by Staff and Consultant annually. The evaluation shall be based on a number of factors, including, but not limited to, organizational and personnel issues and whether the Manager has complied with its Manager Guidelines and met performance objectives. Evaluation will include the results of periodic due diligence meetings and phone calls. Documenting the annual evaluation, Staff and Consultant(s) shall issue Manager Evaluation Reports. Reports will include a recommendation to: (i) retain the Manager; (ii) make follow-on investments or investments in subsequent Closed-end Funds or Separate Accounts, in accordance with the ***SURS Investment Procurement Policy***; or (iii) subject to legal review, pursue available exit strategies.

To the extent that significant concerns about a Closed-end Fund or Separate Account or material events arise in the interim, the Staff or Consultant shall communicate their concerns to the Investment Committee/Board and recommend available options, including exit strategies.

VIII. Investment Manager Termination Guidelines

Introduction

From time to time it will be necessary for the System to terminate a contractual relationship with a Manager. Pursuant to its fiduciary duties, 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 carry out these actions using objective evaluation, proper documentation and full disclosure. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of Members and consistent with all legal requirements.

Clearly Defined Objectives

Any action to terminate a Manager should be based on one or more of the following primary criteria:

- Performance of the Manager has been unsatisfactory over a market cycle;
- Any other guideline is violated by a Manager and is not remediated to the satisfaction of the Board;
- Default under an Investment Management Agreement;
- Change in Asset Allocation, which reduces or eliminates the need for all existing Managers;
- or
- Failure to satisfy any other legal or Policy requirements.

Prior to a Termination decision, a thorough evaluation of the relevant criteria supporting such action shall be reviewed by the Board. Documentation regarding any such action shall include the reasons for such decision.

In the event that termination of a Manager is warranted under the Manager Termination Guidelines, and prompt termination of the Manager is necessary to protect and preserve System assets, SURS Staff may, with the prior approval of the Executive Director, terminate the Manager prior to Board action. The Board shall be promptly notified of the decision to terminate the Manager and the decision shall be presented to the Board for ratification at its next meeting.

Notwithstanding this provision, the Board retains the authority, in its sole discretion, to terminate any Manager for any reason, with or without notice, when it determines such action is in the best interests of the Members.

Investment Manager Transition

In the event of the need to transfer the management of assets from one Manager 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 or Rebalancing 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 Passive Investment, crossing securities with other institutional investors, or a transfer of securities to another approved Manager.

IX. Performance Evaluation and Reporting

Performance Evaluation

Marketable Securities Portfolios

Rates of Return and Risk-Adjusted Returns, on a net-of-fees basis, shall be calculated quarterly by the Custodian or Consultants to measure the performance of each major Asset Class. Actual Trailing Period returns for fiscal year-to-date, one (1) year, three (3) year, five (5) year, ten (10) year periods will be compared to comparable returns for applicable Policy Portfolio indices.

Rates of Return, on a net-of-fees basis, shall also be calculated quarterly by the Custodian or Consultants to measure the performance of each individual Manager. Other measures may also be used, including Risk-Adjusted Returns, peer group performance, Risk Statistics and Performance Statistics.

Private Markets Portfolios

For Private Equity, Direct Real Estate and Infrastructure portfolios, Internal Rates of Return shall be calculated quarterly by the Custodian. These returns will be used to measure performance of the portfolios in comparison with Policy Portfolio indices and Benchmarks for Asset Classes and individual Managers. Returns are calculated quarterly in arrears. Other more tailored performance measures may also be used for absolute and peer group comparisons.

Total Portfolio

Actual returns for the total Portfolio are compared to returns on the Policy Portfolio. Returns are calculated quarterly by the Custodian.

Style Analysis

Staff and Consultants will periodically analyze Manager portfolios, as well as the aggregate Strategic Class and Component portfolios, to confirm that such portfolios conform to individual Manager style Benchmarks and aggregate Strategic Class and Component indices. Metrics such as Active Share will be used in this analysis. Significant deviations shall cause individual Managers to be considered for Termination.

Performance Reporting

Performance reports shall be prepared by the Staff and/or Consultant quarterly and provided to the Investment Committee and Board at regularly scheduled meetings.

Consultants will analyze the system's performance and periodically provide the Board with a detailed report on the total Portfolio, Strategic Classes and individual Managers.

Annually, Staff and Consultants will prepare and present a comprehensive review of the fiscal year results.

Market Values

All assets in the Portfolio will be Marked-to-Market at least quarterly, to provide an estimate of the price at which they could be sold. Following is a description of this process.

Marketable Securities

The Custodian provides price indications for stocks, bonds, warrants, futures, options, etc. traded on public exchanges.

Private or Illiquid Securities

For private and illiquid securities, each individual Manager or Fund-of-Funds 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.

X. Safeguard of Assets

- Qualification of Service Providers

Any firm which SURS retains to manage, control or have custody of assets shall be and shall remain qualified by thorough on-going 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, CIO, and deputy CIO. The senior investment officers have been designated by the Board to have the limited authority to 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

Managers shall be required to secure and maintain, throughout the term of their Investment Management Agreements, insurance that (i) satisfies the requirements set forth below and (ii) 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 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 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 Managers in the Manager Diversity Program, the minimum insurance required for each 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 Manager.

- Custodial Credit Risk

Pursuant to the 40 ILCS 5/15-166, the Board 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 such party. To minimize this risk, SURS takes the following measures:

1. Performs due diligence on Custodians 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 nominee¹, 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 or its sub-Custodians will provide safekeeping of all SURS securities in segregated accounts that reflect the holdings of SURS; and the Custodian will not commingle SURS securities with the Custodian's own securities.

¹Registered 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.

XI. 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 by each Investment Manager's Guidelines. Exceptions may be made subject to prior review by, and express written authorization from, the Board.

XII. Corporate Governance

A. Proxy Voting Guidelines

The Board may retain a proxy voting service, pursuant to a contract with SURS, to vote the proxies of U.S. and non-U.S. shares according to the proxy voting service's proxy voting guidelines, as customized for SURS and approved by the Board. All proxy votes not specifically addressed by the proxy voting service's approved proxy voting guidelines, or if the Board determines not to retain a proxy voting service, will be voted on a case-by-case basis by Managers, subject to Staff review and consistent with the fiduciary responsibilities of the Board.

Guidelines will be reviewed annually by Staff in conjunction with the proxy service provider, and recommended changes to the guidelines will be presented to the Board for approval.

The SURS Public Pension Proxy Guidelines, SURS U.S. Proxy Guidelines, and the SURS International Proxy Voting Guidelines will be maintained on the SURS website.

B. Proxy Voting Reports

The proxy voting service provider shall make regular reports of proxy votes cast on behalf of SURS and, on an ad hoc basis as requested by Staff or the Board, pursuant to the terms of the proxy voting contract with SURS.

C. Securities Litigation Policy

1) Identification Of Potential Claims

- a) In order to weigh the costs and benefits of the various alternatives as specified below, Staff will identify potential claims by determining if it bought or sold the securities of a company during applicable periods.
- b) 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 or to the Board of any course of action beyond participating in the litigation as a passive member of the class. The Executive Committee, or the Board, as applicable, will have the authority to approve any course of action beyond monitoring the case. If the Executive Committee, or the Board, 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 General Counsel and the Executive Director. Counsel will be selected by the Executive Committee or the Board, after consultation with the Illinois Attorney General's office.

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 the Board, 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 General Counsel and the Executive Director after consultation with the Illinois Attorney General's office.

4) Legal Action

- a) Where the Executive Committee or the Board has determined under Part 2 that the interests of the System will be best served by seeking designation as lead plaintiff, by opting out of a domestic class action to pursue a direct action or by opting into a foreign securities litigation matter, SURS, in consultation with the Illinois Attorney General's Office, will choose appropriate counsel and will

negotiate a fee agreement, if necessary, when the Attorney General's Office is unable to represent the System as its legal counsel in any such action. If the Executive Committee or the Board determines that appropriate counsel is a firm not on SURS' approved list, the recommendation of such firm shall be made to, and approved by, the Executive Committee or the Board.

- b) Where the Executive Committee and the Illinois Attorney General's office 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, who shall also be provided periodic updates on the status of such actions.

5) Approved Law Firms

- a) The Board, or Staff at the Board's direction, will interview and select, through an RFP, 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, Staff may recommend that the most sensible and cost-effective source of legal representation will be the General Counsel or the legal counsel representing the institutional investor that SURS wishes to support.

6) Authority to Settle Claims and Lawsuits

- a) Staff has the authority to resolve securities related litigation claims with a settlement value of \$250,000.00 or less, with required approval from the Executive Director and General Counsel. This authority includes the ability to settle direct claims and class actions at or below the \$250,000.00 threshold. This authority also includes the ability to resolve said claims by selling them to third parties or by resolving them via auction with a minimum return/guarantee of at least 50% of the potential value of the underlying claim. If SURS wants to settle a direct securities litigation case at a settlement value exceeding \$250,000.00 or wants to settle a class action where SURS is the lead plaintiff, authority to settle must come from the SURS Executive Committee or the Board.

XIII. Emerging Investment Managers, MWDBE Managers and Minority-Owned Broker/Dealers

SURS is committed to providing opportunities for Emerging Investment Managers and Minority Owned Broker/Dealers. SURS is also committed to providing ongoing opportunities for minority-, female-, and persons with a disability-owned (“MWDBE”) Managers that have advanced beyond the statutory definition of Emerging Investment Managers. In determining the status of a business enterprise, SURS will use the definitions found in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act, 30 ILCS 575/2(A), (B).

The Illinois Pension Code, in 40 ILCS 5/1-109.1, encourages the Board 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 Fund-of-Fund Managers to use Emerging Investment Managers as subcontractors when the opportunity arises.

A. Goals for Utilization of Emerging Investment Managers and MWDBE Managers

Beginning January 1, 2016, the Illinois Pension Code, in 40 ILCS 5/1-109.1, established aspirational goals of 20% for pension funds, with respect to assets under management by Emerging Investment Managers and the percentage number of MWDBE Managers.

In December of 2019, the Board (subject to its fiduciary responsibility) established goals for the percent of assets under management for MWDBE managers, Emerging Investment Managers as defined by Illinois statute, the percent of fees paid to MWDBE managers, and the percent of managers that are MWDBE. Furthermore, with the intent of having MWDBE Managers significantly represented in each broad Asset Class and not concentrated in any particular Asset Class, the Board has established additional goals for emerging managers in each asset class.

A summary of the Board’s goals is set forth in Appendix 6. These goals shall be reviewed annually.

B. Goals for Utilization of Minority-Owned Broker/Dealers

The Board has set minimum expectations for the use of qualified Broker/Dealers that meet the definition of a minority-owned business, female-owned business or a business owned by a person with a disability (“Minority-owned Broker/Dealer”) by the System’s Managers. Only trades executed directly with Minority-owned Broker/Dealers will be considered in the achievement of these goals.

Goals for Minority-owned Broker/Dealer Utilization have been established for the various public equity and fixed income classes as set forth in Appendix 7. SURS seeks to have its Managers consistently meet or exceed these goals, while achieving best execution.

In order to achieve the goals, minimum expectations have been established for individual Managers within a number of Sub-Asset Classes. Subject to best execution, SURS requires its Managers to meet the minimum expectations set forth in Appendix 7 for each rolling twelve (12) month period.

Reporting Guidelines

Each 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

Repeated failure to meet Minority-owned Broker/Dealer Utilization Goals will lead to the following:

- 1) Staff notification to the non-compliant Manager;
- 2) Staff examination of reasons for non-compliance;
- 3) Invitation to the non-compliance Manager to appear before Staff and/or the Board; and
- 4) Remediation plan acceptable to the Staff or recommendation to the Board to Terminate.

C. Manager Diversity Program

Program Description

SURS has implemented a Manager Diversity Program (“**MDP**”) to identify highly successful MWDBE firms. The process used for selection of investment managers is set forth in the ***SURS Investment Procurement Policy***. Manager Benchmarks are identified in the Manager Guidelines for each Manager in the program. Benchmarks for the MDP for each applicable Asset Class are the same as those set forth in the applicable Appendix. Managers in the MDP will be evaluated in the same manner as that set forth in Section VII (“Selection and Retention”). Termination decisions will follow the guidelines set forth in Section VIII (“Investment Manager Termination Guidelines”). An evaluation of each Manager shall be conducted annually.

D. Manager-of-Managers Program

Program Description

SURS utilizes a Manager-of-Managers program, overseen by SURS Staff. The program’s primary goal is to identify MWDBE Managers that will be initially awarded smaller allocations within the program. Staff may recommend, for the Board’s approval, one or more Manager-of-Managers to play an active role in identifying emerging MWDBE Managers and maintain an ongoing involvement in the evaluation and performance oversight of such Managers. Staff shall work with the Manager-of-Managers to identify, recruit, and monitor Managers in the program.

Graduation Program

On an annual basis, SURS Staff and the Manager-of-Managers will identify one underlying Manager to be considered for a meaningful, direct allocation. The following factors are considered in determining when an underlying Manager should be awarded a larger allocation in the SURS Portfolio:

- Acceptable measure of performance over a three-to-five-year period;
- Stability in Manager's organization;
- Institutional quality infrastructure;
- Growth in Assets Under Management;
- Confidence in Manager's investment process; and
- Product Fit.

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

Notwithstanding this provision, the Board, in its sole discretion, may decide not to make any award in any given year, if it determines that such an allocation would not be in the best interests of the Members.

Beginning January 1, 2022, if an investment adviser acting in its capacity as an investment manager of a multimanager portfolio made up of emerging investment managers (an "EIM Manager") provides a written recommendation to SURS for its selection or appointment of an emerging investment manager, and such emerging investment manager has been providing investment services in such multimanager portfolio for at least 24 months, then the Board may select or appoint such emerging investment manager as a direct Manager for SURS. Any emerging investment manager appointed pursuant to the immediately preceding sentence shall be disclosed on the SURS website as an appointment per the exception provided in 40 ILCS 5/113.24 to the requirements of 40 ILCS 5/1-113.14 (and such disclosure shall include the name of the EIM Manager, a statement that the Board has authorized selection or appointment of such emerging investment manager as a Manager for SURS, and a brief explanation of the reason such emerging investment manager was selected or appointed as an exception to 40 ILCS 5/1-113.14).

Initially adopted December 8, 2006; Revised April 26, 2007; September 21, 2007; September 12, 2008; April 23, 2009; September 11, 2009; December 2, 2009; September 3, 2010; September 16, 2011; October 25, 2012; September 13, 2013, September 19, 2014; September 11, 2015; December 9, 2016; June 9, 2017; December 8, 2017; March 9, 2018; April 18, 2019; June 7, 2019; September 13, 2019; October 17, 2019; December 6, 2019; January 30, 2020; November 17, 2020; December 4, 2020; January 29, 2021; September 10, 2021.

Exhibit I Glossary of Terms

Active Management means the style of fund management whereby Managers attempt to outperform a given Benchmark, after fees, through superior security or sector selection, market timing, technical modeling or other active technique.

Active Share means a measure of how the security holdings of a given portfolio differ from the holdings of an index or Benchmark.

Alternative means an investment in an Asset Class, other than public Equities, public Fixed Income and Cash.

Annualized Alpha means a measure of the relationship between a Fund performance and the performance of a Benchmark and equals the excess return where the Benchmark return is zero.

Annualized Return means the return realized over a period of time, expressed as a time-weighted annual percentage.

Appropriation means to set aside money for a specific purpose. A company or a government appropriates funds in order to delegate cash for the necessities of its business operations.

Asset Allocation means an investment portfolio technique that aims to balance risk and create diversification by dividing assets among major Asset Classes, such as Equities, Fixed Income, Cash and Alternatives.

Asset Class means a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. Major Asset Classes include Equities, Fixed Income, Cash and Alternatives.

Asset Class Percentage means, with respect to the Strategic Policy Target, Interim Policy Target or Policy Portfolio, the percentage that a given Asset Class represents of the total.

Asset/Liability Position means a measurement, as of a point in time, of the System's ability to meet its future obligations with available assets and future cash inflows.

Asset/Liability Study means an analysis of the System's available assets and future cash flow (including Appropriations) and its ability to meet current and future Member benefits and other System obligations.

Assets Under Management means the market value of assets that a Manager manages on behalf of investors.

Assumed Rate of Return means the Expected Rate of Return adopted by the Board as one of the actuarial assumptions used to determine the System's net pension liability in accordance with GASB Statement No. 67.

Board means the SURS Board of Trustees.

Broker/Dealer means a firm in the business of buying and selling securities that may act as either an agent or a principal in a transaction.

Benchmark means a standard against which the performance of a Manager can be measured and usually consists of a market index or market-segment index representative of a Manager's investment style.

Beta means a measure of volatility, or systematic risk, of a security or portfolio in comparison to the market as a whole.

Calendar Year Returns means trailing period returns ending on the last day of the calendar year.

Cash Flow means the net amount of cash moving into and out of an account or an entity.

Cash Overlay Manager means a Manager that is used to minimize an unintended cash position in a portfolio or to transition a portfolio in need of Rebalancing.

Cash Overlay Services means various financial techniques such as Futures and Options to achieve a given overlay strategy.

Chief Investment Officer or CIO means the executive position responsible for SURS' investment portfolio.

Closed-end Fund means an investment company that raises a fixed amount of capital, through an initial public offering, by issuing a fixed number of shares.

Commingled Fund means an institutional fund which invests in a portfolio of assets and is funded by pooling the investments of multiple investors.

Commodity means a basic good, most often used as an input into the production of other goods or services.

Consultant means any General Consultant or Special Consultant retained or employed by the Board to perform some or all of the roles set forth in Section IV.

Core Fixed Income means a Sub-Asset Class consisting of Traditional Fixed Income, Core Plus Fixed Income and Unconstrained Fixed Income securities.

Core Plus Fixed Income means a Sub-Asset Class consisting of Traditional Fixed Income securities plus other instruments such as high yield, global or emerging market debt and asset-backed securities.

Core Real Estate means a Sub-Asset Class consisting of real estate assets that are well located and well leased with strong quality tenants and which provide stable income with low volatility.

Core Plus Real Estate means a Sub-Asset Class consisting of real estate assets that are well located and may require re-tenanting, re-leasing and/or re-furbishment to increase income. Returns, leverage and volatility may be higher than Core Real Estate.

Covariance of Returns means the measure of the degree to which returns on two risky assets move in tandem, with positive covariance describing two asset returns that move together and negative covariance describing two asset returns that move inversely.

Custodian means an organization that meets the requirements set forth in Section IV.

Defined Benefit Plan means the SURS' Traditional Benefit Package and the Portable Benefit Package that provide retirement, disability, death and survivor benefits to eligible participants and annuitants.

Defined Contribution Plan means the SURS' Self-Managed Plan.

Derivative means a security or contract with a price that is dependent upon, or derived from, one or more underlying assets, financial indices, or other standards of measurement.

Direct Real Estate means a Sub-Asset Class consisting of both Core Real Estate and Non-core Real Estate.

Down Capture Ratio means the percentage of the market's Downside movement 'captured' or achieved by a Fund.

Emerging Investment Manager means, as defined by 40 ILCS 5/1-109.1(4), "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, Women, and Persons with Disabilities Act."

Emerging Markets Debt or EMD means a Sub-Asset Class consisting of Fixed Income securities of emerging market countries.

Employee means a person employed for wages or salary, especially at a nonexecutive level.

Equity means a stock or other security representing an ownership interest in an entity.

Excess Return means the difference between the Rate of Return on a Fund, Asset Class or the Portfolio and the Rate of Return of the applicable Benchmark, as applicable.

Excess Risk-Adjusted Return means the difference between the Risk-Adjusted Return on a Fund, Asset Class or the Portfolio and the Rate of Return of the applicable Benchmark.

Executive Director means the chief executive officer of SURS.

Existing Service Provider means a Service Provider that is currently under contract with SURS to provide a given investment related service.

Expected Rate of Return means a probability weighted estimate of a range of future rates of return.

External Counsel means a law firm that is engaged by SURS, from time to time, to provide legal services in connection with its investment activities.

Farmland means a Sub-Asset Class of real estate that consists of agricultural land and its related infrastructure.

Fixed Income means, as related to securities, an investment that provides a return in the form of a fixed periodic payment, with the eventual return of principal over time or at maturity.

Fund means a securities portfolio, that may take various legal forms and that is designed to meet various investor requirements.

Fund-of-Funds means a multi-manager investment, in which a single Manager manages a fund that invests in multiple underlying funds, each managed by a separate Manager.

Fund-of-One means an investment structure where an investor is the sole investor in a specific fund or vehicle.

Future means a legal agreement to buy or sell a Commodity or financial instrument at a predetermined price at a specified time in the future.

General Consultant means an investment advisor hired by the Board to provide a broad range of investment advice.

General Counsel means the chief legal officer of SURS.

Hedged Strategies means the range of Hedge Fund styles included in the Portfolio.

Hedge Fund means an Alternative investment designed either to generate above market returns (through Active Management) or more moderate returns (with a reduction in downside risk), while generating low correlation with other Asset Classes.

Hedge Fund-of Funds means a Fund-of-Fund structure with Hedge Funds as the underlying funds.

Illinois Compiled Statutes means the codified statutes of a general and permanent nature of Illinois. The compilation organizes the general Acts of Illinois into 67 chapters arranged within 9 major topic areas.

Illinois Pension Code means a Code that determines how pension funds in Illinois operate. The Pension Code also administers pension funds benefit plans.

Information Ratio means a measure of the degree to which a Fund has outperformed its Benchmark to the consistency by which the Fund has outperformed the Benchmark, defined as the Fund's Excess Return (relative to its Benchmark) divided by the Fund's Tracking Error.

Infrastructure means the physical structures, networks and other facilities that provide services essential to economic productivity, including transportation, communication, power (including renewables), midstream, utilities and social assets such as schools, hospitals and public buildings.

Interim Policy Target means the intermediate Target Allocation Percentages for each Asset Class, reflecting the necessity of a gradual shift of assets to the Strategic Policy Target, due to practical implementation considerations and Liquidity constraints.

Investment Committee means a committee consisting of all of the members of the Board and exercising the authority of the Board in the development of investment strategies and the review of prospective investments with the goal of supporting the System in prudent investment and expenditure of System assets.

Investment Management Agreement means the legal contract between SURS and a Manager, setting forth the duties and obligations of the parties with respect to the Manager's investment management engagement.

Investment Manager Termination Guidelines means those guidelines set forth in Section IX.

Investment Risk Management Policy means the policy set forth in Section VI.

Liquidity means the degree to which an asset or security can be quickly bought or sold in the market for cash, without affecting the asset's or security's price.

Liquidity Premium means a premium demanded by investors to invest in a security that is considered to be illiquid and not easily converted to cash without a loss in value.

Long Only means an investment style where assets represent only Long Positions.

Long Position means a holding of assets, whereby the value of such position will rise if the price of the security increases.

Long/Short means an investment style that allows for both Long Positions and Short Positions, where the value of 'short positions' rise when the price of the security falls.

Marketable Securities means securities that may be bought or sold, typically on a public exchange, and quickly converted to cash.

Manager means an external investment manager that manages a given portfolio of securities on behalf of SURS under an Investment Management Agreement and pursuant to Manager Guidelines.

Manager Diversity Program or MDP means a program to support Emerging Investment Managers in their early stages of development.

Manager Evaluation Report means a report documenting the annual evaluation of a Manager by the Consultant and Staff, including recommended action to the Board.

Manager Guidelines means a set of investment guidelines that governs a Manager's investment activities.

Manager Termination Guidelines means the set of guidelines set forth in Section IX of this Policy.

Member means an individual that is eligible under the Defined Benefit Plan to receive retirement, disability, death, or refund benefits as authorized under the Illinois Compiled Statutes.

MWDBE means a minority-owned business, a women-owned business or a business owned by a person with a disability as those terms are defined in the Business Enterprise for Minorities, Women and Persons with Disabilities Act.

MWDBE Manager Utilization Goals means those goals, as revised from time-to-time, set forth in Appendix 8.

Minority-owned Broker/Dealer means, in accordance with 40 ILCS 5/1-109.1, a qualified broker-dealer who meets the definition of 'minority owned business', 'women owned business', or 'business owned by a person with a disability', as those terms are defined in the Business Enterprise for Minorities Women, and Persons with Disabilities Act."

Non-Core Real Estate means a Sub-Asset Class consisting of real estate assets in need of re-tenanting, redevelopment or renovation, or is otherwise in some form of distress.

Open-end Fund means a Fund that does not have any restrictions on the amount of shares it can issue and that can issue and redeem shares at any time.

Opportunity Fund means an Asset Class consisting of investments that are opportunistic in nature and may or may not transition into a more permanent Asset Class.

Option means a contract between a buyer and a seller that gives the buyer the right, but not the obligation, to buy or sell a particular asset at a later date and at an agreed upon price.

Passive Management means a management style that attempts to replicate a market index or Benchmark.

Performance Evaluation means a measurement of a Manager, Asset Class or the total Portfolio versus various standards of performance.

Performance Statistics means analytical tools such as the Sharpe Ratio, Information Ratio, Annualized Alpha, Treynor Ratio, Sortino Ratio, Up Market Capture and Down Market Capture.

Portfolio means the investment portfolio of the Defined Benefit Plan.

Portable Benefit Package means one of two packages offered under SURS' Defined Benefit Plan that offers a more generous separation refund in exchange for a reduction in retirement and death benefits.

Potential Consultant means a Consultant that is being considered for selection by SURS.

Potential Custodian means a Custodian that is being considered for selection by SURS.

Potential Manager means a Manager that is being considered for selection by SURS.

Potential Vendor means a Vendor that has been previously vetted and/or approved.

Potential Service Provider means a Service Provider that is being considered for selection by SURS.

Policy means this Policy, as amended from time to time.

Policy Portfolio means a portfolio comprised of Asset Class Benchmarks, reflecting a passive implementation of SURS Strategic Policy Target, as amended from time to time.

Private Equity means equity investments in private companies, either directly or through buyouts of public companies that result in a delisting of public Equity.

Qualified Fund-of-Fund Management Services means, per 40 ILCS 5/113.15, 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.

Quarterly Investment Update means a quarterly report generated by Staff and distributed to Members that summarizes investment results for the System.

Quarterly Reporting Period means a three-month period on a financial calendar that acts as a basis for the reporting of investment performance, earnings, the paying of dividends, etc.

Rate of Return means is a profit on an investment over a period of time, expressed as a proportion of the original investment.

Real Assets is an asset class consisting of equity or debt investments in land, buildings, infrastructure, and natural resources..

Rebalancing means the process of adjusting Asset Class Percentages to bring them back into alignment with Target Allocation Percentages.

Rebalancing Manager means a Manager that is used to facilitate a Rebalancing of the Portfolio.

Request For Proposal or RFP means a formal solicitation for a service or Service Provider, made through a competitive bidding process.

Risk-Adjusted Return means the Annualized Alpha for a Fund or Asset Class.

Risk Statistics means analytical tools such as Standard Deviation, Tracking Error, Beta, R-Squared and Active Share.

R-Squared means the percentage of a Fund's movements that can be explained by movement of the Benchmark.

Securities Lending means the temporary loan of a security from an institutional investor's portfolio to a broker/dealer or dealer bank to support that firm's trading activities. These trading activities include short selling, selling on margin or the satisfaction of some other type of transaction. Loaned securities are generally collateralized, reducing the lender's credit exposure to the borrower. Except for the right to vote proxies, the lender retains entitlement to all the benefits of owning the original securities, including the receipt of dividends and interest.

Separate Account means a privately managed investment account that is designed and managed specifically for an investor.

Service Provider means any Consultant, Manager, Custodian or Vendor.

Sharpe Ratio means a measure of a Fund's return or an Asset Class' return (Fund or Asset Class Rate of Return less the return of the risk-free rate) relative to its risk (Standard Deviation of the Fund or Asset Class).

Short Position means a sale of a borrowed security, whereby the value of such position will rise if the price of the security falls.

Special Consultant means an investment advisor hired by the Board to provide a limited range of services.

Sortino Ratio means a measure of a Fund's return or Asset Class' return (Fund or Asset Class Rate of Return less the return of the risk-free rate) relative to its downside risk (downside deviation of Fund or Asset Class).

Staff means the SURS investment staff.

Standard Deviation means a measure of the dispersion of a set of data from its mean, calculated as the square root of variance.

State Universities Retirement System of Illinois or SURS or System means the pension fund established for the benefit of the staff members and employees of the Illinois state universities, community colleges and certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees.

Strategic Plan means SURS' process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy

Strategic Objectives mean the objectives listed in Section II, as amended from time to time.

Strategic Policy Target means the total of all approved Target Allocation Percentages.

Sub-Asset Class means a subset of an Asset Class that shares common characteristics with both the Asset Class and such subset.

Swap means a Derivative contract through which two parties exchange financial obligations.

Target Allocation Percentage means the target percentage of each major Asset Class in the Strategic Policy Target.

Termination means the cancellation of a contract and related obligations.

Timberland means a Sub Asset Class of Real Assets that consists of forestland and its related infrastructure.

Tracking Error means, with respect to a security investment, the Standard Deviation of the Excess Return.

Trade Order Entry System means a web-based program provided by the System's custodian, Northern Trust, to transfer cash from SURS to an external manager.

Traditional Benefit Package means one of two packages offered under SURS' Defined Benefit Plan that offers lifetime retirement benefits, but a limited separation refund.

Traditional Fixed Income means a Sub-Asset Class consisting generally of investment-grade, Fixed Income securities.

Trailing Period means the prior period (months, quarters, years) ending on the date being used for a given analysis.

Transition Manager means a Manager that helps transition a portfolio of securities necessitated by the change in a Manager's funding mandate, a Manager's termination or changes in Asset Allocation.

Treasury Inflation Protected Securities or TIPS means a Treasury security that is indexed to inflation.

Treynor Ratio means a measure of a Fund's return or an Asset Class' return (Fund or Asset Class Rate of Return less the return of the risk-free rate) relative to its risk (Beta of the Fund or Asset Class).

Up Capture Ratio means the percentage of the market's upside movement 'captured' or achieved by a Fund.

Unconstrained Fixed Income means a Sub-Asset Class consisting of Fixed Income securities that would tend to vary from those typically found in Core Fixed Income or Core Plus Fixed Income.

Utilization Goals means the percentage of the total Portfolio or volume of business activity that is to be represented by a specific subset of the Portfolio.

Variance means a measurement of the spread of a set of numbers from the mean of the data set.

Vendor means a supplier of goods or services.

Volatility of Return means a statistical measure of dispersion of returns for a given security, Asset Class or portfolio.

Weighted Expected Rate of Return means a probability weighted estimate of a range of future rates of return for a portfolio, with the estimate weighted by the component investments or Asset Classes of the portfolio.

Appendix 1

System Assumed Rates of Return

Valuation Date	Investment Return Assumption
Prior to June 30, 2010	8.50%
June 30, 2010 through June 30, 2013	7.75%
June 30, 2014 through June 30, 2017	7.25%
June 30, 2018 through June 30, 2020	6.75%
June 30, 2021 and after	6.50%

Appendix 2

Formal Board Review

<i><u>Formal Review Agenda Item</u></i>	<i><u>Formal Review Schedule</u></i>
Total Fund Performance	At least quarterly
Asset Allocation	At least annually
Investment Policy	At least annually
Manager Performance Evaluation	At least annually

Appendix 3

Managers' Roles and Responsibilities

1. Selection, purchase and sale of specific securities or investments, within the parameters specified by Staff and Consultants and in adherence to this Policy;
2. Construction and management of investment portfolios that are consistent with their specific Manager Guidelines;
3. Providing performance reporting to the Staff at intervals specified by Staff and sufficient to meet the requirements set forth in Section X;
4. On an annual basis, providing Staff with proof of insurance coverage in an amount and type specified in their Investment Management Agreement;
5. On an annual basis, certifying in writing to Staff that they remain a fiduciary to the System and that they have been in compliance with the Manager Guidelines during the past year;
6. Utilizing 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. Complying 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.

Appendix 4

Asset Allocation Policy Mix

	Strategic Policy Target as of 7/1/2021		Long-Term Strategic Policy Target
<u>Broad Growth</u>	<u>76%</u>	<u>Broad Growth</u>	<u>68%</u>
<u>Traditional Growth</u>	40%	<u>Traditional Growth</u>	35%
US Equity		US Equity	
Non-US Equity		Non-US Equity	
Global Equity		Global Equity	
<u>Stabilized Growth</u>	21%	<u>Stabilized Growth</u>	17%
Core Real Assets**	4.5%	Core Real Assets**	8%
Options Strategies	4%	Options Strategies	2%
Liquid Credit***	12%	Liquid Credit***	2%
<u>Private Credit</u>	0.5%	Private Credit	5%
<u>Non-Traditional Growth</u>	11%	<u>Non-Traditional Growth</u>	16%
Private Equity	8.5%	Private Equity	11%
Non-Core Real Assets	2.5%	Non-Core Real Assets	5%
<u>Inflation Sensitive</u>	<u>5%</u>	<u>Inflation Sensitive</u>	<u>5%</u>
TIPS	5%	TIPS	5%
<u>Principal Protection</u>	<u>8%</u>	<u>Principal Protection</u>	<u>8%</u>
<u>CRO</u>	<u>15%</u>	<u>CRO</u>	<u>19%</u>
Long Duration	3.5%	Long Duration	4%
Trend Following	8%	Trend Following	10%
Alt. Risk Premia	3.5%	Alt. Risk Premia	5%
Opportunity Fund	0%	Opportunity Fund	0%
<u>Total</u>	<u>100%</u>	<u>Total</u>	<u>100%</u>

**Includes Real Assets and Infrastructure investments.

***Public Credit will include EMD, HY, Loans, Invest. Grade, and other income-driven strategies.

1. No Open-end Fund may represent more than 30% of Core/Core-Plus Real Estate portfolio.
 1. No Non-Core Real Estate Fund may represent more than 10% of the Non-Core Fund commitments.
2. No single manager may represent more than 40% of the combined Real Asset target allocation
4. Allocation to the Opportunity Fund class may not exceed 5%.

Appendix 5

Benchmarks

<i>ASSET CLASS POLICY MIX</i>	<i>BENCHMARK</i>	
<i>Total Broad Growth Aggregate</i>	Blend of Blends	
<i>Traditional Growth</i>	MSCI ACWI IMI	
<i>U.S. Equity</i>	Dow Jones U. S. Total Stock Market Index	
<i>Non-U.S. Equity</i>	MSCI ACWI Ex-US IMI	
<i>Global Equity</i>	MSCI ACWI IMI	
<i>Stabilized Growth</i>	Blend	
<i>Options Strategies</i>	Blend of two Benchmarks: Bench 1: 22.5% CBOE S&P 500 PutWrite / 22.5% CBOE S&P 500 BuyWrite / 2.5% Russell 2000 PutWrite / 2.5% Russell 2000 BuyWrite / 5% MSCI EM PutWrite / 5% MSCI EM BuyWrite / 20% MSCI EAFE PutWrite / 20% MSCI EAFE BuyWrite Bench 2: CBOE S&P 500 PutWrite	
<i>Total Public Credit</i>	25%IG+30%HY+30%EMD+15%BL Blend	Hedged
<i>Investment Grade</i>	BB Global Agg Corporate Index	Hedged
<i>High Yield</i>	ICE/BoA Global HY Constrained	Hedged
<i>Emerging Market Debt (EMD)</i>	50 % JPM Gov. Bond Index - EM Global Div. + 25% JPM EM Bond Index - Global Diversified + 25% JPM Corp. EM Bond Index - Broad	Unhedged
<i>Bank Loans</i>	S&P LSTA Global Leveraged Loan	Hedged
<i>Private Credit</i>	50% ICE/BofA Global HY Constrained +50% S&P LSTA Global Leveraged Loan + 1%	Hedged
<i>Real Assets</i>	Blend	
<i>Core/Core-Plus Real Estate</i>	NFI-ODCE Value Weight Net	
<i>Core/Core-Plus Infrastructure</i>	FTSE Developed Core Infrastructure 50/50 Index	
<i>Non-Traditional Growth</i>	Blend	
<i>Private Equity</i>	MSCI ACWI IMI+2.0% Secondary Benchmarks may include: peer group comparison, return multiple or public market equivalent comparisons.	
<i>Non-Core Real Estate</i>	NFI-ODCE Value Weight Net+1.5%	
<i>Farmland</i>	NCREIF Farmland Property Index	
<i>Timberland</i>	NCREIF Timberland Property Index	
<i>Non-Core Infrastructure</i>	Measured by stated strategy target	
<i>Principal Protection</i>	Bloomberg Barclays Intermediate Agg. Ex Credit	
<i>Total Inflation Sensitive</i>	Blend	
<i>TIPS</i>	Barclays Capital U.S. TIPS Index	
<i>Total Crisis Risk Offset</i>	35%LD+35%STF+30%ARP Blend	
<i>Long Duration</i>	BB Long Government Index	
<i>Systematic Trend Following</i>	CS Managed Futures (15%Vol)	
<i>Alternative Risk Premia</i>	90 Day Treasury Bills + 2.0%	
<i>Grand Total</i>	Policy Portfolio	

Appendix 6

SURS Utilization Goals for Emerging Investment Managers

<u>Asset Class</u>	<u>Goal for Minorities</u>	<u>Goal for Non-Minority Women</u>	<u>Goal for Persons with a Disability</u>	<u>Overall Goal</u>
Equities	16%	8%	1%	25%
Fixed Income *	16%	8%	1%	25%
Alternative Investments**	10%	9%	1%	20%
Total Fund	16%	8%	1%	25%

* Includes allocations to Principal Protection, Credit, Tips, and Long Duration

**Includes private markets, options, alternative risk premia, and trend following strategies

SURS Utilization Goals for Minority Investment Managers

	<u>Minorities</u>	<u>Non-Minority Women</u>	<u>Persons with a Disability</u>	<u>Overall Goal</u>
Total Fund Goal	20%	14%	1%	35%

<u>Group</u>	<u>Goal</u>
MWDBE Manager Count	Not less than 35% of Managers
MWDBE Manager Fees	Not less than 25% of Total Fees

Appendix 7

Manager⁽¹⁾ Utilization Goals for Minority-owned Broker/Dealers

<u>ASSET CLASS</u>	<u>MINIMUM EXPECTATION</u>	<u>ELIGIBLE TRADE VOLUME</u>	<u>ELIGIBLE COMMISSIONS</u>
Equity			
U.S. Equity	35%		X (1)(2)
Non-U.S. Equity	25%		X (1)(2)(3)
Global Equity	22%		X (1)(2)(3)
Fixed Income			
Principal Protection, TIPS, and Long Duration	35%	X(1)(2)(3)	
Credit	5%	X(1)(2)(3)	

- (1) Separate account managers.
- (2) Exception for electronic trading.
- (3) Exception for emerging markets, as defined by Morgan Stanley Capital International.