

STATE UNIVERSITIES RETIREMENT SYSTEM

Defined Contribution
INVESTMENT POLICY



Adopted by the Board of Trustees
January 30, 2020

Defined Contribution INVESTMENT POLICY

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I. Statement of Purpose of the Defined Contribution Plans

The purpose of the State Universities Retirement System (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. The purpose of the Supplemental Plan (SP) is to provide eligible employees with supplemental retirement savings in individual participant accounts through employee contributions, optional employer contributions and earnings.

II. Statement of Purpose of the Investment Policy

The purpose of this statement is to establish the investment policy for the management of the assets of the SMP and SP. 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 and SP 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 and SP shall be for the sole interest of 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 and SP.

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 recordkeeper of the SMP and SP and for establishing and maintaining the Defined Contribution 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 and SP 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. Notwithstanding the foregoing, if a member of the Board of Trustees is a participant in the SMP and/or SP, the member would not be excluded from participating in deliberations or vote on any matter before the Board that would result in direct benefit to the member solely by virtue of the member's participation in the SMP or SP, provided that the member would benefit in a fashion equal to any other participant in the Plans.

Investment Committee

The Board establishes an Investment Committee (the Committee) that reviews and makes recommendations to the Board on investment actions that includes, but are not limited to, the following topics:

- the selection, retention, monitoring, and termination of the investment options,
- the selection, retention, monitoring, and termination of the annuity providers,
- the selection, retention, monitoring, and termination of the recordkeeper, and
- the establishment and maintenance of the Defined Contribution 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 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 Chair(s), and
- studying, recommending and implementing policy and operational procedures that will enhance the defined contribution 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 following internal staff and the consultant.

SMP Manager and Benefits Staff

The SMP Manager and benefits staff report directly to the Chief Benefits Officer (CBO) who in turn reports to the Executive Director. The CBO, SMP Manager and benefits staff are responsible for administration, education and communication related to the SMP and SP.

Responsibilities delegated to the SMP Manager and benefits staff include, but are not limited to, the following topics:

- oversight of the SMP and SP,
- acting as a liaison between SURS and the recordkeeper,
- acting as a liaison between SURS and the annuity provider,
- completing daily administrative duties,
- recommending revisions to recordkeeper agreements with concurrence from the General Counsel required,
- providing plan education, communication and customer-service related functions, and
- conducting administrative due diligence.

General Counsel's Office

The role of the General Counsel's Office is to oversee all legal services provided in connection with defined contribution matters, to perform draft document review and provide legal advice on defined contribution 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 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.

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 Defined Contribution 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 include, but are not limited to, the following topics:

- implementing the decisions of the Board regarding hiring and termination of the recordkeeper and investment options,
- oversight of the SMP and SP investment programs, including conducting due diligence and providing recommendations in the selection and termination of the recordkeeper and investment options,

- providing technical advice in the selection and monitoring of the recordkeeper and investment options,
- recommending revisions to recordkeeper agreements with concurrence from the General Counsel required,
- reviewing and drafting recommendations to the Defined Contribution Investment Policy regularly,
- monitoring compliance with Board-approved policies for investment options,
- monitoring performance and asset allocation reports,
- responding to inquiries from various parties concerning the SMP and SP investment options in accordance with SURS communication policies,
- completing other administrative duties related to the SMP and SP investment program, and
- serving as a liaison to the defined contribution community.

SURS Staff will collaborate, as necessary, on the selection, monitoring, and operations of the Defined Contribution Plan. SURS Staff has the responsibility to implement the Board decisions through negotiation, execution and enforcement of the recordkeeper agreement. All recordkeeper agreements and amendments thereto must be executed by the Executive Director.

Staff also works closely with the consultant. Recommendations to the Investment Committee will generally be developed jointly by the Staff and the consultant with advice to the Chair(s). Once an item is identified as a potential agenda item, the Staff and the 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 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 and SP investment process. This includes regular meetings with the Board to provide an independent perspective on the SMP's and SP's goals, structure, performance, recordkeeper, and annuity provider. 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 recordkeeper, annuity provider, and investment option selection and discuss the impact of material changes taking place within any current provider's organization. The consultant may also provide fiduciary education to inform the Board and Staff regarding significant trends in the defined contribution industry.

Recordkeeper

The recordkeeper's responsibilities include, but are not limited to, the following topics:

- ability to recordkeep a broad platform of possible investment options and offer investment options identified by the Staff, consultant, or Board of Trustees to fulfill the investment objectives of the SMP and SP,
- 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 and SP investment options, and
- immediately communicating any material changes in the process, philosophy, or management of the underlying investment options.

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.

Participants

Participants are responsible for the allocation of their assets among the investment options of the SMP and SP. Participants and beneficiaries alone bear the risks and reap the rewards of investment results from the options and asset allocations that they select.

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 SP and construct portfolios that reasonably span the risk/return spectrum. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of participants and beneficiaries. The SMP and SP 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 as measured by the expense ratio, and
- Provide lifetime income option(s) that would allow participants to qualify for retiree healthcare, if eligible.

V. Investment Option Selection

The SMP and SP investment options should allow participants to construct portfolios consistent with their unique individual circumstances, goals, time horizons and tolerance for risk. In that

regard, the SMP and SP programs may offer investment options including, but not limited to, each of the following categories:

- Lifetime Income
- Target Date Funds/Asset Allocation Funds
- Capital Preservation
- Core and Diversifying Fixed Income
- Domestic Equity
- International/Global Equity
- Inflation Hedge
- Socially Responsible Array

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 Committee may utilize mutual funds, collective investment funds, and/or various investment vehicles for the investment options. The Committee may also consider the use of custom investment options and/or white-label funds. Investment options may vary over time based on participant needs and options offered in the marketplace. The number of investment options available should be managed to provide sufficient choice without overwhelming members with too many options. SURS prohibits any form of payment from any provider or provider of investment products in consideration of its inclusion in the SMP or SP.

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

- Performance should be reasonable when compared to the median return for an appropriate, style-specific benchmark and/or peer group over a specified time period;
- Risk measures, including risk-adjusted return, should be reasonable when compared to the risk measures for an appropriate, style-specific benchmark and/or 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.

Selection of Target Date Funds

Understanding that target date suites vary widely, the following steps will be used as general guidelines:

- Consider what the primary objective is in relation to risk management - whether 1) minimizing equity market risk just before retirement is desired because of market volatility; 2) minimizing interest rate risk just before retirement associated with securing lifetime income; or 3) maximizing return is more important due to longevity risk.
- Consider participant demographics in order to help define overall risk tolerance. Factors that may be considered are average age of population, average age at which population retires, overall investment knowledge, current plan usage of target date, hybrid funds, or asset allocation suites, and participant behavior at retirement,
- Review asset class diversification,

- Expense fees in comparison to averages and as related to overall plan cost, and
- Performance comparison relative to other target date funds with similar objectives.

Selection of Fixed Interest/Stable Value Options

In selecting any fixed interest/stable value option, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate in its sole discretion (should the Committee choose to offer such an option):

- Financial strength ratings of the guarantor provided by the major ratings agencies,
- Interest rate history and minimum guaranteed contract rate,
- Contract liquidity provisions,
- Current and historical market to book value ratio (stable value funds only), and
- Comparison between fixed interest accounts (i.e., those backed by general assets) and stable value accounts (i.e., those backed by separate account).

Selection of the Default Investment Options

The Committee is authorized to designate the SMP and SP default investment options (i.e., the options into which contributions will be directed on behalf of participants who fail to make affirmative investment elections). In so doing, the Committee will apply the general selection and monitoring principles described in this investment policy.

A recordkeeper will be selected to offer investment options identified by the Staff, Consultant, or Board of Trustees to fulfill the investment objectives of the SMP and SP. 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 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 or SP. The recordkeeper will be retained after satisfactory review consisting of factors such as experience, ability to recordkeep a broad platform of possible investment options and cost. Each recordkeeper must meet the following minimum criteria:

- It should be an insurance and annuity company, mutual fund company, banks, trust company, or other financial institution authorized to do business in this State as required under Section 15-158.2(c) of the Illinois Pension Code.
- It should be operating in good standing with regulators and clients;
- It should provide detailed additional information on the history of the firm, client service 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. Investment Option Monitoring

The investment options will be reviewed, net of all fees, and compared to reasonable benchmarks on a regular basis. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is necessary and ongoing.

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 may take steps to remedy the deficiency depending on the resulting area of underperformance. If over a reasonable period, the investment provider is unable to resolve the issue, termination may result.

Investment option fees will be regularly reviewed. 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. Staff and consultant will periodically review the availability of, and seek to implement, fee reductions that become available.

Monitoring of Target Date Funds

The monitoring process may include, but is not limited to, the following topics:

- Review for any significant changes (investment strategy, underlying assumptions or management changes) in the target date offering,
- Review the glide path to ensure the strategy chosen remains appropriate for participants and the manager is adhering to the investment process and performance objective,
- Review performance relative to custom benchmark, category averages, and other benchmarks,
- Review the underlying holdings of the target date offering, and
- Review qualitative factors (key personnel making asset allocation and investment decisions, manager's available resources and parent organization).

Monitoring of Fixed Interest/Stable Value Option

The Committee shall monitor any fixed interest/stable value option as frequently as circumstances warrant. As part of its monitoring process, the Committee may take into account some or all of the following criteria, as the Committee deems appropriate in its sole discretion:

- Financial strength ratings of the guarantor provided by the major ratings agencies,
- Current interest rates, and
- Current market to book value ratio (stable value funds only).

A review of each provider shall be conducted regularly. 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 and SP investment options offered by the provider, and an overview of each SMP and SP 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 may 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.

VII. Investment Option Termination

An investment option/provider should be considered for termination when the Staff and 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 may be treated on an individual basis and may 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 an environment of full disclosure characterized by objective evaluation practices and proper documentation. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of SMP and SP 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 may be developed for each case and the relative importance of each evaluation area may be determined. Documentation regarding any such action may 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.

The Board will attempt to satisfy any interested party that decisions were well reasoned, thoroughly considered, and prudent. 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 or current investment option/provider.
- 3.
4. 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 and SP participants as soon as practical upon approval by the Board of Trustees.

VII. Participant Education and Communication

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

IX. 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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