

**STATE UNIVERSITIES RETIREMENT SYSTEM
OF ILLINOIS**

***SELF-MANAGED PLAN
INVESTMENT POLICY***



Adopted by the Board of Trustees
December 9, 2016

SELF-MANAGED PLAN INVESTMENT POLICY

Table of Contents

Section	/	Page No.	Description
I	/	3	Statement of Purpose of the Self-Managed Plan
II	/	3	Statement of Purpose of Investment Policy
III	/	3	Specification of Responsibilities <ul style="list-style-type: none">• Board of Trustees• Investment Committee• Executive Director• SMP Manager• Internal Investment Staff• External Investment Consultant(s)• Provider• Lead Administrator• Participants• General Counsel's Office• External Counsel
IV	/	6	Investment Objectives
V	/	7	Investment Option and Provider Selection
VI	/	8	Quiet Period Policy
VII	/	9	Investment Option and Provider Monitoring
VIII	/	9	Investment Option/Provider Termination
IX	/	10	Participant Education and Communication
X	/	10	Coordination with the Plan Document

I. Statement of Purpose of the Self-Managed Plan

The purpose of the State Universities Retirement System of Illinois (SURS) Self-Managed Plan (SMP) is to provide eligible employees with long-term accumulation of retirement savings in individual participant accounts through employee contributions and employer contributions as well as earnings.

II. Statement of Purpose of Investment Policy

The purpose of this statement is to establish the investment policy for the management of the assets of the SMP. SURS Board of Trustees may modify this statement, in whole or in part, at any time. The Board may provide supplemental guidelines for each investment option included in the plan.

It is the intention of the Board of Trustees that assets of the SMP shall be maintained in compliance with all applicable state and federal laws. Practices in this regard include, but are not limited to, the following:

- Investment alternatives shall be selected with the care, skill and diligence that would be applied by a prudent professional investor, acting in a like capacity and knowledgeable in the investment of retirement funds (Prudent Person Standard),
- All transactions undertaken on behalf of the SMP shall be for the sole interest of SMP participants and beneficiaries (Exclusive Benefit), and
- Participants will be provided the opportunity to obtain sufficient information to make informed decisions with regard to the investment alternatives available under the SMP.

III. Specification of Responsibilities

Board of Trustees

The Board of Trustees is responsible for the selection, retention, monitoring, and termination of the investment options, including the default investment option(s), and providers of the SMP and for establishing and maintaining the Self-Managed Plan Investment Policy. The Board takes action upon recommendations from its Investment Committee.

Trustees shall carry out their functions solely in the interest of the members and benefit recipients and for the exclusive purpose of providing benefits and defraying reasonable expenses incurred in performing such duties, as required by law. The Trustees shall act in accordance with the provisions of State Statute and with the care, skill, prudence and diligence in light of the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the available SMP investment options of the System so as to minimize the risk of participant large losses, unless in light of such circumstances it is clearly prudent not to do so.

All members of the Board of Trustees shall be indemnified and held harmless by the System for any reasonable cost or expenses incurred as a result of any actual or threatened litigation or

administrative proceeding arising out of the performance of the Board member's duties in accordance with 40 ILCS 5/1-107. No member of the Board of Trustees may participate in deliberations or vote on any matter before the Board which will, or is likely to, result in direct, measurable gain to the Board member, to the Board member's immediate family members, or to that Board member's employer.

Investment Committee

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

- the selection, retention, monitoring, and termination of the investment options,
- the selection, retention, monitoring, and termination of the providers, and
- the establishment and maintenance of the Self-Managed Plan Investment Policy.

Executive Director

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

- execution of agreements, amendments or other contracts with Board-approved providers, with a report provided to the Committee at the next regularly scheduled meeting,
- monitoring of the performance of approved investment options,
- communicating with the Board, its Officers and Committee Chairs.
- studying, recommending and implementing policy and operational procedures that will enhance the SMP program.

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

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

SMP Manager

The SMP Manager reports directly to the Director of Outreach who in turn reports to the Chief Operating Officer. Responsibilities delegated to the SMP Manager include, but are not limited to, the following SMP topics:

- oversight of the SMP,
- recommending revisions to provider agreements, and
- completing administrative duties related to the SMP.

Internal Investment Staff

The internal investment staff reports directly to the Chief Investment Officer ("CIO") who in turn reports to the Executive Director. The internal investment staff provides internal investment management and/or consulting services to the Board and Executive Director. In the course of the

CIO's normal functions, the CIO will work directly with the Board, Investment Committee and its Chair(s). The frequency and content of reports to the Board are based on the requirements of the SMP Investment Policy Statement as well as the directives from the Board and/or its Investment Committee.

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

- implementing the decisions of the Board regarding hiring and termination of providers and investment options,
 - oversight of the SMP investment program, including conducting due diligence and providing recommendations in the selection and termination of providers and investment options,
 - providing technical advice in the selection and monitoring of the providers and investment options,
 - recommending revisions to provider agreements with concurrence from the General Counsel required,
 - reviewing and drafting recommendations to the SMP Investment Policy annually,
 - monitoring compliance with Board-approved policies for all providers and investment options,
 - preparing performance and asset allocation reports,
 - responding to inquiries from various parties concerning the SMP investment options in accordance with SURS communication policies,
- completing other administrative duties related to the SMP investment program, and
- serving as a liaison to the investment community.

The SURS Staff has the responsibility to implement the Board decisions through negotiation, execution and enforcement of the provider agreement. All provider agreements and amendments thereto must be executed by the Executive Director.

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

External Investment Consultant(s)

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

The Consultant is hired by and reports directly to the Board of Trustees. The Consultant's duty is to work with the Board, Investment Committee and its Chair(s), and Staff in the management of the SMP investment process. This includes regular meetings with the Board to provide an independent perspective on the SMP's goals, structure, performance and providers. In the course of the Consultant's normal functions, the Consultant will work directly with the Staff to review performance and make recommendations to the Board as appropriate. The Consultant will assist Staff and the Committee with provider and investment option selection and discuss the impact of material changes taking place within any current provider's organization or investment process. The Consultant may also provide fiduciary education to inform the Board and Staff regarding significant trends in the defined contribution industry.

Provider

The provider responsibilities include, but are not limited to:

- maintaining and updating individual account balances as well as information regarding plan contributions, withdrawals and distributions,
- safekeeping of securities,
- settlement of trades,
- collection of income,
- reporting of investment results on a regular basis,
- administrative reporting,
- providing information to participants regarding SMP investment options offered by the provider, and
- immediately communicating any material changes in the process, philosophy, or management of the underlying investment options.

Lead Administrator

A provider hired as lead administrator is responsible for interfacing with SURS and other SMP provider(s) to facilitate administrative functions, in addition to fulfilling responsibilities as a provider.

Participants

Participants are responsible for the allocation of their assets among the investment options of the SMP and for the voting of proxies for mutual fund shares in which the participants are invested. Participants and beneficiaries alone bear the risks and reap the rewards of investment results from the options and asset allocations that they select.

General Counsel's Office

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

- Any document that the Executive Director is requested to sign,
- New provider agreements,
- Amendments to provider agreements,
- Any matter that Investment Staff wishes to assign to outside counsel excluding routine matters for which the CIO may directly interact with outside counsel,
- Correspondence to or from any provider concerning actual or potential litigation or legal issue, and
- Any material violation by a provider of any terms or obligations in a contract with the System that comes to the attention of Investment Staff.

External Counsel

External counsel may be retained to provide legal services in connection with the review and negotiation of agreements, where specialized experience is required or where General Counsel resources are unavailable.

IV. Investment Objectives

The objective of the Board of Trustees is to offer a sufficient range of investment options to allow participants to diversify their assets in the SMP and construct portfolios that reasonably span the risk/return spectrum. The SMP investment options will be selected to:

- Maximize return within reasonable and prudent levels of risk,
- Provide returns comparable to those of similar investment options,
- Provide exposure to a diversified range of investment opportunities in various asset classes,
- Provide cost-efficient investment options, and
- Control administrative and management costs.

V. Investment Option and Provider Selection

The SMP investment options will allow participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk. In that regard, the SMP program shall offer investment options in each of the following categories:

- Fixed Rate (stable value)
- Bonds (fixed income)
- Lifecycle
- U.S. Equities
- International Equities
- Global Equities
- Real Estate

Within these categories, the types of options may include active or passive investment options, low- to high-risk options and specialized styles of investment management.

The particular investment option under consideration should meet the following standards for selection:

- Performance should be equal to or greater than the median return for an appropriate, style-specific benchmark and peer group over a specified time period,
- It should demonstrate adherence to the stated investment objective, and
- Fees should be competitive compared to similar investments.

A provider will be selected to offer investment options identified by the Staff, Consultant, or Board of Trustees to fulfill the investment objectives of the SMP. It is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by competitive selection, objective evaluation, and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of SMP participants and beneficiaries. SURS prohibits any form of payment from any provider or provider of investment products in consideration of its inclusion in the SMP. Additionally, the Board of Trustees shall engage at least two, but no more than seven, providers to offer the investment options previously noted. These providers will be retained after satisfactory review consisting of factors such as experience, investment expertise, investment record, and cost. Each provider must meet the following minimum criteria:

- It should be a bank, insurance company or investment management company or an investment adviser registered under the Investment Advisers Act of 1940;
- It should be operating in good standing with regulators and clients;
- It should provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information; and
- It should provide all performance, holdings, and other relevant information in a timely fashion, with specified frequency.

VI. Quiet Period Policy

The Quiet Period Policy is intended to establish guidelines by which all members of the Board of Trustees and SURS Staff will communicate with prospective providers during the search process.

The objectives of the policy are to ensure that:

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

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

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

VII. Investment Option and Provider Monitoring

The investment options will be reviewed, net of all fees, and compared to reasonable benchmarks on a quarterly basis. A comprehensive evaluation will be conducted annually for each of the investment options and a determination will be made by the Board of Trustees to retain or replace any of the investment options. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is necessary and on-going.

If overall satisfaction with the investment option is acceptable, no action is required. If areas of dissatisfaction exist, the provider and the Board of Trustees must take steps to remedy the deficiency. If over a reasonable period the provider is unable to resolve the issue, termination may result.

Investment option fees will be reviewed on an annual basis. The review will assess the reasonableness of the fees relative to peer investment options and confirm that participants are receiving a fair value in exchange for the fees rendered.

A review of each provider shall be conducted annually. The review will include input from both the Consultant and Staff and will take into consideration, at a minimum, the provider's organization, performance and cost of SMP investment options offered by the provider, and an overview of each SMP investment option offered by the provider. If the Staff or Consultant have significant concerns about a provider, the Staff or Consultant will communicate to the Investment Committee and a course of action may be determined and initiated. Unusual, notable or extraordinary events should be communicated by the provider immediately to the Staff, Consultant and representatives of the Board of Trustees. Examples of such events include portfolio manager or team departure, violation of investment guidelines, material litigation against the firm, or material changes in firm ownership structure, or announcements thereof.

VIII. Investment Option/Provider Termination

An investment option/provider should be considered for termination when the Board of Trustees has lost confidence in the investment option's/provider's ability to:

- Achieve performance and risk objectives,
- Comply with investment guidelines,
- Comply with reporting requirements, or
- Maintain a stable organization and retain key relevant investment professionals.

If the investment option/provider has consistently failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. Failure to remedy the circumstances of unsatisfactory performance by the investment option/provider, within a reasonable time, shall be grounds for termination.

Any action to terminate an investment option/provider will be treated on an individual basis, and will not be made solely based on quantitative data. In addition to those above, other factors may include professional or client turnover, or material change to investment philosophy or processes. Considerable judgment must be exercised in the termination decision process. It is the Board's intention to assure all interested parties that decisions made in carrying out these actions occur in a full disclosure environment characterized by objective evaluation and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of SMP participants and beneficiaries and consistent with other legal requirements.

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

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

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

An investment option/provider to be terminated shall be removed using one of the following approaches:

1. Remove and replace (map assets) with an alternative investment option/provider.
2. Freeze the assets managed by the terminated investment option/provider and direct new assets to a replacement investment option/provider.
3. Phase out the investment option/provider over a specific time period.
4. Continue the investment option/provider but add a competing investment option/provider.
5. Remove the investment option/provider and do not provide a replacement investment option/provider.

Any change to the investment options or provider lineup will be communicated to SMP participants as soon as practical upon approval by the Board of Trustees.

IX. Participant Education and Communication

SURS will communicate to SMP participants that they control their own investments; permit investment changes; and, provide educational materials allowing participants to make informed decisions.

X. Coordination with the Plan Document

Notwithstanding the foregoing, if any term or condition of this investment policy conflicts with any term or condition in the plan document, the terms and conditions of the plan document shall control.

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