



MINUTES

**Meeting of the Investment Committee
of the Board of Trustees of the
State Universities Retirement System
Thursday, February 2, 2023, 9:00 a.m.
State Universities Retirement System
Via remote access due to ongoing COVID-19 concerns**

The meeting on February 2, 2023, was conducted via video conference pursuant to the Governor's COVID-19 Executive Order dated January 6, 2023 and subsection (e) of Section 7 of the Illinois Open Meetings Act. Chair John Atkinson of the SURS Board of Trustees determined that a full, in-person meeting was not practical nor prudent due to the ongoing COVID-19 disaster concerns.

The following trustees were present: Mr. John Atkinson; Dr. Andriy Bodnaruk; Mr. Richard Figueroa; Dr. Fred Giertz; Mr. Scott Hendrie, chair; Dr. Steven Rock; Mr. Collin Van Meter; Mr. Antonio Vasquez; and Mr. Mitch Vogel.

Others present: Ms. Suzanne Mayer, Executive Director; Mr. Doug Wesley, Chief Investment Officer (CIO); Ms. Ellen Hung, Deputy CIO; Ms. Kim Pollitt, Mr. Joe Duncan and Mr. Shane Willoughby, Sr. Investment Officers; Mr. Brian Deloria, Mr. Alex Ramos and Ms. Kelly Valle, Investment Officers; Ms. Stephany Brinkman, Investment Analyst; Ms. Dallen Roman, Investment Intern; Ms. Bianca Green, General Counsel; Ms. Tara Myers, Chief Financial Officer; Ms. Heather Kimmons, Associate Legal Counsel; Ms. Jackie Hohn, Chief Internal Auditor; Ms. Nichole Hemming, Chief Human Resources Officer; Ms. Kristen Houch, Director of Legislative and Stakeholder Relations; Ms. Alicia Route, Legislative Analyst; Ms. Kelly Carson, Ms. Chelsea McCarty and Ms. Annette Ackerman, Executive Assistants; Mr. David Sancewich, Ms. Ghiané Jones and Mr. Colin Bebee, of Meketa; and Mr. Michael Calabrese of Foley.

Investment Committee roll call attendance was taken. Trustee Atkinson, present; Trustee Bodnaruk, present; Trustee Figueroa, present; Trustee Flaherty, absent; Trustee Giertz, present; Trustee Hendrie, present; Trustee Lyons, absent; Trustee Rock, present; Trustee Van Meter, present; Trustee Vasquez, absent; and Trustee Vogel, present.

Trustee Vasquez physically joined the meeting at 9:30 a.m.

APPROVAL OF MINUTES

Trustee Hendrie presented the minutes from the Investment Committee meetings of December 8, 2022.

Trustee Rock made the following motion:

- That the minutes from the December 8, 2022 Investment Committee meetings be approved as presented.

Trustee Bodnaruk seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | absent |
| Trustee Vogel | - | aye |

APPROVAL OF CLOSED MINUTES

Trustee Hendrie presented the closed minutes from the Investment Committee meeting of December 8, 2022.

Trustee Rock made the following motion:

- That the closed minutes from December 8, 2022 Investment Committee meeting be approved and remain closed.

Trustee Figueroa seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | absent |
| Trustee Vogel | - | aye |

CHAIRPERSON'S REPORT

Trustee Scott Hendrie did not have a formal chairperson report.

CIO REPORT

Mr. Doug Wesley introduced the new investment intern, Ms. Dalleney Roman. Mr. Wesley also updated the board on recently funded real asset commitments, which increased the SURS stabilized growth real asset policy allocation to its long-term target. Mr. Wesley also discussed a recent portfolio rebalance and shared the status of the real asset consultant RFP.

Copies of the staff memorandums titled “Investments Contracts Approved” and “Report from the December 8, 2022, Investment Committee Meeting” are incorporated as part of these minutes as [Exhibit 1](#) and [Exhibit 2](#)

CLOSED SESSION

Trustee Rock moved that the Investment Committee go into closed session at 9:15 a.m. pursuant to §2(c)(7) of the Illinois Open Meetings Act to consider the sale or purchase of securities or investment or to consider an investment contract. Trustee Van Meter seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | absent |
| Trustee Vogel | - | aye |

RETURN TO OPEN SESSION

The Investment Committee returned to open session at 3:12 p.m.

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff, the Investment Committee approve CAPTRUST to be hired as the defined contribution consultant for a five-year term, subject to successful completion of contract negotiations.

Trustee Atkinson seconded the motion which passed via the following roll call vote:

| | | |
|------------------|---|-----|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |

| | | |
|-------------------|---|--------|
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | aye |
| Trustee Vogel | - | aye |

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff and Callan, the Investment Committee approve a commitment of the lesser of \$50 million or 10 percent of total fund commitments to Brasa Real Estate Fund III and the lesser of \$40 million or 10 percent of total fund commitments to Long Wharf Real Estate Partners VII, subject to successful completion of contract negotiations.

Trustee Atkinson seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | aye |
| Trustee Vogel | - | aye |

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff and Fiduciary Counsel, the Investment Committee approve the delegation of the pending confidential investment decisions discussed in closed session to the SURS Executive Committee, if necessary, subject to Callan's recommendation and the successful completion of applicable contract negotiations.

Trustee Vasquez seconded the motion which passed via the following roll call vote:

| | | |
|------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |

| | | |
|-------------------|---|--------|
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | aye |
| Trustee Vogel | - | aye |

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff and Meketa, the Investment Committee approve a commitment of \$410 million to a Private Equity Co-Investment Vehicle managed by Aksia LLC, subject to successful completion of contract negotiations.

Trustee Vasquez seconded the motion which passed via the following roll call vote:

| | | |
|-------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | aye |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | aye |
| Trustee Vogel | - | aye |

STABILIZED GROWTH ASSET CLASS REVIEW

Mr. Joe Duncan and Mr. Alex Ramos provided an update regarding the stabilized growth asset class. They discussed the role of the asset class, accomplishments and initiatives within the asset class, benchmarks, target vs. actual allocations, minority firm exposure, and performance of the class. They also discussed options strategies, public credit, private credit, (including highlights from the strategic plan) and objectives for private credit allocation.

A copy of the staff presentation titled “Stabilized Growth Asset Class Review February 2023” is incorporated as part of these minutes as [Exhibit 3](#)

PRIVATE CREDIT CLASS REVIEW AND PACING UPDATE

Mr. Joe Duncan introduced Ms. Mary Bates and Mr. Tad Fergusson of Meketa who provided an overview of private credit including a market overview, pacing commitments and expectations for the private credit portfolio.

A copy of the Meketa's presentation titled "State Universities Retirement System of Illinois – Private Credit Asset Class Review & Pacing Plan" is incorporated as part of these minutes as [Exhibit 4](#).

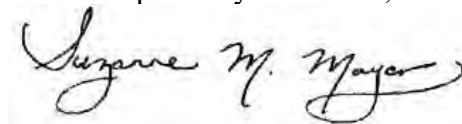
PUBLIC COMMENT

There were no public comments presented to the Investment Committee.

There was no further business brought before the committee and Trustee Rock moved that the meeting adjourn. The motion was seconded by Trustee Van Meter which passed via the following roll call vote:

| | | |
|-------------------|---|--------|
| Trustee Atkinson | - | aye |
| Trustee Bodnaruk | - | aye |
| Trustee Figueroa | - | aye |
| Trustee Flaherty | - | absent |
| Trustee Hendrie | - | aye |
| Trustee Giertz | - | absent |
| Trustee Lyons | - | absent |
| Trustee Rock | - | aye |
| Trustee Van Meter | - | aye |
| Trustee Vasquez | - | aye |
| Trustee Vogel | - | aye |

Respectfully submitted,

A handwritten signature in cursive script, reading "Suzanne M. Mayer".

Ms. Suzanne M. Mayer
Executive Director and Secretary, Board of Trustees

SMM:kc



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www.surs.org

Investment Department

To: Suzanne Mayer
From: Douglas C. Wesley, CFA
Date: February 19, 2023
Subject: Investment Contracts Approved

The following investment agreements were approved by the Executive Director subsequent to the mailing for the December 8, 2022, Investment Committee meeting.

Defined Benefit Plan

Nipun Capital

Subscription agreement and side letter were fully executed on November 29, 2022.

Torchlight Debt Fund VIII

Subscription agreement and side letter were fully executed on November 30, 2022.

Homestead Capital Farmland Fund IV

Subscription agreement and side letter were fully executed on December 21, 2022.

Longpoint Fund III

Subscription agreement and side letter were fully executed on January 3, 2023.

Defined Contribution Plan

EARNEST Partners SMID Value

Agreements for RSP and DCP were fully executed on November 28, 2022.



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www.surs.org

Investment Department

To: Investment Committee
 From: Douglas C. Wesley, CFA
 Date: January 19, 2023
 Subject: Report from the December 8, 2022 Investment Committee Meeting

Enclosed are the Minutes of the December 8, 2022, Investment Committee Meeting. The purpose of this memorandum is to provide a status report on the action items for Investments.

Six motions were approved during the Investment Committee Meeting. These included the approval of the minutes from the October 20, 2022 Investment Committee Meeting, and that the closed session minutes from the October 20, 2022 Investment Committee Meeting be approved and remain closed. The remaining motions approved by the Board of Trustees required further action by SURS staff. Open motions requiring further action by SURS Staff are listed below.

1. **That based on the recommendation from SURS staff and Callan, a commitment of \$40 million be awarded to Homestead Capital USA Farmland Fund IV, subject to successful completion of contract negotiations.**

Subscription agreement and side letter were fully executed on December 21, 2022.

2. **That based on the recommendation from SURS staff and Callan, a commitment of \$60 million be awarded to Longpoint Realty Fund III, subject to successful completion of contract negotiations.**

Subscription agreement and side letter were fully executed on January 3, 2023.

3. **Based on the recommendation from SURS staff and Meketa, the assets from the closure of the Mondrian/Macquarie Emerging Markets Fund be allocated 50/50 to the newly hired emerging markets managers, Nipun Capital, and William Blair.**

SURS staff is in the process of contract amendment negotiations, to remove the emerging markets fund, with Mondrian.

4. **That based upon the recommendation of SURS staff, the Investment Committee approve Meketa to be hired as the general investment consultant for a five-year term, subject to successful completion of contract negotiations.**

SURS staff is in the process of contract negotiations.

Open item from October 20, 2022

5. That based upon the recommendation of SURS staff and Callan, SURS commit \$50 million to the Torchlight Deb Fund VIII, subject to successful completion of contract negotiations.

Subscription agreement and side letter were fully executed on November 30, 2022.

6. That based on the recommendation of SURS staff and Meketa, SURS commit \$100 million to Fairview Lincoln Fund 1 (Series C), subject to successful completion of contract negotiations.

SURS staff is in the process of contract negotiations.

Open item from September 15, 2022

7. That based upon the recommendations from SURS Staff and Meketa, SURS retain Nipun Capital and William Blair for Emerging Market equity mandates with a 50/50 allocation of assets between the two managers, subject to successful completion of contract negotiations with funding from the full liquidation of the State Street Emerging Markets Index Fund.

Nipun was funded after subscription agreement and side letter were fully executed on November 29, 2022. SURS staff in the process of contract negotiations with William Blair.

Open item from June 2, 2022

8. That based on the recommendation from SURS staff and Meketa, the Investment Committee approve the retention of Capstone Investment Advisors to serve as the back-up manager for the tail risk and long volatility mandates, subject to successful contract negotiations.

SURS staff is in the process of contract negotiations.

9. That based on the recommendation from SURS staff and CAPTRUST, the Investment Committee approve replacing Janus Henderson Small-Mid Cap Value N and mapping the plan's current assets and future contributions to Earnest Partners SMID Cap Value, as soon as administratively possible.

The mapping of assets from the Janus fund to the EARNEST product as the underlying investment of the SURS U.S. Small-Mid Cap Value Equity occurred on December 30, 2022, for both the SURS Retirement Savings Plan and the SURS Deferred Compensation Plan.

Please advise if you have any questions prior to the February 2, 2023, Investment Committee meeting.



Stabilized Growth Asset Class Review

February 2023




Functional Asset Class Review Schedule

| Meeting | Functional Asset Class | Strategies |
|-----------|--|---|
| September | Annual Review/Investment Plan | |
| October | Principal Protection & Inflation Sensitive | Principal Protection, TIPS |
| December | Non-Traditional Growth | Private Equity, Real Assets |
| February | Stabilized Growth | Options, Public and Private Credit |
| March | Defined Contribution | |
| April | Traditional Growth | Public Equity |
| June | Crisis Risk Offset | Long Duration, Trend Following, Alternative Risk Premia |



SURS Policy Targets



| Classes/Strategies | Current Policy Target % | Long-Term Strategic Policy Target % |
|-----------------------------|-------------------------|-------------------------------------|
| Broad Growth | 68% | 68% |
| Traditional Growth | 37% | 35% |
| Public Equity | 37% | 35% |
| Stabilized Growth | 17% | 17% |
| Core Real Assets | 8% | 8% |
| Options Strategies | 2% | 2% |
| Public Credit | 5.5% | 2% |
| Private Credit | 1.5% | 5% |
| Non-Traditional Growth | 14% | 16% |
| Private Equity | 11% | 11% |
| Non-Core Real Assets | 3% | 5% |
| Inflation Sensitive | 5% | 5% |
| TIPS | 5% | 5% |
| Principal Protection | 8% | 8% |
| Crisis Risk Offset | 19% | 19% |
| Long Duration | 2% | 2% |
| Trend Following | 10% | 10% |
| Alt. Risk Premia | 5% | 5% |
| Long Volatility / Tail Risk | 2% | 2% |
| Total | 100% | 100% |

The Current Strategic Policy Target % may change over time and reflects gradual shifting of assets to the Long-Term Strategic Policy Target %, due to practical implementation considerations and liquidity constraints.



Investment Beliefs

- SURS believes that an appropriately diversified strategic allocation policy is the primary policy tool for maximizing the investment program's long-term return in light of its risk profile. The timing and magnitude of projected SURS's employer contributions and future benefit payments (i.e., its funding policy) can have significant cash flow implications and thus should receive explicit consideration during SURS's risk-framing and asset allocation decision-making process.
- SURS believes that, in order to achieve its objectives, it must incur a certain amount of investment risk that is tied to economic performance. Exposure to economic growth comes about primarily through the equity risk premium which, while highly variable, produces a significantly positive long-term return.
- SURS believes that diversification within strategic classes helps to mitigate the risks of the class. Appropriate manager diversification helps to maximize the breadth of capturing alpha after accounting for the major biases in a portfolio. As a result, added value consistency should improve.
- SURS believes disciplined allocation of capital is necessary to manage the systematic risk of the portfolio and maximize the likelihood of achieving its long-term expectations. Key examples of maintaining disciplined capital allocation includes consistently rebalancing back to strategic targets where appropriate and dollar-cost averaging (and/or pacing) new capital allocations over time into both public-market and private-market portfolios.



Investment Beliefs

- SURS believes that utilization of passive approaches in highly-efficient publicly-traded markets should take priority because it is extremely difficult to add consistent value, net of fees, in these markets. In addition, passive management typically provides for rapid, relatively liquid, low-cost exposure to the major risk premiums of the global investment markets.
- ➔ • SURS believes active management can prove beneficial in certain market segments when there is evidence that active management can produce consistent significantly-positive, net of fee performance over various market cycles.
- SURS believes that investment costs (fees, expenses and frictional costs) directly impact investment returns and should be monitored and managed carefully. Such costs should be evaluated relative to both expected and realized returns and take into account appropriate alignment of interest considerations.
- ➔ • SURS believes that the private markets should produce higher returns than public markets due to exposure to the illiquidity risk premium. While illiquidity risk can cause a portfolio's risk to increase, over the long-term the illiquidity risk premium is positive and material.
- ➔ • SURS is committed to enhancing diversity by incorporating emerging (minority, woman-owned and disability-owned) investment managers into the portfolio.
- SURS believes that addressing material environmental, social and governance-related (ESG) issues can lead to positive portfolio and governance outcomes. To integrate ESG issues into its investment process SURS may apply certain investment and/or engagement strategies/approaches to its portfolio investments. In addition, proxy rights attached to shareholder interests in public companies are also “plan assets” of SURS and represent a key mechanism for expressing SURS's positions relating to specific ESG issues.



Due Diligence Process

- Manager due diligence is an essential component of the investment process
- Due diligence is completed both before (RFP) and after managers are hired
- Staff conducts regular meetings/calls with existing managers in the portfolio and formally reviews them on an annual basis
- Key areas of the manager due diligence process include:
 - Ownership
 - Staffing
 - Assets Under Management
 - Investment Process
 - Performance
 - Compliance
 - Fees
 - Client Service
 - Diversity & Inclusion
 - ESG



Stabilized Growth

The role of the Stabilized Growth asset class is to provide growth through strategies that are exposed to equity market beta, exhibiting expected returns similar to Traditional Growth but with 50-75% of the volatility (e.g., Credit, Options strategies, and Levered Core Real Assets).

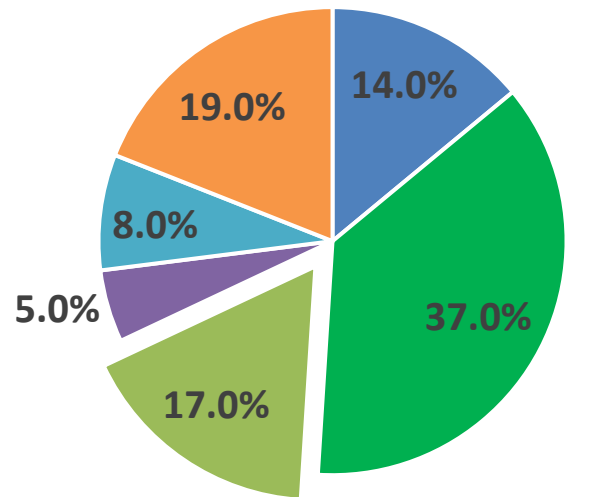
Options Strategies, Credit Fixed Income, and Core Real Assets



Stabilized Growth

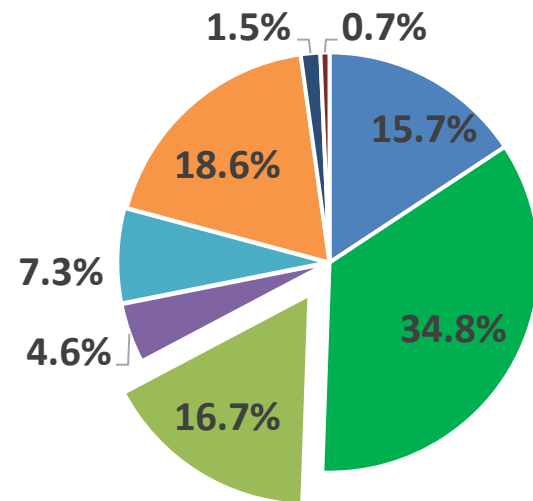
Target vs. Actual Allocation

Interim Target Allocation



■ Non-Traditional Growth ■ Traditional Growth
 ■ Stabilized Growth ■ Inflation Sensitive
 ■ Principal Protection ■ Crisis Risk Offset

Actual Allocation



■ Non-Traditional Growth ■ Traditional Growth
 ■ Stabilized Growth ■ Inflation Sensitive
 ■ Principal Protection ■ Crisis Risk Offset
 ■ Cash ■ Overlay

Stabilized Growth was slightly below its target allocation

Data as of September 30, 2022



Stabilized Growth

- **Options Strategies**
- **Stabilized Real Assets (Core Real Estate)**
 - **Core Real Estate Was Reviewed in December 2022**
- **Credit Focused Fixed Income**
 - **Public Credit Fixed Income**
 - **Private Credit**

Three Main Components



Options Strategies



Accomplishments & Initiatives

- **Fiscal Year 2022 / 2023 to date Accomplishments:**
 - There were no material changes to the Options allocation or manager lineup over the past year.
 - The SURS options portfolio as well as the individual managers have underperformed their benchmarks over the trailing 12 months but have outperformed since inception.
- **Fiscal Year 2023 Initiatives:**
 - No manager changes are recommended at this time, and SURS staff and Meketa will continue to monitor the asset allocation and the underlying managers.
 - Review and implement any changes resulting from updated CMA discussions



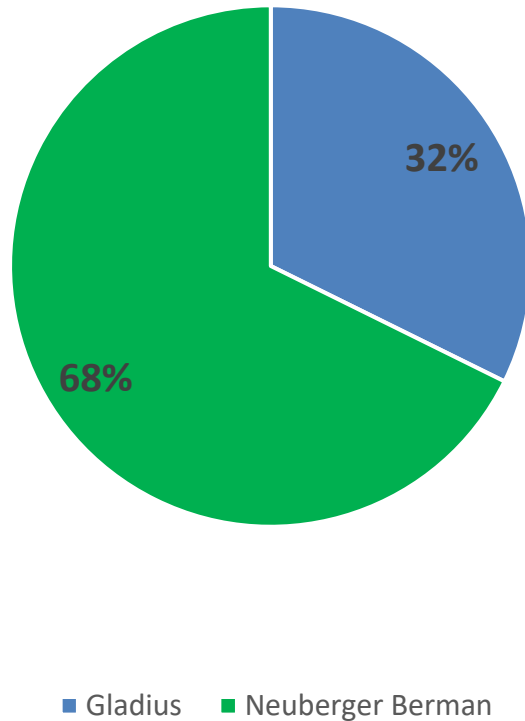
Policy Benchmark

- **Benchmark Name:** Blended of two benchmarks weighted by the allocation to the managers within the Options portfolio.
 - **Bench 1:** [22.5% CBOE S&P 500 PutWrite / 22.5% CBOE S&P 500 BuyWrite / 2.5% R2000 PutWrite / 2.5% R2000 BuyWrite / 5% MSCI EM PutWrite / 5% MSCI EM BuyWrite / 20% MSCI EAFE PutWrite / 20% MSCI EAFE BuyWrite]
 - **Bench 2:** [CBOE S&P 500 PutWrite]
- **Benchmark Descriptions:**
 - **Index BuyWrite:** A covered call index consisting of owning the underlying asset (S&P 500/Russell 2000/MSCI Emerging Markets/MSCI EAFE portfolio) and selling a slightly out-of-the-money call index option on a monthly basis.
 - **Index PutWrite:** Composed of one- and three-month Treasury bills and a short position in at-the-money put options on the S&P 500/Russell 2000/MSCI Emerging Markets/MSCI EAFE, which are rebalanced monthly.
 - **3-month T-Bill:** Short term US Treasury securities.

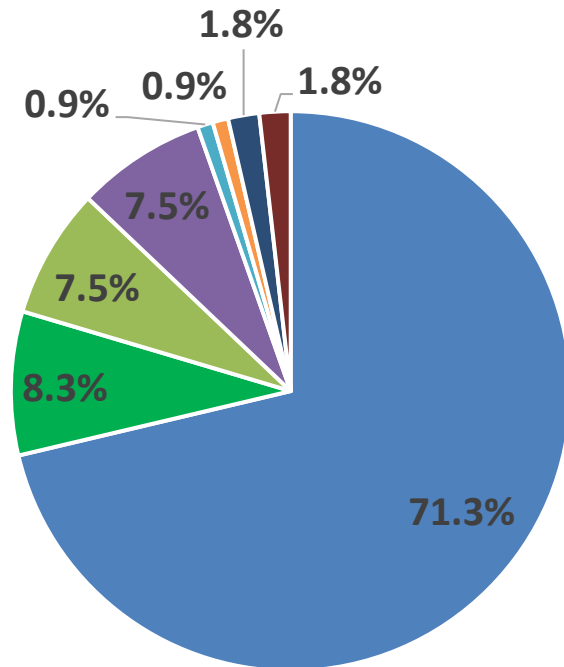


Policy Benchmark

Manager Allocation



Policy Benchmark Weights



- CBOE S&P 500 PutWrite Index
- CBOE S&P 500 BuyWrite Index
- MSCI EAFE PutWrite Index
- MSCI EAFE BuyWrite Index
- Russell2000 BuyWrite Index
- Russell2000 PutWrite Index
- MSCI EM PutWrite Index
- MSCI EM BuyWrite Index

Data as of September 30, 2022



Manager Benchmarks

- The Neuberger Berman strategy is a domestic put-writing strategy benchmarked to the CBOE S&P 500 PutWrite index.
- The Gladius portfolio is a global strategy and includes both covered call and put-writing on index options.
- The Gladius benchmark was changed as of January 2021
 - Old Gladius Benchmark: 25% CBOE S&P 500 PutWrite / 25% CBOE S&P 500 BuyWrite / 50% (MSCI ACWI ex US ND *0.6)
 - New Gladius benchmark: 22.5% CBOE S&P 500 PutWrite / 22.5% CBOE S&P 500 BuyWrite / 2.5% R2000 PutWrite / 2.5% R2000 BuyWrite / 5% MSCI EM PutWrite / 5% MSCI EM BuyWrite / 20% MSCI EAFE PutWrite / 20% MSCI EAFE BuyWrite



Performance Summary

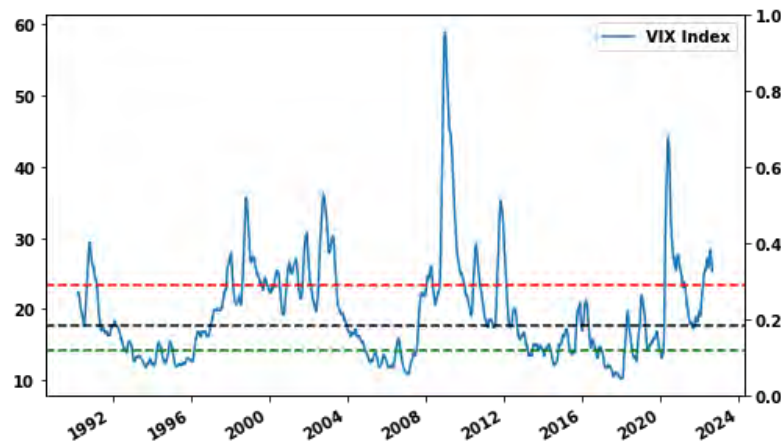
| As of September 30, 2022 | 1 Year (Net) | 3 Year (Net) | Since Inception (Net) |
|-----------------------------|-----------------|-----------------|--------------------------|
| Options Strategies | -6.1% | 5.2% | 5.6% |
| Policy Benchmark | -4.7% | 4.5% | 4.4% |
| Excess Return | -1.4% | 0.7% | 1.2% |

The Options Strategies Inception Date is April 30, 2018



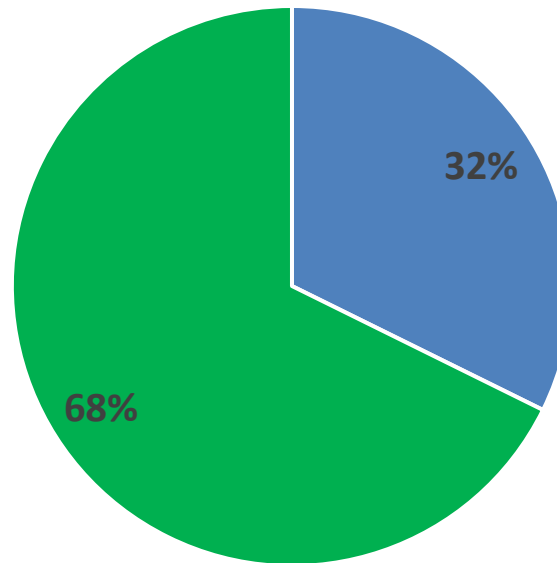
Past Year Environment Review/Outlook

- Despite the downtrend in equity markets in 2022, volatility markets remain range bound and have avoided the spikes that tend to coincide with down markets.
- Even though massive volatility spikes did not materialize, the VIX futures markets remain well above their long-term averages.
- Although inflation and interest rate rises are expected to moderate in 2023, balance sheet reduction by the Fed is likely to proceed. That, coupled with a possible corporate profits recession, may keep volatility above historical averages.
- 3-month average of the VIX along with its 25th (green), 50th (black) and 75th (red) percentiles





Minority Firm Exposure



■ Minority ■ Other

Minority Owned Manager: Gladius

32% Managed by Minority Owned Firms

Data as of September 30, 2022



Credit Fixed Income



Public Credit Fixed Income



Accomplishments

- **Prior Year Accomplishments:**
 - Worked with Meketa on the new structure recommendation approved by the Board in February 2022 that eliminated the dedicated EMD allocation



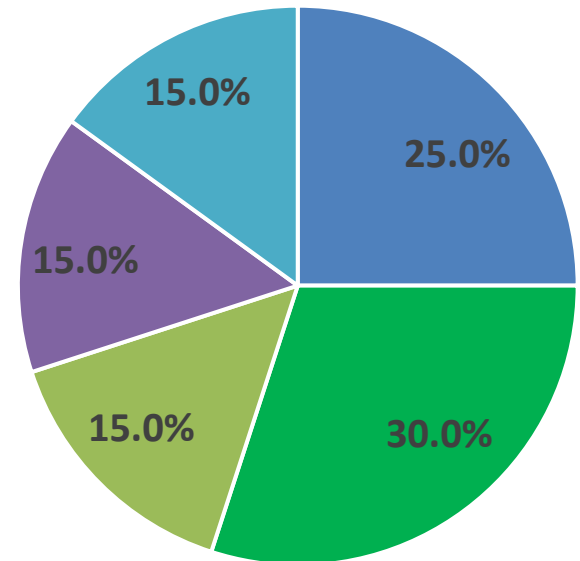
Initiatives

- **Current Initiatives:**
 - Monitor managers and make any necessary recommendations
 - Review and implement any changes resulting from updated CMA discussions



Policy Benchmark

- **Benchmark Name: Blended Benchmark**
- **Benchmark Description:**
 - 25% Investment Grade Credit
 - 30% High Yield
 - 30% Emerging Market Debt
 - 15% Bank Loans
- **The Index includes:**
 - Corporate Securities
 - Non-Investment Grade Securities
 - Emerging Market Debt Securities
 - Government (USD Denominated)
 - Corporate
 - Bank Loans

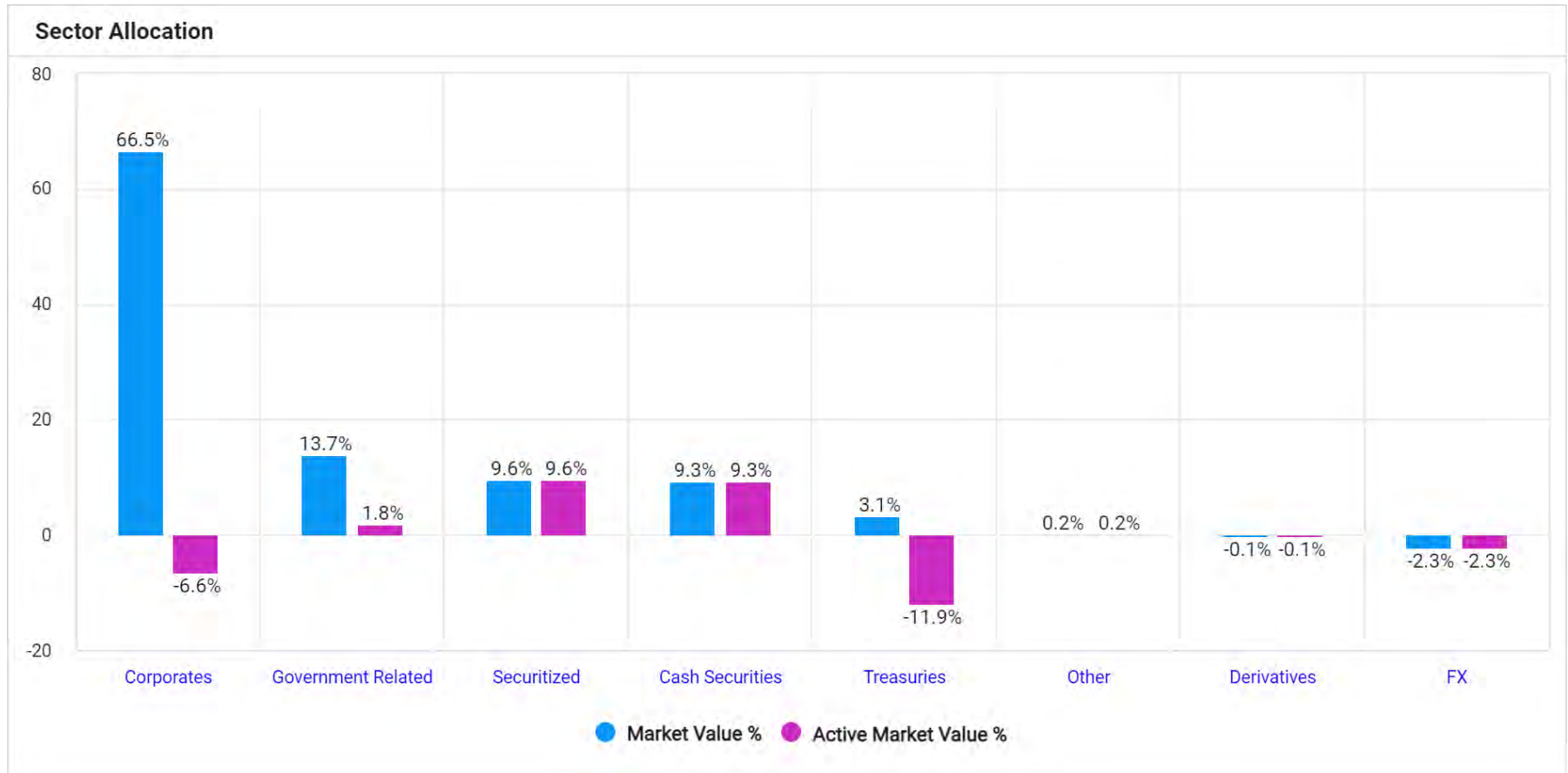


- BB Global Agg Corporate Index
- ICE BoA Global HY Index
- JPM EMBI Global Diversified
- JPM CEMBI Broad Diversified
- S&P US LSTA Global Leveraged Loan

The Policy Benchmark was updated 4/1/22



Public Credit Fixed Income Sector Allocation

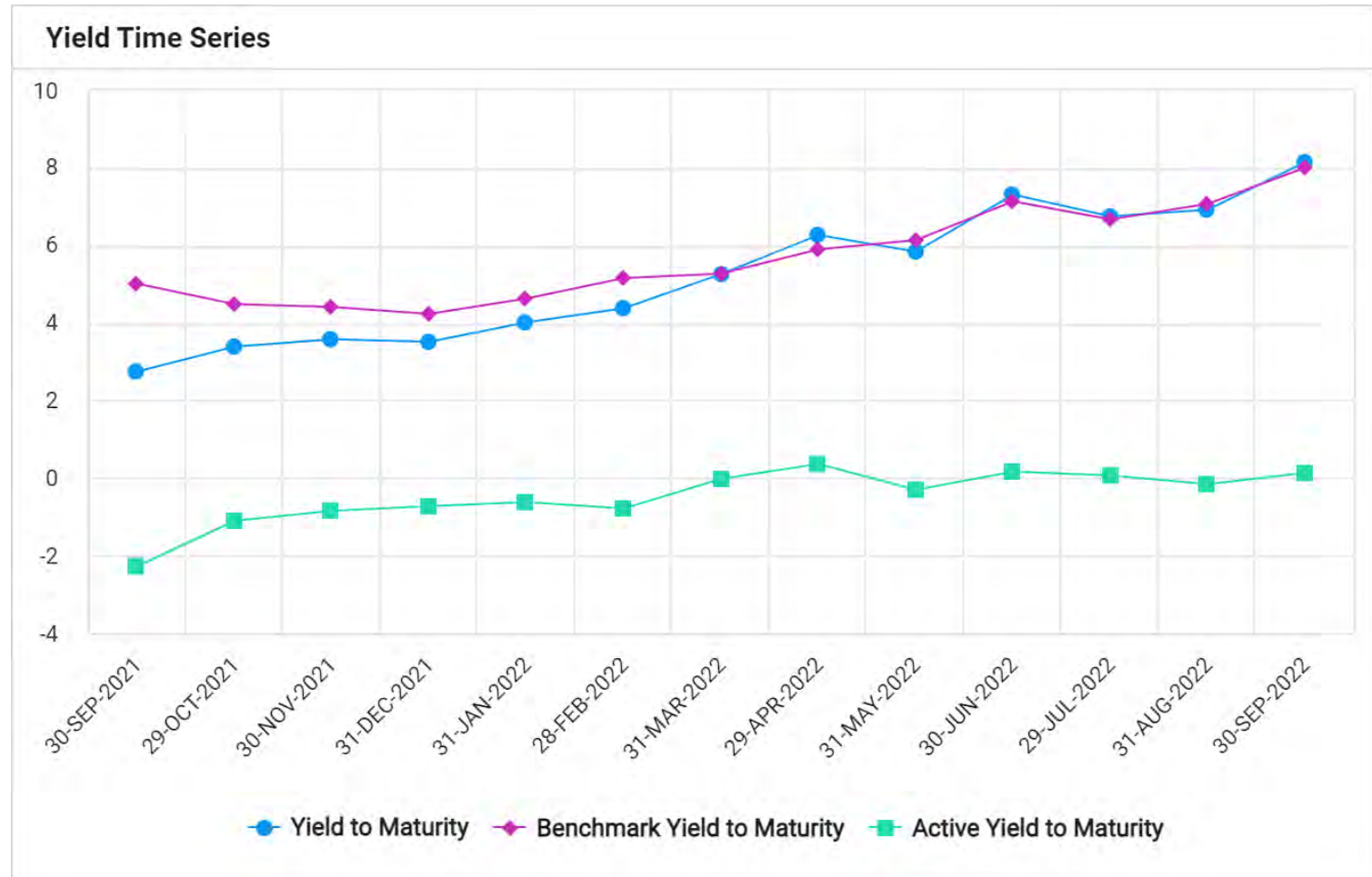


Asset class sector weights largely in line with blended benchmark, with some modest active positioning

Source: BlackRock Aladdin
Data as of September 30, 2022



Public Credit Fixed Income YTM Time Series



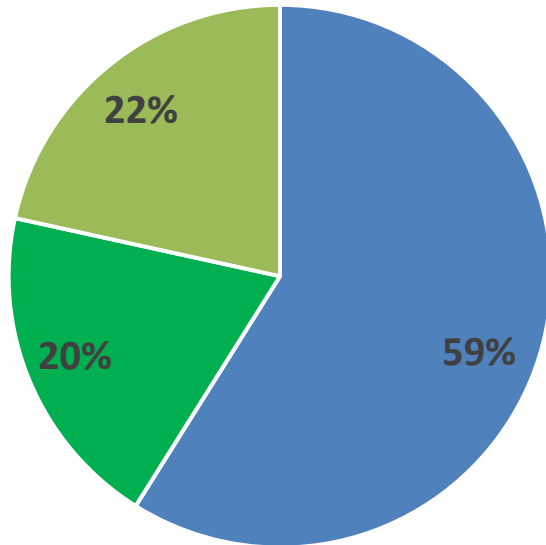
Yields have risen over the past 12 months, with YTM for the portfolio drawing closer in line with that of the blended benchmark

Source: BlackRock Aladdin
Data as of September 30, 2022



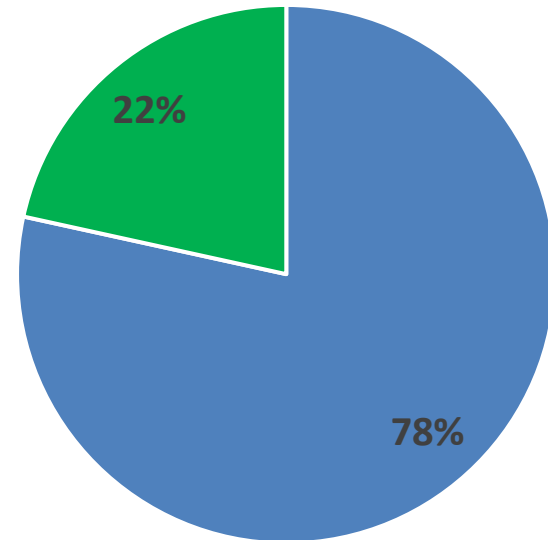
Manager Allocation

Manager Allocation



■ Neuberger ■ PIMCO ■ Bivium

Portfolio Type

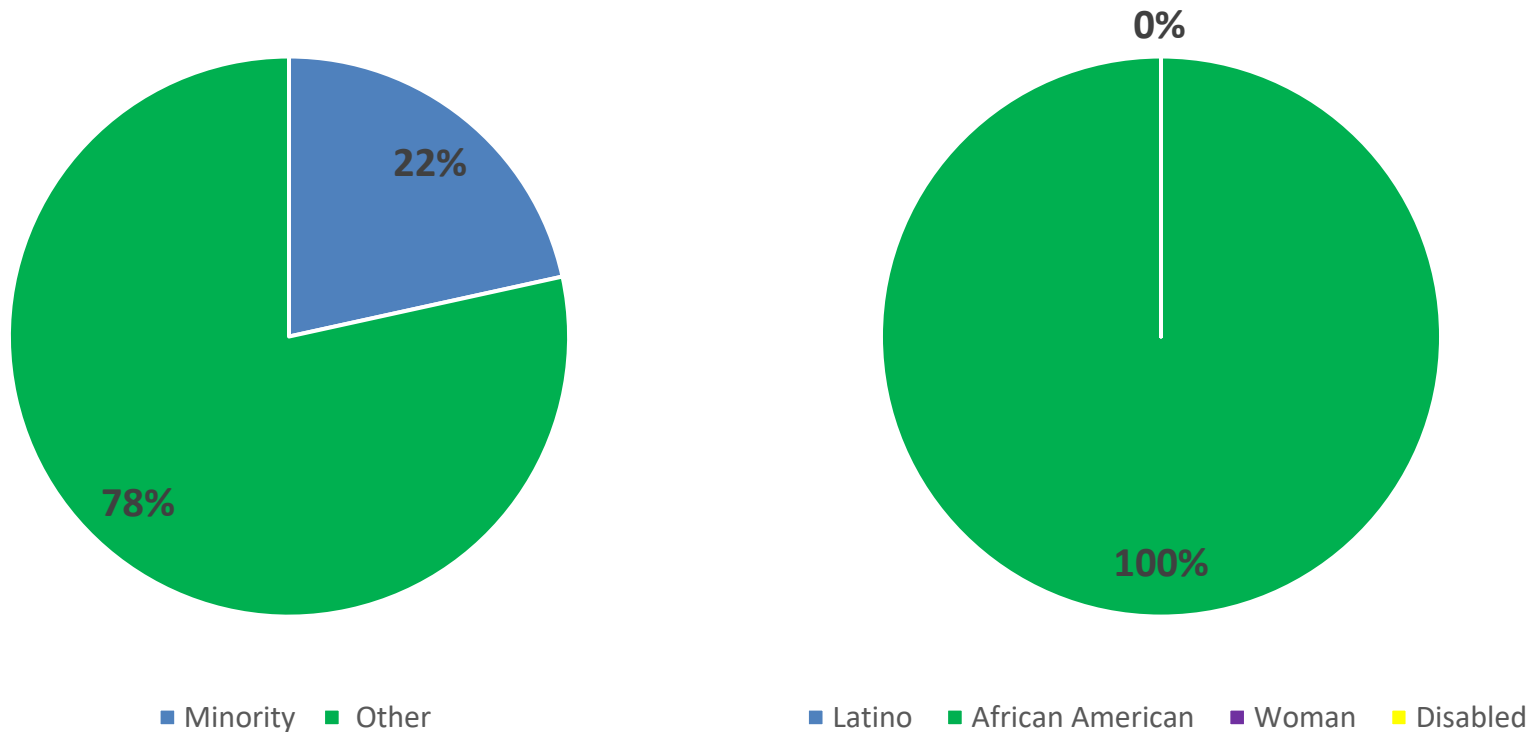


■ Multi Sector Credit ■ Manager of Managers

Data as of September 30, 2022



Minority Firm Exposure



Minority Managers: Bivium

22% Managed by Minority Owned Firms

Data as of September 30, 2022



Performance Summary

| As of September 30, 2022 | 1 Year (Net) | 3 Year (Net) | Since Inception (Net) |
|-----------------------------|-----------------|-----------------|--------------------------|
| Public Credit | -15.75% | -2.69% | -2.69% |
| Policy Benchmark | -15.66% | -2.81% | -2.81% |
| Excess Return | -0.09% | +0.12% | +0.12% |

Performance is reported net of fees. The Public Credit Inception Date is September 30, 2019.

Fees for the asset class are approximately 34 basis points per year



Forward Looking Commentary

- **Economic Commentary:**

- The Fed continues to pursue tighter monetary policy as it tries to manage inflation
- The Fed made seven rate hikes in 2022 with more expected in 2023
- Global growth is under pressure (rates, energy supply, decreased fiscal stimulus)
- Inflation has peaked, but remains high
- Unemployment remains low
- Emerging Markets gradually improving
- Rate volatility improves as focus shifts from interest rate risk to fundamental risk

- **Anticipated Changes to Asset Class:**

- There are currently no anticipated changes to the asset class over the next year.

Rising Rates Expected to Continue



Private Credit



Accomplishments

- **Prior Year Accomplishments:**
 - Worked with Meketa to continue making commitments in private credit:
 - Neuberger Berman Private Debt Fund IV
 - Silver Rock Co-Invest Fund
 - Turning Rock Fund II
 - Fortress Lending Fund III
 - Ares Pathfinder Core Fund
 - Silver Rock Tactical Allocation Fund –Vintage 2022
 - Silver Point Specialty Credit Fund III



Initiatives

- **Current Initiatives:**

- Continue to work with Meketa on implementation of the multi-year Investment Plan for private credit
- Regularly scheduled calls with Meketa to discuss opportunities in market, current investments, pipeline, and cash flows
- Annual planning meeting to discuss current year and look ahead to next
- Target minimum of 20% of all new commitments, per policy, in MWDBE funds



Private Credit Program

- **Meketa was hired as a discretionary advisor in September 2020**
- **SURS staff is involved in monitoring the portfolio and program:**
 - **Frequent calls with Meketa to discuss opportunities in market, current portfolio activities, and pipeline**
 - **Annual planning meeting to discuss current year and look ahead to next**
 - **Annual questionnaire sent with questions concerning organization/staffing, ESG & inclusion, other items**



Performance Summary

| As of September 30, 2022 | 1 Year (Net) | 3 Year (Net) | Since Inception (Net) |
|-----------------------------|-----------------|-----------------|--------------------------|
| Private Credit | +5.57% | N/A | +10.88% |
| Policy Benchmark | -8.53% | N/A | +2.35% |
| Excess Return | +14.10% | N/A | +8.53% |

**The Private Credit Benchmark is 50% Global HY + 50% Global Leveraged Loan + 1%.
The Inception Date of the Benchmark is June 30, 2020**



Private Credit Strategic Plan

- **To achieve the objectives for the Private Credit allocation:**
 - **Annual commitment target of \$500 million per year**
 - **Diversify across strategy, collateral, vintage year, geography, and manager**
 - **Target minimum of 20% of all new commitments, per policy, in emerging and MWDBE funds**



State Universities Retirement System of Illinois

February 2, 2023

Private Credit

Asset Class Review & Pacing Plan



State Universities Retirement System of Illinois

Table of Contents

1. Executive Summary
2. Market Environment
3. Activity and Performance Update
4. Commitment Pacing and Investment Plan
5. Appendix - Additional Market Environment



State Universities Retirement System of Illinois

Executive Summary



State Universities Retirement System of Illinois

Executive Summary

Performance

→ IL SURS Private Credit has generated a since inception net **IRR of 9.7%** versus -1.9% for the Policy Benchmark as of September 30, 2022.*

- Modest mark-to-market volatility. Very limited capital impairments.

Program

→ \$1.1B of commitments across 9 investments as of September 30, 2022.** Represents 5.4% of the Total Fund (Market Value + Unfunded Commitments).

- \$525 million committed across five opportunities in 2022. Modestly above \$500 million annual target.

| Fund | Strategy | Vintage Year | Commitment Date | Amount |
|---|--------------------|--------------|-----------------|----------------|
| PIMCO DISCO III | Multi-Strategy | 2020 | 6/30/2020 | 180.0 |
| Silver Rock Tactical Allocation Fund, L.P. | Special Situations | 2019 | 1/15/2021 | 150.0 |
| Crayhill Principal Strategies Fund II | Specialty Lending | 2020 | 5/25/2021 | 50.0 |
| NB Private Debt Fund IV | Direct Lending | 2021 | 9/30/2021 | 175.0 |
| Silver Rock Tactical Allocation - Co-Invest | Special Situations | 2021 | 11/1/2021 | 50.0 |
| Turning Rock Fund II LP | Special Situations | 2021 | 1/31/2022 | 50.0 |
| Fortress Lending Fund III | Multi-Strategy | 2022 | 2/28/2022 | 50.0 |
| Ares Pathfinder Core Fund, L.P. | Specialty Lending | 2021 | 3/31/2022 | 150.0 |
| Silver Rock Tactical Allocation Fund - Vintage 2022, L.P. | Special Situations | 2022 | 7/1/2022 | 200.0 |
| TOTAL | | | | 1,055.0 |

*Policy benchmark of 50% BB Global High Yield + 50% LSTA Global Leveraged Loans + 1%

** Additional commitment (\$100M) to Silver Point Specialty Credit Fund III in Q4 2022



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Executive Summary

Other Key Highlights

→ MWDBE commitments exceed the policy objective of 20%

- Represented 38.1% of commitments in 2022
- Represents 28.4% of Total Commitments as September 30, 2022

→ Fee Savings

- Meketa has secured approximately \$582,000 of annual fee savings (through negotiated fees, first close discounts, etc) on behalf of IL SURS.*

*Fee savings calculation (negotiated versus standard management fee) based on contributed capital as of December 31, 2022. Fee savings may change based on a number of factors including invested capital, realizations, timing of capital calls/distributions, etc.



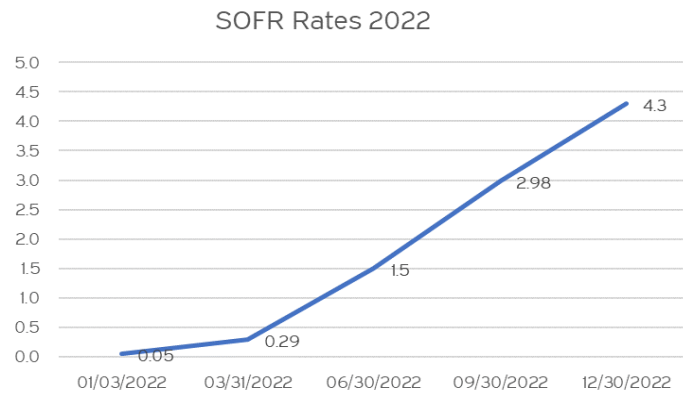
Market Environment



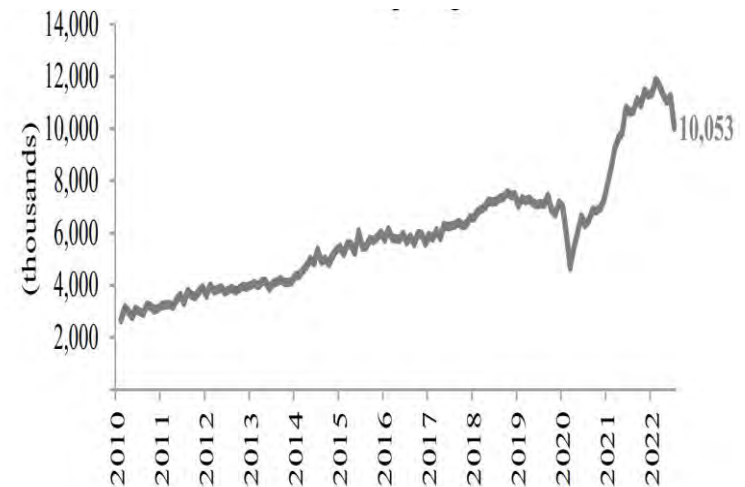
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Market Environment

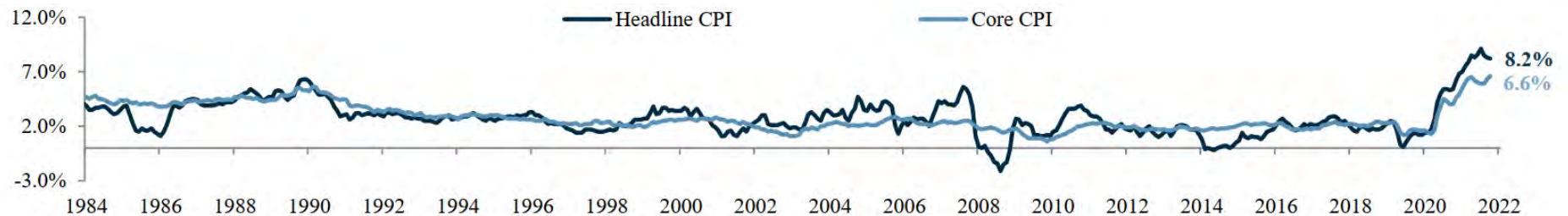
Base Rates for Lending Increased by Over 400bps



U.S. Job Openings Remain Above pre-COVID Levels



Inflation Remains Significantly Above the Fed's 2% Target



Source: Bloomberg a/o August 31, 2022 (top right), Bloomberg a/o September 30, 2022 (bottom)



Activity and Performance Update



State Universities Retirement System of Illinois

Activity and Performance Update

2022 Investment Plan Status

| | Status |
|---|----------------------|
| Continue to utilize a core/satellite approach with an emphasis on yield-oriented strategies | ON TRACK |
| Introduce further manager diversification | ON TRACK |
| Continue to utilize MWDBE funds | ON TRACK |
| Continue to be opportunistic | ON TRACK |
| Continue to build out the co-investment program | ON HOLD |
| Increase geographic diversity | AREA OF FOCUS |

- Accomplished objectives of the 2022 Investment Plan, aside from changes made based on market conditions. Paused co-investment program based on other considerations.
- Activities monitored by staff through a bi-weekly call and more frequent updates.



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Activity and Performance Update

2022 Private Credit Commitment Activity

| Fund | Strategy | Commitment (\$M) | Date |
|---|--------------------|------------------|-----------|
| Fortress Lending Fund III | Multi-Strategy | 50 | Q1 2022 |
| Ares Pathfinder Core Fund | Specialty Lending | 150 | Q1 2022* |
| Neuberger Berman Private Debt Fund IV | Direct Lending | 25 | Q2 2022** |
| Silver Rock Tactical Allocation Fund - Vintage 2022 | Special Situations | 200 | Q3 2022 |
| Silver Point Specialty Credit Fund III | Direct Lending | 100 | Q4 2022 |

→ \$525 million committed across five opportunities in 2022.

*Ares Pathfinder Core commitment was split between Q1 2022 (\$100M) and Q3 2022 (\$50M).

**\$25M commitment to Neuberger Berman was a follow-up to a 2021 commitment.



State Universities Retirement System of Illinois

Activity and Performance Update

Fund Performance: Sorted by Vintage and Strategy As of September 30, 2022

| By Investment | Vintage | Strategy | Committed (\$ M) | Contributed (\$ M) | Unfunded (\$ M) | Distributed (\$ M) | Remaining Value (\$ M) | IRR (%) |
|---|----------|--------------------|---------------------|-----------------------|--------------------|-----------------------|------------------------------|------------|
| Ares Pathfinder Core | Open-end | Specialty Lending | 150.0 | 4.1 | 145.9 | 0.0 | 4.2 | NM |
| Silver Rock Tactical Allocation – 2019 | 2019 | Special Situations | 150.0 | 149.5 | 12.1 | 11.5 | 141.4 | NM |
| PIMCO DISCO III | 2020 | Multi-Strategy | 180.0 | 90.3 | 180.0 | 90.0 | 16.7 | 14.1 |
| Crayhill Fund II | 2020 | Specialty Lending | 50.0 | 28.9 | 29.3 | 15.1 | 18.3 | NM |
| NB Debt Fund IV | 2021 | Direct Lending | 175.0 | 87.5 | 87.7 | 4.9 | 90.5 | NM |
| Silver Rock ColInvest | 2021 | Special Situations | 50.0 | 15.6 | 39.5 | 5.1 | 10.6 | NM |
| Turning Rock Fund II | 2021 | Special Situations | 50.0 | 24.4 | 27.8 | 2.2 | 23.0 | NM |
| Fortress Lending III | 2022 | Multi-Strategy | 50.0 | 20.0 | 30.0 | 0.0 | 19.0 | NM |
| Silver Rock Tactical Allocation – 2022* | 2022 | Special Situations | 200.0 | 0.0 | 200.0 | 0.0 | 0.0 | NM |
| Total | | | 1,055.0 | 420.3 | 752.3 | 128.9 | 323.8 | 9.7 |

→ \$1.1 billion of committed capital as of September 30, 2022 with \$420.3 million of contributed capital, \$752.3 million of unfunded and \$128.9 million of distributed.

→ PIMCO DISCO III in harvest and expects to be fully distributed within the next 1-2 quarters. Silver Rock Tactical Allocation-2019 began its Harvest Period in November 2022. All other funds are in their Investment Period.

*Investment Period began as of November 2022.

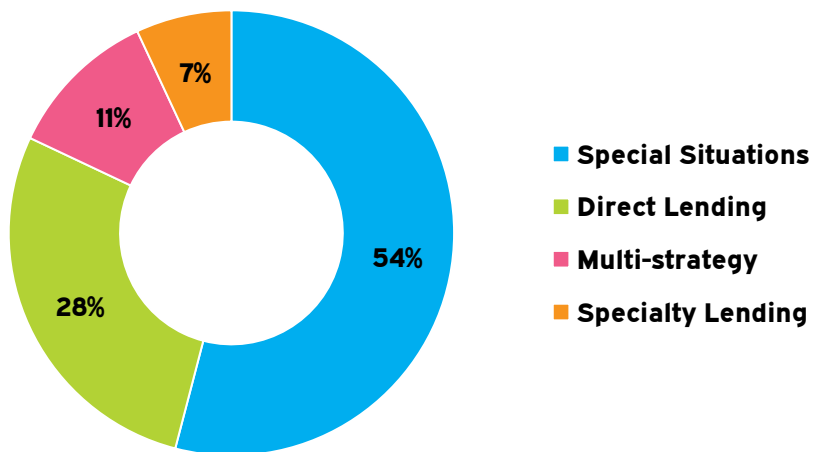


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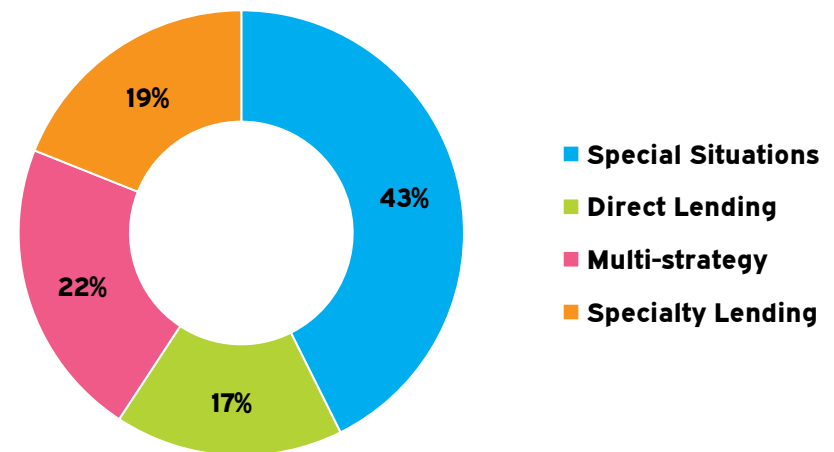
Activity and Performance Update

Exposure By Strategy as of September 30, 2022

Percent of FMV



Percent of Commitments



→ Continue to diversify across investment strategies and collateral types.

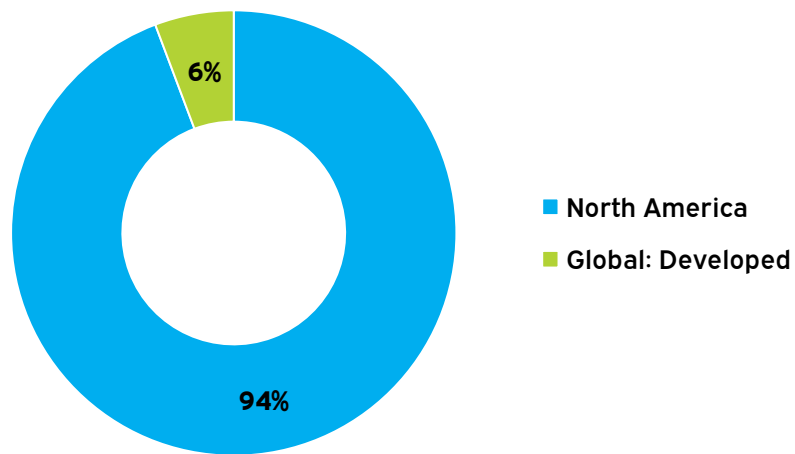


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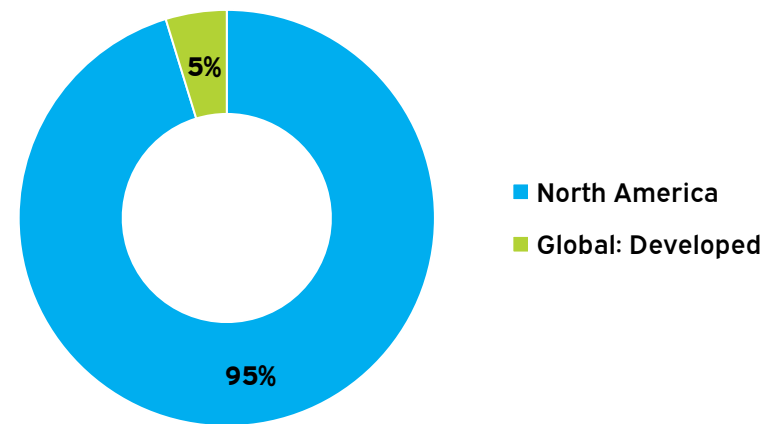
Activity and Performance Update

Exposure By Geographic Focus As of September 30, 2022

Percent of FMV



Percent of Commitments



→ Private Credit Program domestically oriented to date.

→ Paused dedicated European commitments in early 2022 given the Ukraine/Russia conflict.



Commitment Pacing and Investment Plan



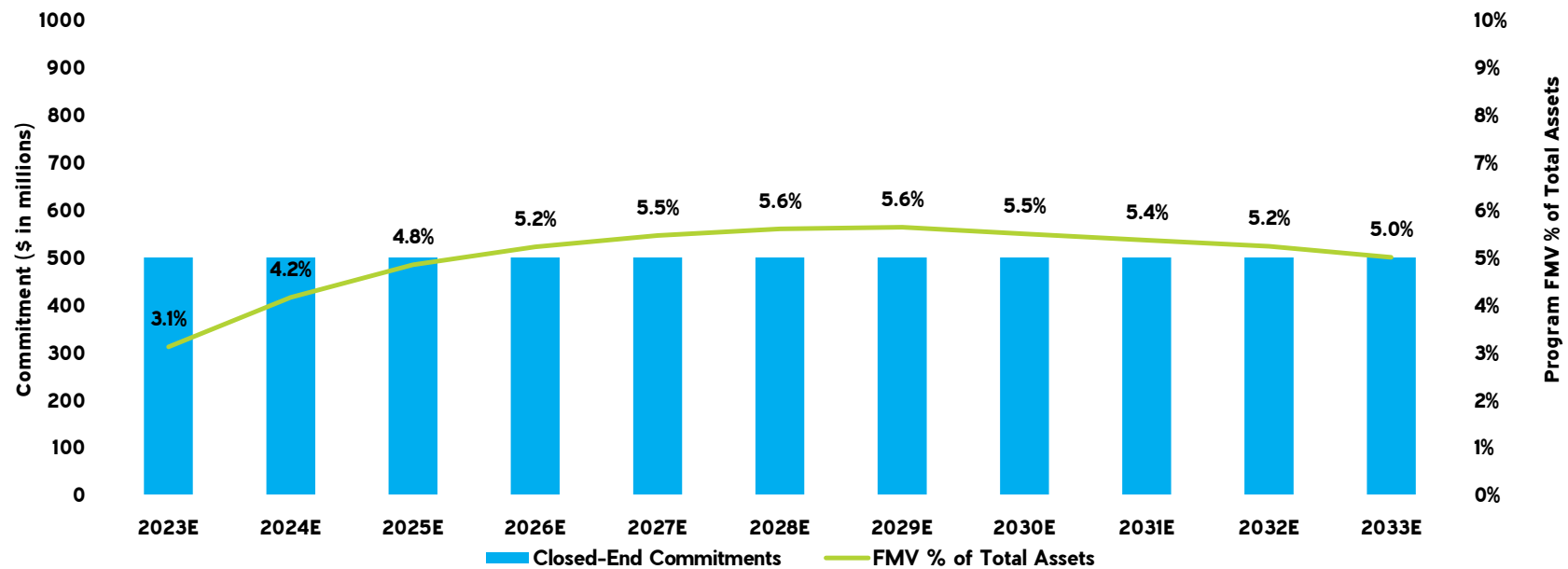
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Commitment Pacing and Investment Plan

Commitment Pacing

→ Annual commitment target of \$500 million per year

IL SURS Private Credit Portfolio Allocation



Assumptions: Long term target allocation of 5% to private credit. Total Plan growth rate of 4.2% growth rate.



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Commitment Pacing and Investment Plan

Cash Flows

→ Modeled to achieve target allocation in the 2025/2026 time frame

- At approximately \$1.2B - \$1.4B market value range

| (\$ in millions) | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Private Market Investments | | | | | | | | | | | | | |
| Commitments | 225 | 450 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Contributions | -68 | -218 | -247 | -410 | -444 | -458 | -480 | -481 | -490 | -501 | -494 | -497 | -505 |
| Distributions | 0 | 33 | 78 | 160 | 235 | 340 | 445 | 485 | 524 | 567 | 617 | 620 | 631 |
| Net Cash Flow | -68 | -185 | -169 | -251 | -209 | -117 | -35 | 4 | 34 | 66 | 123 | 123 | 126 |
| Fair Market Value | 74 | 281 | 420* | 712 | 990 | 1203 | 1351 | 1473 | 1573 | 1650 | 1676 | 1705 | 1733 |
| FMV % of Total Asset | 0.3% | 1.2% | 1.9% | 3.1% | 4.2% | 4.8% | 5.2% | 5.5% | 5.6% | 5.6% | 5.5% | 5.4% | 5.2% |

* cashflow adjusted from September 30, 2022



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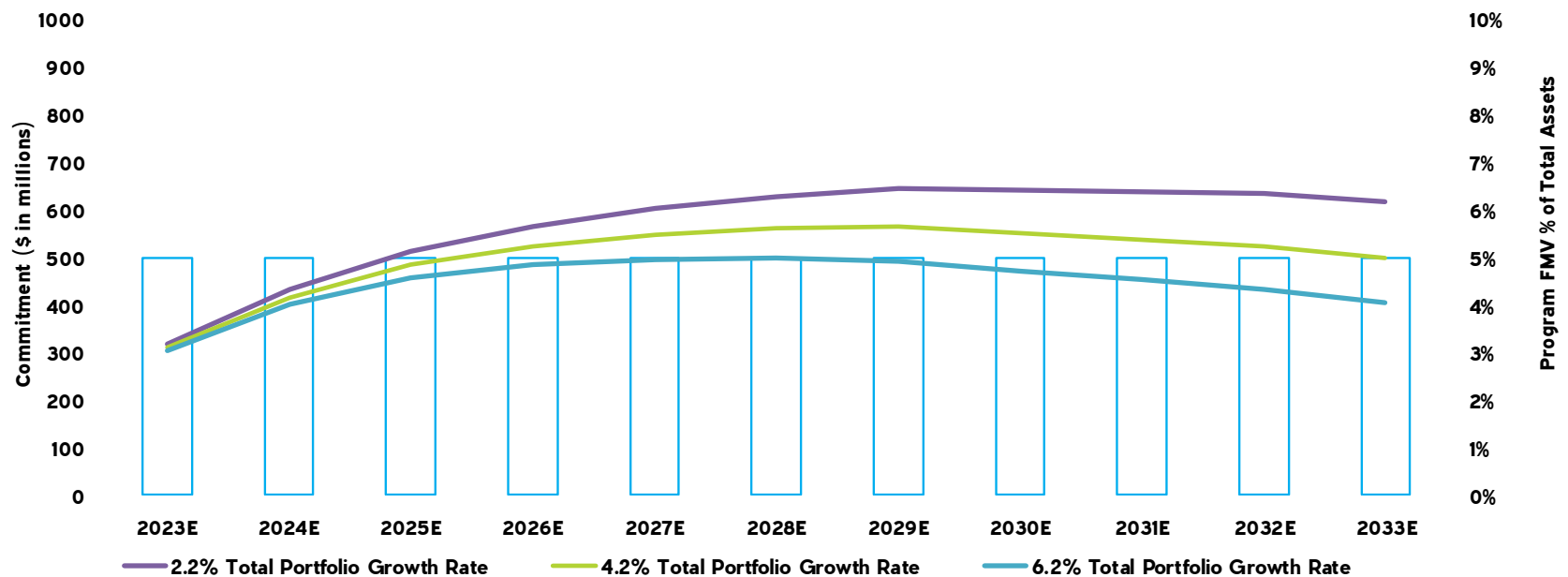
Commitment Pacing and Investment Plan

Scenario Analysis

- Actual allocation a function of multiple factors
 - Growth of the total portfolio a material input
- Update commitment pacing targets annually

Illinois SURS

Private Debt Portfolio Allocation Model Scenario Analysis





State Universities Retirement System of Illinois

Commitment Pacing and Investment Plan

2023 Investment Plan Summary

- Continue to utilize a core/satellite approach with an emphasis on yield-oriented strategies
- Continue to actively utilize MWDBE-managed funds
- Continue to negotiate attractive terms on behalf of IL SURS
- Areas of focus include the following:
 - Increase geographic diversification
 - Emphasize strategies that emphasize re-investing rather than distributing income to increase MOIC over time
 - Focus on European strategies and asset-based strategies.



State Universities Retirement System of Illinois

Commitment Pacing and Investment Plan

Summary

→ Portfolio performing strongly and in-line with expectations.

- IL SURS Private Credit has generated a **since inception net IRR of 9.7%** versus -1.9% for the Policy Benchmark as of September 30, 2022.
- \$1.1 billion of commitments across 9 commitments with 38.4% of commitments to MWDBE managers.
- Meketa has secured approximately \$582,000 of annual fee savings on behalf of IL SURS.

→ Capital deployment of \$500 million in 2023 expected.

*Fee savings calculation (negotiated versus standard management fee) based on contributed capital as of December 31, 2022. Fee savings may change based on a number of factors including invested capital, realizations, timing of capital calls/distributions, etc.



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Appendix

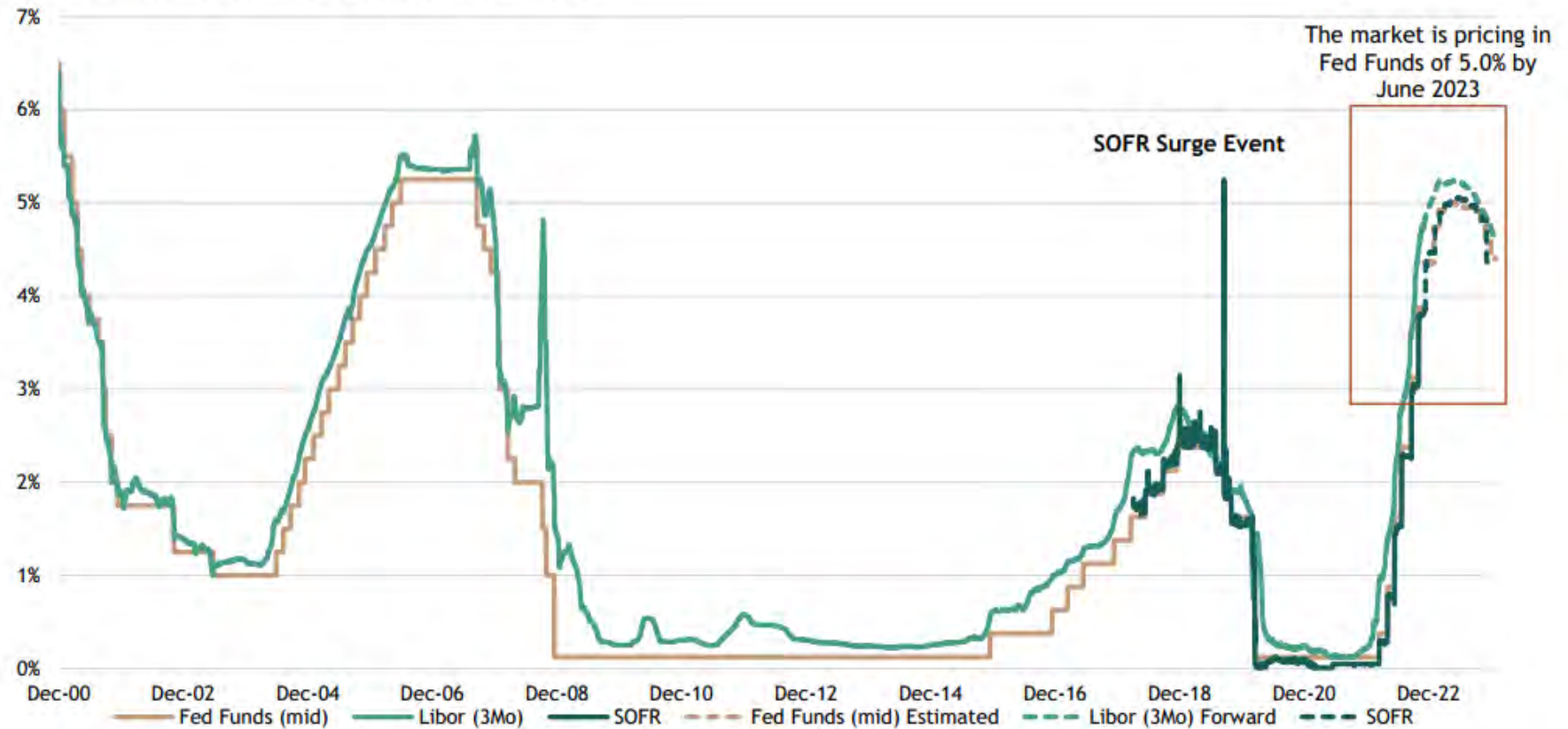
Fed Rate Hikes in Context

SOFR rose from 0.05% in January 2022 to 4.3% as of December 2022, the fastest rate hike in history.



Market Expects Further Rate Rates in 1H23

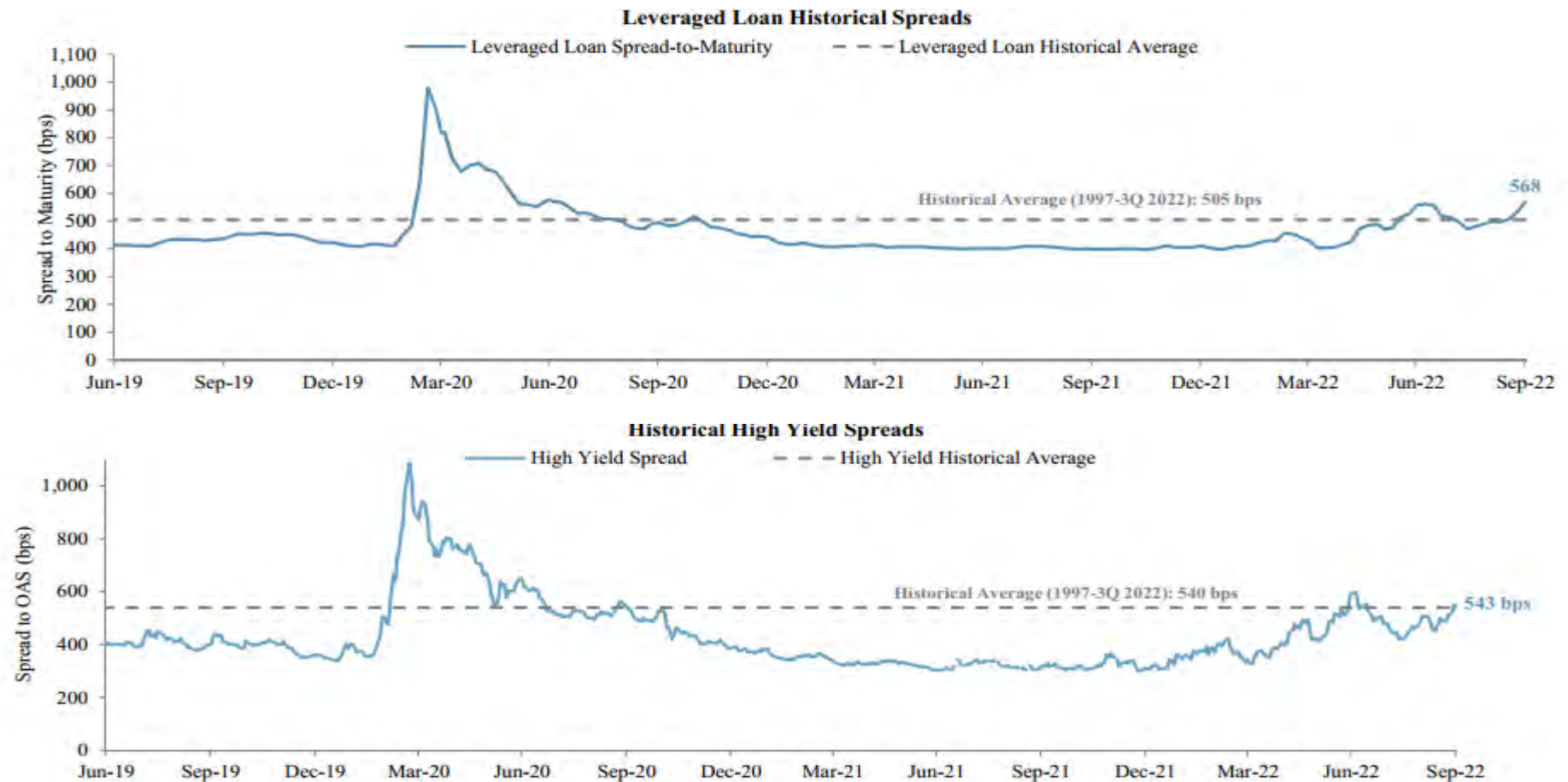
Fed Funds Rate vs. LIBOR vs. SOFR



There can be no guarantee trends will continue or will not reverse.

Source: Bloomberg, S&P/LCD a/o January 4, 2023. Forecast produced by Blackstone.

Credit Spreads: Loans above while High Yield In-Line with Historical Averages



Source: Bloomberg, S&P LCD Research and BofA U.S. High Yield Research.

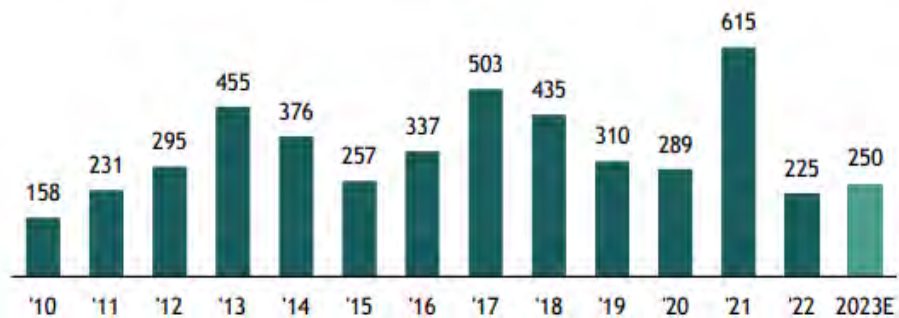
→ Leveraged Loan Spreads widened by 160bps and high yield spreads increased by 238bps YTD as of September 30, 2022.

Source: Bloomberg, S&P LCD Research and BofA U.S. High Yield Research

New Issuance slowed materially in 2022

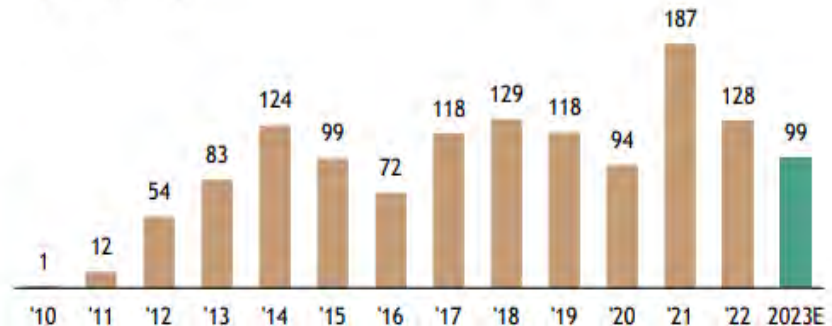
US Loan Issuance

(\$ in billions)



CLO Issuance

(\$ in billions)



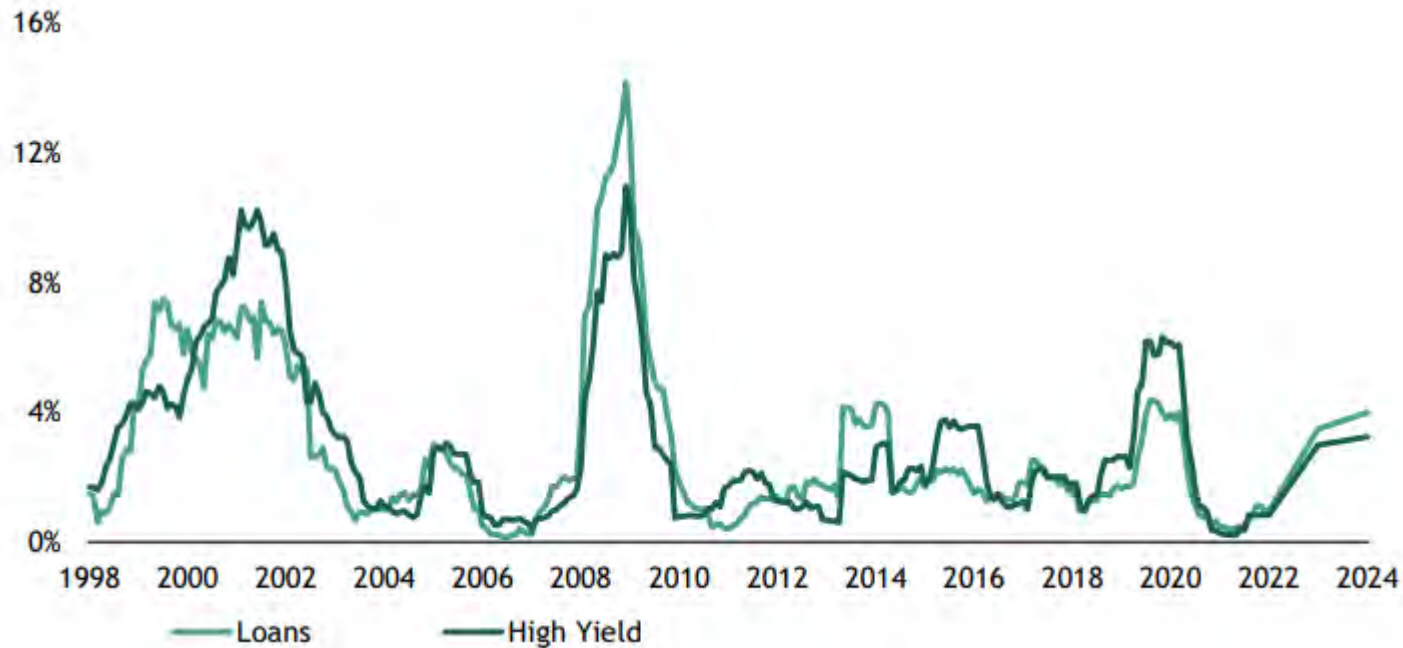
Source: LCD a/o December 30, 2022. 2023 forecasts provided by Blackstone.

→ Following record levels of new issuance in 2021, the broadly syndicated loan market, high yield market and CLO markets slowed materially in 2022.

Source: LCD a/o December 30, 2022. 2023 forecasts provided by Blackstone.

Defaults Remain Below Historical Averages but Predicted to Increase

Loan and High Yield Historical Default Rates



Source: JPM Default Monitor, January 3, 2022

→ JP Morgan forecasts High Yield defaults will increase in 3.0% in 2023 and 3.3% in 2024. For loans, JPM forecasts defaults will be 3.5% in 2023 and 4.0% in 2024.

Source: JPM Default Monitor, January 3, 2022

Private Credit Fundraising - More Funds in the Market, More Larger Funds in the Market

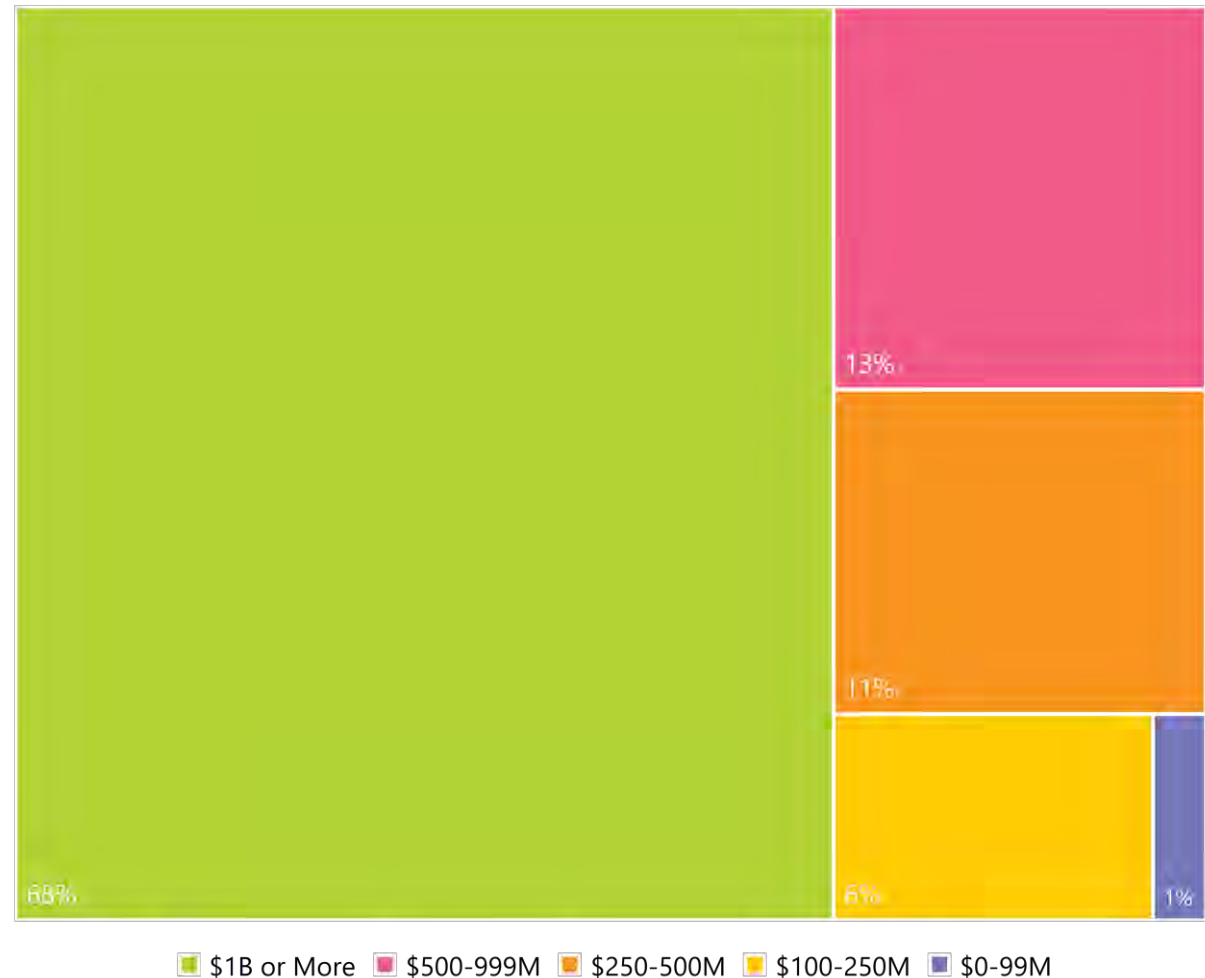
- The number of funds in the market has more than doubled since 2016.
- Funds targeting \$1B or greater represent 68% of the aggregate capital targeted, while representing less than 11% of the funds in the market.
- In 2022, 196 private debt funds closed on \$225.8 billion.

265/\$118B

No. of funds in the market/
target fundraise in January 2016

905/\$316B

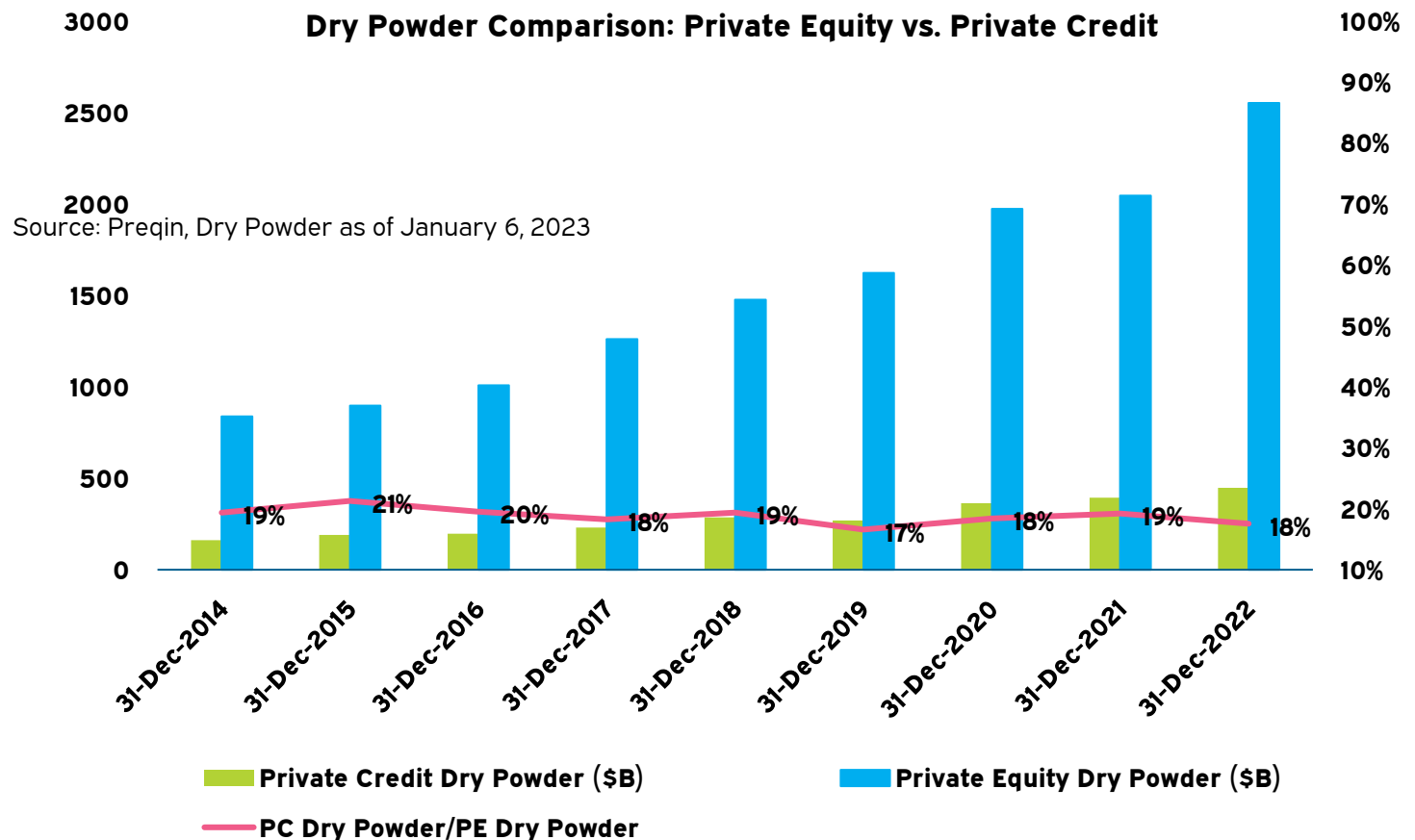
No. of funds in the market/
target fundraise in January 2023



Source: Preqin, Private Debt Funds in Market as of January 6, 2023

Dry Powder Comparison: Private Credit vs Private Equity

Direct Lending managers have raised less than 10% the amount that private equity managers have since 2013, and dry powder for private credit has remained largely unchanged.



Source: Preqin, Dry Powder as of January 6, 2023



State Universities Retirement System of Illinois

Appendix

Meketa Private Credit Universe

| Direct Lending | Asset-Based | Special Situations | Diversifying |
|---|---|---|--|
| Capital Structure <ul style="list-style-type: none"> → First Lien → Unitranche → Second Lien → Mezzanine/Junior Debt | Consumer <ul style="list-style-type: none"> → Credit Cards → Student Loans → Auto Loans → Consumer Installment | Distressed <ul style="list-style-type: none"> → Corporate → Mortgage → Commercial Real Estate | <ul style="list-style-type: none"> → Infrastructure → Capital Relief → Royalties → Secondaries |
| Geography <ul style="list-style-type: none"> → U.S. → Europe → Asia/Emerging Markets → Global | Commercial <ul style="list-style-type: none"> → Accounts Receivables → Trade Finance → Small Balance | Capital Solutions <ul style="list-style-type: none"> → Rescue Financing → Growth Financing | |
| Industry <ul style="list-style-type: none"> → Healthcare → Franchise → Technology | Hard Assets <ul style="list-style-type: none"> → Equipment Leasing → Mortgage Credit → Solar/Renewable Energy → Transportation | Non-Performing Loans | |
| | Soft Assets <ul style="list-style-type: none"> → Intellectual Property → Litigation Finance → Fund Finance | | |



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This report does not contain all the information necessary to fully evaluate the potential risks of any of the investments described herein. Because of inherent uncertainties involved in the valuations of investments that are not publicly traded, any estimated fair values shown in this report may differ significantly from the values that would have been used had a ready market for the underlying securities existed, and the differences could be material.

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