



## MINUTES

**Meeting of the Investment Committee  
of the Board of Trustees of the  
State Universities Retirement System  
Thursday, October 19, 2023, 9:00 a.m.  
State Universities Retirement System  
1091 Fox Drive, Champaign, IL**

**\*Optional Remote Connection for Members of the Public\***

This meeting was held in-person at the State Universities Retirement System in Champaign, IL. The following trustees were present: Dr. Andriy Bodnaruk; Mr. Richard Figueroa (via zoom); Ms. Jamie-Clare Flaherty (via zoom), Mr. Scott Hendrie, chair; Dr. Fred Giertz; Mr. John Lyons, Dr. Steven Rock; and Mr. Antonio Vasquez.

Others present: Ms. Suzanne Mayer, Executive Director; Mr. Doug Wesley, Chief Investment Officer (CIO); Ms. Kim Pollitt, Mr. Joe Duncan and Mr. Shane Willoughby, Sr. Investment Officers; Mr. Brian Deloria and Mr. Alex Ramos, Investment Officers; Ms. Stephany Brinkman and Mr. Darian Saracevic, Investment Analysts; Ms. Tracy Bennett, Investment Compliance Analyst; Ms. Bianca Green, General Counsel; Ms. Tara Myers, Chief Financial Officer; Ms. Jackie Hohn, Chief Internal Auditor; Ms. Nichole Hemming, Chief Human Resources Officer; Ms. Heather Kimmons, Associate Legal Counsel; Ms. Kristen Houch, Director of Legislative and Stakeholder Relations; Ms. Kelly Carson, Ms. Chelsea McCarty and Ms. Annette Ackerman, Executive Assistants; Mr. Munir Iman and Ms. Jan Mede of Callan; Mr. David Sancewich and Mr. Colin Bebee, of Meketa; and Mr. Michael Calabrese of Foley.

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

Trustee Figueroa joined the meeting via zoom at 9:02 a.m.

### TRUSTEE PARTICIPATION VIA ELECTRONIC MEANS

Trustee Giertz made the following motion:

- That Trustees Flaherty, and Figueroa be allowed to participate via video or conference call for the Investment committee meeting on October 19, 2023, pursuant to Section 7(a) of the Open Meetings Act.

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

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

Ms. Jamie-Clare Flaherty and Mr. Richard Figueroa were admitted to participate remotely via zoom following the required motion.

### **APPROVAL OF MINUTES**

Trustee Hendrie presented the minutes from the Investment Committee meeting of September 7, 2023.

Trustee Rock made the following motion:

- That the minutes from the September 7, 2023 Investment Committee meeting be approved as presented.

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

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

### **APPROVAL OF CLOSED MINUTES**

Trustee Hendrie presented the closed minutes from the Investment Committee meeting of September 7, 2023.

Trustee Rock made the following motion:

- That the closed minutes from the September 7, 2023 Investment Committee meeting be approved and remain closed.

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

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

### **CHAIRPERSON’S REPORT**

Trustee Hendrie did not have a report.

### **CIO REPORT**

Mr. Doug Wesley informed the trustees that SURS received a Judges’ Choice award for the diverse manager portal and diverse manager investment program. The award was announced at the Pensions & Investments World Pension Summit. Mr. Wesley thanked the investment and communications teams for all their hard work and for their commitment to work on the diversity program and corresponding portal. Mr. Wesley provided an update regarding the Meketa general consulting team and a recent client complaint Meketa received.

Copies of the staff memorandums titled “Investment Contracts Approved” and “Report from the September 2023 Investment Committee Meeting” are incorporated as part of these minutes as [Exhibit 1](#) and [Exhibit 2](#). The Meketa memorandum titled “Client Memo Construction Laborers” is incorporated as part of these minutes as [Exhibit 3](#).

### **CONSIDERATION OF INVESTMENT POLICY AND INVESTMENT PROCUREMENT POLICY**

Mr. Wesley provided information regarding the annual review of the Investment Policy and discussed the proposed changes to the Defined Benefit Investment Policy and the Investment Procurement Policy.

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff and Meketa, the revised Investment Policy document for defined benefit plan be approved as presented.

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

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

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff and Meketa, the revised Investment Procurement Policy document be approved as present.

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

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

Copies of the presentations titled “IPS Update Memo,” “Defined Benefits Investment Policy – redline,” and “Investment Procurement Policy - redline” are incorporated as part of these minutes as [Exhibit 4](#), [Exhibit 5](#), and [Exhibit 6](#).

### **ARIEL ORGANIZATIONAL UPDATE**

Mr. Alex Ramos updated the committee regarding a recent change in the leadership of the global equity portfolio at Ariel Investments. SURS investment staff and Meketa recommend that SURS maintain the Ariel mandate and closely monitor any additional organizational changes.

A copy of the staff memorandum titled "Ariel Organizational Update" is incorporated as part of these minutes as [Exhibit 7](#).

### **CONSIDERATION OF CAPTRUST ORGANIZATIONAL CONSENT**

SURS staff member Mr. Brian DeLoria and Mr. Jared Hardin of CAPTRUST discussed recent changes that include the addition of Carlyle and a requirement for CAPTRUST to obtain client consent regarding ownership changes.

Trustee Rock made the following motion:

- That based on the recommendation of SURS staff, SURS execute consent to the assignment of the Investment Consulting Services Agreement dated April 1, 2023, between State Universities Retirement System and CAPTRUST Financial Advisors, subject to satisfactory completion of legal review.

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

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

A copy of the staff memorandum titled "CAPTRUST Consent Memo" and the CAPTRUST document titled "CAPTRUST 2023 Client Consent" are incorporated as part of these minutes as [Exhibit 8](#) and [Exhibit 9](#).

### **ENERGY TRANSITION – (EDUCATIONAL TOPIC)**

Ms. Jan Mende of Callan presented an education session that included discussion regarding energy transition investment types, global investment in energy transition, tailwinds and headwinds for energy transition, and energy transition assets currently held in the SURS portfolio.

The educational session lasted for 65 minutes and ended at 10:45 a.m.

A copy of the Callan presentation titled "SURS Energy Transition" is incorporated as part of these minutes as [Exhibit 10](#).

## **ECONOMIC OUTLOOK – (EDUCATIONAL TOPIC)**

Ms. Tiffany Wilding, managing director and economist from PIMCO, presented a cyclical outlook that highlighted key economic themes including discussions regarding consumption, growth, inflation, recession, and monetary policies.

The educational session lasted for 53 minutes and ended at 11:38 a.m.

A copy of the PIMCO presentation titled “Economic Outlook” is incorporated as part of these minutes as [Exhibit 11](#).

## **PRINCIPAL PROTECTION, INFLATION SENSITIVE, PUBLIC CREDIT CLASS REVIEW**

Mr. Joe Duncan and Ms. Stephany Brinkman provided a summary of the SURS Principal Protection, Inflation Sensitive and Stabilized Growth Public Credit asset classes. They presented an overview of the functional asset classes, including manager structure, benchmarks and performance. They also discussed accomplishments over the last year and outlined initiatives for the upcoming year.

The education session lasted for 12 minutes and ended at 11:50 a.m.

A copy of the SURS presentation titled "Public Credit Asset Class Review" is incorporated as part of these minutes as [Exhibit 12](#).

## **PUBLIC COMMENT**

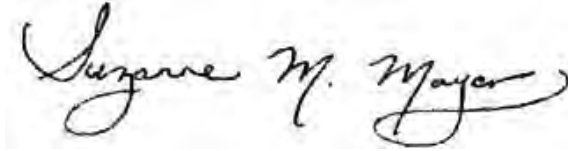
There were no public comments presented to the Investment Committee.

## **ADJOURN**

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

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

Respectfully submitted,

A handwritten signature in black ink, reading "Suzanne M. Mayer". The signature is written in a cursive style with a large initial 'S' and a long, sweeping underline.

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

SMM:kc



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Investment Department

To: Suzanne Mayer  
From: Douglas C. Wesley, CFA  
Date: October 5, 2023  
Subject: Investment Contracts Approved

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The following investment agreements were approved by the Executive Director subsequent to the mailing for the September 7, 2023, Investment Committee meeting.

**Defined Benefit Plan**

**Callan**

Investment consulting services agreement was fully executed on September 27, 2023.





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Investment Department

To: Investment Committee  
 From: Douglas C. Wesley, CFA  
 Date: October 5, 2023  
 Subject: Report from the September 7, 2023 Investment Committee Meeting

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Enclosed are the Minutes of the September 7, 2023, Investment Committee Meeting. The purpose of this memorandum is to provide a status report on the action items for Investments.

Three motions were approved during the Investment Committee Meeting. These included the approval of the minutes from the June 1, 2023, Investment Committee Meeting, and that the closed session minutes from the June 1, 2023, 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 upon the recommendations from SURS staff and Callan, SURS commit \$75 million to Brookfield Strategic Real Estate Fund V, subject to successful completion of contract negotiations.**

Staff is in the process of contract negotiations.

#### **Open item from June 1, 2023**

- 2. That based on the recommendation of SURS staff, SURS retain Callan as the real assets' consultant for a five-year term, subject to successful completion of contract negotiations.**

Investment consulting services agreement was fully executed on September 27, 2023.

#### **Open item from April 20, 2023**

- 3. That based on the recommendation from SURS staff and CAPTRUST, the Delaware Small-Mid Cap Growth R6 be replaced with the Fiera Capital Small-Mid Cap Growth separate account, as soon as administratively possible with the replacement to include the mapping of the Plans' current assets and future contributions for both the RSP and DCP.**

Staff is in the process of contract negotiations.

#### **Open item from February 2, 2023**

- 4. 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.**

SURS staff is in the process of contract negotiations.

**Open item from June 2, 2022**

- 5. 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.

Please advise if you have any questions prior to the October 19, 2023, Investment Committee meeting.

September 22, 2023

Meketa Clients:

We are writing to inform you that on September 15, 2023, a complaint was filed in the United States District Court of Central District of California against Meketa Investment Group, Inc. (“Meketa”) and one of its consultants (Construction Laborers Pension Trust for Southern California and the Board of Trustees for the Construction Laborers Pension Trust for Southern California vs. Meketa Investment Group, Inc. and Judy Chambers; case number 2:2023cv07726).

The complaint relates to a non-discretionary project conducted by Pension Consulting Alliance, LLC (PCA) to assist Construction Laborers Pension Trust for Southern California (“Pension Trust”) with the development of a small and unique private infrastructure mandate, identifying a single third-party private infrastructure manager to execute on such mandate, and attending the Pension Trust’s investment committee meetings as requested. The project began in November 2014 and ended in September 2020. Meketa acquired PCA in March 2019. The complaint alleges breaches of fiduciary duties under ERISA (or in the alternative under common law), breach of contract, and breach of duty of care (negligence) in the performance of the services.

We believe that the lawsuit is meritless, dispute many of the factual characterizations contained within the complaint, and ultimately disagree with the conclusions the complaint draws about the way PCA, Meketa and the consultant performed their limited, contracted-for duties.

If you have any questions or concerns regarding this matter, please reach out to your Consultant.

Thank you,  
Meketa Investment Group



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Investment Department

To: Investment Committee  
From: Investment Staff  
Date: October 5, 2023  
Re: Recommendations for Changes to Investment Policy Statement & Procurement Policy

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### **Summary & Recommendation**

Staff and Meketa are recommending policy language changes to both the SURS Investment Policy Statement and the SURS Procurement Policy. Many of the suggested changes are non-substantive in nature. The proposed changes have been reviewed by internal counsel and external fiduciary counsel. Both Staff and Meketa recommend that the Investment Committee/Board approve the requested changes to SURS Investment Policy Statement and Investment Procurement Policy.

### **Proposed Changes to SURS Investment Policy Statement**

- **Section 3 – Compliance Directives**

Adds the Annual Fiduciary Report to the list of compliance directives, in accordance with recently passed Illinois statute, 40 ILCS 5/15-177.6. The report, which must be published annually on the SURS website on or before September 1, outlines SURS' incorporation of the sustainability factors across the portfolio.

- **Section 5D(2) – Stabilized Growth Component and Its Underlying Sub-Components**

Deletes reference to the Options Strategies sub-component, as approved by the Board in April 2023.

- **Section 5J – Corporate Governance**

Includes an affirmative statement that the Board believes the best practice is to continue to vote SURS proxies through the proxy voting vendor selected by the Board. This continued practice ensures that SURS proxies will be voted pursuant to the voting directions specifically approved by the SURS Board. Also, updates the number of securities litigation law firms on SURS' "approved list" from three to five.

- **Section 5L(1) – Compliance Reporting**

Adds the Annual Fiduciary Report to the list of compliance reports required on the SURS website. Also adds the Sustainability Disclosure to the list of reports required to be received (30 ILCS 238/10)

- **Exhibits**

Proposed changes in the exhibits include update of policy targets to reflect current portfolio allocations, and benchmark edits to include eliminating Options Strategies (not in portfolio currently).

### **Proposed Changes to SURS Investment Procurement Policy**

- **Section 5F(3) – Reports Received**

Adds Reports Received section detailing statutorily required reports to be received from potential SURS investment managers. Reports to be received include the Diversity Disclosure (40 ILCS 5/1-113.21) and the Sustainability Disclosure (30 ILCS 238/10).

### **Conclusion and Recommendation**

**SURS staff and Meketa jointly recommend:**

- **That the revised Investment Policy document for the defined benefit plan be approved, as presented.**
- **That the revised Investment Procurement Policy document be approved, as presented.**



## OFFICIAL POLICY

# Defined Benefit Investment Policy

<b>Policy Register Part:</b> VI – Investments		<b>Policy Number:</b> 6.1
<b>Approval Authority:</b> Board of Trustees		<b>Originating Department:</b> Investments  <b>Responsible Executive Staff Member:</b> Chief Investment Officer
<b>Version:</b>	<b>Effective Date:</b>	<b>Description of Changes and Link(s) to Earlier Version(s):</b>
1	December 8, 2006	N/A – Original
2	April 26, 2007	Updated to indicate that domestic proxy voting will be completed by a proxy voting service.

3	September 21, 2007	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Expand ability of Executive Director to execute Investment Management Agreements or Board-approved service providers</li> <li>• Allow board to retain third party firms to provide Securities Lending services</li> <li>• Define a benchmark for the Global Real Estate securities portfolio</li> <li>• Add an Investment Manager Watchlist</li> <li>• Allow the electronic transfer of funds to be completed by an authorized staff member</li> <li>• Redefine Minority and Women Owned brokerage usage policy for Global Equity Investment Managers.</li> <li>• Amend the predatory lending policy due to new legislation (PA 95-0521).</li> </ul>
4	September 12, 2008	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Expand ability of Executive Director to delegate duties to the Associate Executive Director</li> <li>• Reflect new asset allocation targets and rebalancing language</li> <li>• Change global equity benchmark</li> <li>• Clarify that additional authorization to participate in securities litigation that has already been approved by the Executive Committee is not necessary. Additionally, staff are authorized to file an objection to attorneys' fees/expenses if the objection is determined appropriate by General Counsel and Executive Director</li> <li>• Define Emerging Manager goals and total fund and major asset classes.</li> </ul>
5	September 11, 2009	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Include interim asset allocation targets</li> <li>• Implement a 5% rebalancing trigger on aggregate equity and fixed income allocations</li> <li>• Update benchmarks for Equity, Fixed Income, and Real Estate asset classes</li> <li>• Redefine Emerging Manager definitions and update utilization goals due to legislation. Minority-owned broker usage policy expectations were updated.</li> </ul>

6	December 2, 2009	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Incorporate the 1% allocation to PPIP into the strategic policy targets</li> <li>• Add language to strongly encourage the use of direct trade execution with minority- and women-owned brokers.</li> </ul>
7	September 3, 2010	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Allow the Board governance policies to address issues with third parties regarding corporate governance or other initiatives rather than the Executive Director</li> <li>• Allow staff to complete miscellaneous duties related to the operation of the investment program</li> <li>• Added a risk management section</li> <li>• Revise process for how emerging managers are included in manager searches due to legislation</li> <li>• More accurately portray retention decisions involving private fund managers</li> <li>• Clarify that investment managers may be added to the Manager Watch List at any time</li> <li>• Limit the size of assets invested with any one firm and update the list of people authorized to make transfers between funds</li> <li>• Allow managers to continue to hold a security after it has been downgraded below the minimum credit quality if it is in SURS best interest</li> <li>• Establish goals for the management of assets of each major asset class by minorities, women, and persons with disabilities in line with PA 96-0006. Additionally, investment managers should not use indirect methods to achieve Minority-Owned Broker/Dealer goals. Minority-owned broker/dealer goals were also updated to include REIT managers</li> <li>• Rename Manager Development Program as Manager Diversity Program</li> </ul>



8	September 16, 2011	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Reflect new SURS mission statement</li> <li>• Include General Counsel in the modification of approval requirements for revisions to investment manager guidelines</li> <li>• Reflect passage of “pay to play” legislation (SEC Rule 206(4)-5)</li> <li>• Reflect new Strategic policy targets and adjusted (interim) targets</li> <li>• Revise risk management framework</li> <li>• Revise benchmarks in Real Estate Structure section</li> <li>• Reflect PA 96-0006 in which SURS is to encourage investment managers to use emerging investment managers as subcontractors when possible.</li> <li>• Review MWDBE goals and add new minority-owned brokerage targets for TIPS managers</li> </ul>
9	October 25, 2012	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Reflect strategic objectives as outlined in the SURS Strategic Plan</li> <li>• Authorize staff to serve on advisory boards for fund investments and vote on issues to promote best interests of SURS</li> <li>• Delete internal management of TIPS</li> <li>• Reflect adjusted strategic (interim) targets</li> <li>• Change private equity benchmarks and specify the overall benchmark for non-core direct real estate</li> <li>• Implement Investment Manager Evaluation language; if no changes are recommended, formal action by the board each year will not be necessary; Action to terminate a manager will continue to require Board action.</li> <li>• Delete permissible investments section.</li> <li>• Increase goals for MWDBE firms of actively managed assets.</li> <li>• Increase goals for the utilization of MWDBE broker/dealers to US and non-US equity and Fixed Income. Additionally, a new minimum brokerage expectation for non-US and US equity managers was established</li> </ul>

10	September 13, 2013	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Revise Strategic Policy allocation targets</li> <li>• Update language to be consistent with legislation (40 ILCS 5/1-113.14) about when a search for investment managers is deemed necessary. Contracts for follow-on funds with the same fund sponsor through closed-end funds are exempted from the customary proposal process.</li> <li>• Fulfill statutory requirement to review goals for the utilization of MWDB managers and broker/dealers.</li> </ul>
11	September 19, 2014	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Reflect new Strategic policy targets and adjusted (interim) targets</li> <li>• Note the disclosure requirements for prospective consultants, investment management, and private market candidates set forth in PA 98-1022.</li> <li>• Reflect the completion and liquidation of the Public/Private Investment Program investments.</li> <li>• Reflect changes to the Securities Litigation Policy due to ongoing involvement of the Illinois Attorney General's office in security litigation matters.</li> <li>• Increase the goals of MWDBE firms and brokerages in light of passage of P.A 98-1022.</li> </ul>

12	September 11, 2015	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Clarify role definitions and responsibilities for manager monitoring.</li> <li>• Reflect new Strategic policy targets and adjusted (interim) targets</li> <li>• Accurately describe the role, investment structure, diversification, and benchmarks of each asset class.</li> <li>• No longer require annual investment manager approval by the Board. The Board will continue to approve the hiring/termination of investment managers, and staff will continue to conduct annual manager reviews and bring any significant issues/changes to the Board's attention.</li> <li>• Note the statutory exclusions to the search process requirements for qualified fund of funds management services and investments in follow on funds to closed end funds</li> <li>• Eliminate the use of an Investment Manager Watch List.</li> <li>• Increase goal of MWDBE firms for Alternative Investments</li> </ul>
13	December 9, 2016	<p>Updated to:</p> <ul style="list-style-type: none"> <li>• Formalize performance targets for investment managers</li> <li>• Re-institute Manager Watch List as well as clarification on manager termination processes</li> <li>• Define process for decision making related to the use of active management in asset classes and/or sub-asset classes</li> <li>• Specify requirements for quarterly and annual reporting</li> <li>• Revise corporate governance section to reflect recent change in practice regarding proxy voting of domestic securities and clarification of authority to settle claims and lawsuits</li> <li>• Create several appendices for items that are periodically revised as well as the addition of a glossary of defined terms</li> <li>• Adjust goals for MWDBE firms and broker/dealers</li> </ul>

14	June 9, 2017	Updated: <ul style="list-style-type: none"> <li>• Board shall periodically establish Performance Targets for each Manager.</li> </ul>
15	December 8, 2017	Updated: Manager Utilization Goals for Minority-owned Broker/Dealers
16	March 9, 2018	Removed procurement related portions of Section VII <b>Selection and Retention</b> Investment Policy into a new Procurement Policy
17	April 18, 2019	<ul style="list-style-type: none"> <li>• Reframed the allocation IPS framework from “asset” classes to “strategic” classes.</li> <li>• Substantially re-wrote the Portfolio Construction and Performance Benchmarks section.</li> <li>• Made major edits to the Real Assets and Opportunity Fund class structure (Infrastructure out Opportunity Fund class).</li> <li>• Updated Appendices 4 with new strategic allocation as an outcome of 2018 Asset-Liability Study and 5 (updated to reorganize the key asset classes under their broader strategic classes; also adjusts policy benchmarks for several class portfolios).</li> </ul>
18	June 7, 2019	Updated Section VI Portfolio Construction and Performance Benchmarks

19	September 13, 2019	<ul style="list-style-type: none"> <li>• Renamed the Public Equity Structure section to “Traditional Growth” and revising policy language pertaining to this class. Provide Staff with flexibility to allocate assets across U.S., Non-U.S., and Global regional mandates and (ii) to adopt a broad Global Equity benchmark, presented in Appendix 5.</li> <li>• Re-organized Section VI of the IPS to completely reflect the new strategic allocation structure. Appendix 4 reflects implementation of the new strategic structure, to begin 4Q 2019(10/01/2019).</li> <li>• Updated Appendices 6-8 of the IPS to reflect updated diversity goals.</li> </ul>
20	October 17, 2019	Updated the Inflation Sensitive functional class structure to remove commodities
21	December 6, 2019	<p>Updated for:</p> <ul style="list-style-type: none"> <li>• <u>Sustainability Investing Act (40 ILCS 5/1-113.17)</u> to integrate sustainability factors in the investment decision-making processes.</li> <li>• Clarifying definitions and the use of leverage and diversification in Real Assets.</li> <li>• <u>Private Equity</u> changes reflect the change from investing predominately in fund of funds to direct investments via separate accounts and allowing for co-investments and secondaries. The benchmark for the Private Equity was changed to MSCI ACWI IMI plus 2%.</li> <li>• <u>MWDBE Goals</u></li> <li>• Committing to a goal for minorities and females of 20% for new allocations in private alternative investments instead of a range of 0-20%.</li> </ul>
22	January 30, 2020	Updated to remove reference to Performance Targets, Active Manager Premiums and Manager Status.
23	December 4, 2020	Reviewed and updated Diversity Goals

24	January 29, 2021	<p>Updated to</p> <ul style="list-style-type: none"> <li>• Reflect the addition of private credit within the Stabilized Growth Asset Class.</li> <li>• Specify the benchmark for private credit and update the benchmark for Options Strategies.</li> </ul>
25	September 10, 2021	<p>Updated Corporate Governance section</p> <p>Added language to reflect recently approved legislation (P.A. 102-97) that exempts contracts for investment services with an emerging investment manager provided through a qualified manager of emerging investment managers from certain requirements under the Illinois Pension Code.</p> <p>Updated Appendix 1 and 4 to reflect updated assumed rates of return and strategic policy targets</p>
26	November 17, 2021	<p>Updated to amend the Investment Committee definition to include all members of the Board</p>
27	April 21, 2022	<p>Updated to reflect Strategic Policy Targets in Appendix 4</p> <p>Updated benchmarks within the public credit portfolio</p>

28	September 15, 2022	<p>Formatted into template and amended as follows:</p> <ul style="list-style-type: none"> <li>• Amended Section 5.A. to delegate authority to staff to approve premium spend for Tail Risk strategies and revise nomenclature of the Master Trustee/Custodian role to “Master Custodian”</li> <li>• Revised Section 5.C. to reflect change risk reporting source from Northern Trust to the Aladdin system</li> <li>• Information added to Section 5.D.6 on new Long Volatility and Tail Risk Strategies in the CRO Portfolio</li> <li>• Updated Section 5.E manager evaluation section to remove reference to Manager Evaluation Reports and require that staff communicate significant concerns to the Board, consistent with current practice</li> <li>• Revised Section 5.K.3 to remove redundant language describing MDP manager evaluation process</li> <li>• Exhibits amended to remove glossary, update policy targets to reflect current portfolio allocations, and edit benchmarks to include adding new strategies (Long Volatility/Tail Risk) and eliminating timberland (no longer in portfolio)</li> </ul>
<u>29</u>	<u>October 19, 2023</u>	<p><u>Updated to reflect new Directive.</u></p> <p><u>Updated to reflect updated Strategic Policy Targets in Appendix 4 and Appendix 5, including the elimination of Options Strategies, reduction of Alternative Risk Premia and increases to Public Credit and Principal Protection</u></p>

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## 1. Policy Statement

- A.** This document specifically outlines the investment philosophy and practices of the State Universities Retirement System (“**SURS**” or the “**System**”) and has been developed to serve as a reference point for the management of the Defined Benefit Plan.
- B.** The Strategic Objectives of this Policy are as follows:
1. Achieve long-term, sustainable, investment performance necessary to meet or exceed the System’s Assumed Rate of Return (set forth in Exhibit 1, net of investment management fees;
  2. Manage the risk and volatility of financial assets in the Portfolio;
  3. Control fees and expenses related to managing the Portfolio;
  4. Manage Staff operational expense at a prudent level;
  5. Manage the System’s Liquidity, in order to meet Member and other System obligations in a timely manner;
  6. Provide ongoing financial education to the Board and Staff in order for them to carry out their responsibilities; and
  7. Comply with all applicable laws and regulations applicable to the investment of the Portfolio.

## 2. Departments and/or Staff Positions Required to Comply with Policy:

All Investment Department Staff, Legal Staff, Executive Director, and Trustees are required to read and comply with this Policy.

## 3. Directives

Is Policy internal only?	Does Policy Include any Reporting Requirements for Stoplight Report?	Citation to Statutory Mandates, if applicable
No	Investment Information Report must be posted monthly on SURS’ website and updated at least monthly by the 15th of each month	Accountability for the Investment of Public Funds Act, 30 ILCS 237/10  <i>*Also applies to DC Policy</i>

No	Adviser/consultant fees, commissions, penalties, and other compensation must be disclosed to the board of trustees quarterly	Pension Code, 40 ILCS 5/1-113.14(e)  <i>*Also applies to DC Policy</i>
No	SURS must develop, and quarterly post to website, uniform documents to be used for the solicitation, review, and acceptance of all investment services.	Pension Code, 40 ILCS 5/1-113.14(f)  <i>*Also applies to DC Policy</i>
No	Investment services contract descriptions must be updated on SURS website quarterly	Pension Code, 40 ILCS 5/1-113.14 (g)  <i>*Also applies to DC Policy</i>
No	Annually by April 1, SURS must provide the Illinois Investment Policy Board with information regarding investments sold, redeemed, divested, or withdrawn in accordance with Section 5/1- 110.16 prohibited transactions	Pension Code, 40 ILCS 5/1-110.16 (g)
No	Updates or changes to Policy must be filed with the Illinois Department of Insurance within 30 days of adoption	Pension Code, 40 ILCS 5/1-113.17  <i>*Also applies to DC Policy</i>
No	Economic Opportunity Investments report must be submitted by September 1 to the Governor and the General Assembly	Pension Code, 40 ILCS 5/1A-108.5
<u>No</u>	<u>Fiduciary Report must be published annually on SURS website on or before September 1</u>	<u>Pension Code, 40 ILCS 5/15-177.6</u>
No	By January 1, SURS must make an Emerging Investment Managers Report to the Governor and General Assembly	Pension Code, 40 ILCS 5/1-109.1  <i>*Also applies to DC Policy</i>

No	No later than January 1 annually, the following Consultant Disclosures must be made to the Board: <ul style="list-style-type: none"> <li>• Manager search information</li> </ul> and <ul style="list-style-type: none"> <li>• Compensation and economic opportunity received</li> </ul>	Pension Code, 40 ILCS 5/1-113.22  <i>*Also applies to DC Policy</i>  Pensions Code, 40 ILCS 5/1-113.23  <i>*Also applies to DC Policy</i>
No	SURS must provide Illinois finance entity annual certification to the Public Pension Division of the Department of Financial and Professional Regulation	Pension Code, 40 ILCS 5/1-110.10 and High-Risk Home Loan Act, 815 ILCS 137/1 et seq.
No	Annual submission of ADV Form by Investment Advisors	Securities and Exchange Commission Rule
Yes	Investment Update Report must be posted online within 75 days after months' end	N/A  <i>*Also applies to DC Policy</i>
Yes	Managers' annual certification of fiduciary duty and proof of insurance (as required by SURS contracts)	N/A  <i>*Also applies to DC Policy</i>

#### 4. Definitions

N/A

#### 5. The Policy

##### A. Role Definitions

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

##### **Board of Trustees**

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

or Consultants. The Board maintains a long-term investment focus and has adopted a formal review schedule, as set forth in Exhibit 2, which is attached hereto and incorporated herein.

### **Investment Committee**

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

### **Executive Director**

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

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

### **Internal Investment Staff**

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

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

The primary functions delegated by the Board to the CIO and the Staff may include, but are not limited to, working with the Executive Director and the Board to implement this Investment Policy and Board decisions made in connection with the Investment Policy. In connection therewith, Staff will be expected to manage cash-flow and liquidate assets, as necessary to pay benefits and other System obligations; to approve premium renewal costs for the Tail Risk program, with approval of the Consultant and in accordance with Board-approved premium spend ranges; to approve revisions to Manager Guidelines, with the approval of the Consultant and General Counsel; to serve on advisory boards where in the best interests of the System; to respond to inquiries relating to the Portfolio in accordance with SURS' communications policies; and to complete other administrative duties related to the operation of the Portfolio, not inconsistent with this Investment Policy.

### **External Investment Consultants**

The Board may retain an investment advisor who is a paid, professional consultant ("**General Consultant**") and who is qualified to provide the Board with investment advice by academic and professional training and experience and is considered an expert in the field of investment and finance. The Board may also elect to retain one or more additional Consultants ("**Specialty Consultants**," together with the General Consultant, the "Consultant") that specialize in specific areas of asset consulting. Each Consultant's relationship with the Board shall be that of a fiduciary under 40 ILCS 5/1-101.2(2).

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

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

### **External Investment Managers**

External investment managers ("**Managers**") are selected by, and serve at the pleasure of, the Board. Staff implements the Board's decisions through negotiation, execution and enforcement of Investment Management Agreements, including Manager Guidelines. Staff works with consultants to design Manager Guidelines specific to Board-approved assignments. Duties of Managers include, but may not be limited to, those set forth in Exhibit 3, attached hereto and incorporated herein. Each Manager's

relationship with the Board shall be that of a fiduciary under 40 ILCS 5/1-101.2(2).

Criteria for selection, retention and termination of Managers are covered in Sections 5.E. and 5.F. hereinafter.

### **Master Custodian**

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

### **General Counsel's Office**

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

### **External Counsel**

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

## **B. Strategic Allocation and Rebalancing Strategy**

### **Purpose**

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

### **Targets and Ranges**

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

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

The Interim Policy Target may change over time and reflects the necessity of a gradual shift of assets to the Strategic Policy Target, due to practical implementation considerations and Liquidity constraints. Staff has discretion to gradually adjust the Interim Policy Targets toward the Strategic Policy Targets.

### **Rebalancing**

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

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

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

Because certain Strategic Classes and sub-class Components are illiquid or less liquid than others, it may be costly or impractical to rebalance in the short term. Accordingly, qualitative considerations (e.g., transaction costs, liquidity needs, investment time horizons, etc.) will be considered in determining the potential

timing and extent of Rebalancing to the extent illiquid/less liquid Strategic Classes/Components require adjustment.

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

Consequently, the Board accords the Staff discretion to take those actions which, in the judgment of the Staff, are within the spirit of these guidelines and in the best interest of SURS. Staff will report the results of Rebalancing activity to the Investment Committee at the next regular Investment Committee meeting.

### **Periodic Review**

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

## **C. Investment Risk Management**

### **Risk Oversight**

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

### **Portfolio Risk**

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

### **Other System Risks**

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

### **Risk Monitoring**



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

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

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

For the Portfolio as a whole, the Board will review on a quarterly basis various risk measures that may include: (i) Actual vs. Target Allocation Percentages; (ii) Total Portfolio Risk; (iii) Market Risk Levels; (iv) Market Sentiment Indicators; (v) Value at Risk; (vi) Portfolio, Benchmark, and Active Risk; and (vii) Liquidity Profile.

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

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

### **Reporting**

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

## **D. Portfolio Construction and Performance Benchmarks**

The Board has adopted Target Allocation Percentages in accordance with its Strategic Allocation and Rebalancing strategy described in Section 5.B. hereinabove. Within each Strategic Class, the Board will determine (i) the amount of such class that will be managed internally vs. externally; (ii) managed actively vs. passively; (iii) allocated to a particular sub-class, sector or style, if any, and (iv) allocated to each approved Manager. Strategic Class allocations will be reviewed annually in connection with the Target Allocation Percentage review.

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

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

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

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

### **Broad Growth Class and Its Underlying Components**

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

The Broad Growth class consists of three components:

- Traditional Growth
- Stabilized Growth, and
- Non-Traditional Growth.

The structures and roles of these three components are described in detail below. Allocation levels to the Broad Growth Class and its three components are set forth in Exhibit 4. The structure of each major component should cause investment performance outcomes to be complementary of the respective outcomes of the

other two components, allowing for a more robust and sustainable long-term growth path for the combined SURS growth-oriented assets.

## 1. Traditional Growth Component Structure

### a. Role

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

### b. Investment Structure

- i. The Traditional Growth allocation consists of a highly diversified mix of publicly traded global Equities. Common stocks, preferred stocks, or other Equity securities are typically utilized.
- ii. The public Equity portfolio is composed of U.S., non-U.S. and global Equity segments.
  - U.S. Equities  
Managers invest primarily in publicly traded Equity securities of U.S. companies.
  - Non-U.S. Equities  
Managers invest primarily in publicly traded Equity securities of non-U.S. companies, in both developed and emerging markets.
  - Global Equities  
Managers invest primarily in publicly-traded Equity securities across the U.S. and non-U.S. markets, in both developed and emerging markets.

### iii. Allocation

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

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

c. Benchmarks

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

## **2. Stabilized Growth Component and Its Underlying Sub-Components**

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

The Stabilized Growth component consists of ~~four~~ three sub-components:

- ~~Options Strategies,~~
- Public Credit,
- Private Credit, and
- Real Assets.

The structures of these ~~four~~ three sub-components are described below. Allocation levels to the Stabilized Growth component and its sub-components are set forth in Exhibit 4.

### **a. ~~Options Strategies Structure~~**

#### **i. ~~Role~~**

~~The Options Strategies portfolio is expected to provide similar, but higher Risk-Adjusted Returns than public equity. This expectation should be due~~

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

## ~~ii. Investment Structure~~

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

## ~~iii. Benchmarks~~

~~Benchmarks for the Options Strategies portfolio are set forth in Exhibit.~~

### ~~**b.a. Public Credit Structure**~~

#### ~~i. Role~~

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

ii. Investment Structure

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

- EMD
  - Managers invest in Investment Grade corporate and high yield debt securities of emerging market countries, in both U.S. dollar and local currency terms, providing additional diversification and opportunities for higher yield.

### 3. Allocation

- The policy targets for the subcomponents of the portfolio are set forth in Exhibit 4.
4. Assets may be held in Commingled Funds or privately managed Separate Accounts.
  5. Use of leverage and short sales will be controlled as appropriate in the Manager's Guidelines.
  6. Implementation of the Credit portfolio is via Active Management.

### iii. Benchmarks

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

## e.b. Private Credit Structure

### i. Role

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

### ii. Investment Structure

1. The Private Credit allocation is generally defined as non-bank financing and/or private placements while incorporating multiple collateral types (including but not limited to corporate credit, mortgage credit, structured credit, specialty finance, asset-based, and consumer credit) and strategies.
2. The Private Credit portfolio is composed of two major subcomponents.

- Yield-Oriented
    - Yield-Oriented investment strategies target primary/origination-based transactions that focus on generating returns through performing cash flows.
  - Opportunistic
    - Opportunistic investment strategies target secondary/asset purchases that rely more heavily on generating returns through appreciation.
3. Allocation
- The Private Credit portfolio shall be diversified by time, subclass, manager, collateral, and geography.
  - Such diversification is expected to enhance returns and control risk.
4. The account structure is typically in commingled Closed-end Funds, but may utilize other structures such as evergreen vehicles including Separate Accounts and/or Fund of Ones.
5. Leverage may be utilized by some Private Credit strategies.
6. Implementation of the Private Credit portfolio is via Active Management.

iii. Benchmarks

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

d.c. Real Assets Structure

i. Role

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

ii. Investment Structure

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



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

## 2. Allocation

- The policy allocation for the Core/Core-Plus Real Estate is 85% of the Real Assets component, with a range of 75-100%.

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

Strategic Plan and Pacing Model developed by Staff and Consultants.

iii. Benchmarks

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

**3. Non-Traditional Growth Component and its Underlying Sub-Components**

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

The Non-Traditional Growth component consists of two sub-components:

- Private Equity and
- Non-Core Real Assets.

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

a. Private Equity Structure

i. Role

The Private Equity portfolio is expected to earn Risk-Adjusted Returns in excess of the public Equity markets, primarily due to the Liquidity Premium demanded by investors. The Private Equity portfolio is also expected to decrease the volatility of the Portfolio, through the diversification benefits of having lower correlations with other Asset Classes.

ii. Investment Structure

1. The Private Equity allocation generally consists of investments into private companies, either directly or through limited partnership interests of pooled vehicles covering the broad spectrum of private investments as follows in subsection ii(2).
2. The Private Equity portfolio is composed of three major subcomponents.

- Venture Capital/Growth
    - Venture capital partnerships primarily invest in businesses still in the conceptual stage (start-up or seed) or where products may not be fully developed, and where revenues and/or profits may be several years away.
    - Growth/late-stage venture capital partnerships typically invest in more mature companies in need of growth or expansion capital.
  - Buyout
    - These partnerships provide the equity capital for acquisition transactions either from a private seller or the public, which may represent the purchase of an entire company, or a refinancing or recapitalization transaction where Equity is purchased.
  - Other
    - Mezzanine/subordinated debt partnerships provide the intermediate capital between Equity and senior debt in a buyout or refinancing transaction.
    - Restructuring/distressed debt partnerships typically make new investments in financially or operationally troubled companies, often for a control position, with a view to improving the balance sheet and operations for a subsequent sale.
    - Special situations partnerships include organizations with a specific industry focus or transaction type not covered by the other subclasses mentioned above, or unique opportunities that fall outside such subclasses.
3. Allocation
- The Private Equity portfolio shall be diversified by time, subclass, and geography.
  - Such diversification is expected to enhance returns, control risk, and reduce volatility.
4. SURS currently participates in Private Equity through various structures including commingled Fund-of-Funds, Separate Accounts, and primary fund commitments.
5. In addition to limited partnership interests, SURS may participate in co-Investments, which are direct investments alongside a general

partner.

6. Leverage may be present in Private Equity investments, most commonly in buyout partnerships. Levels are generally determined on a fund-level basis.
7. Implementation of the Private Equity portfolio is via Active Management.
8. To manage private equity exposure or to rebalance the portfolio, SURS may consider a sale of private equity interests on the secondary market.

iii. Benchmarks

Benchmarks for the Private Equity portfolio are set forth in Exhibit 5.

b. Non-Core Real Asset Structure

i. Role

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

ii. Investment Structure

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

debt investments in real estate, infrastructure, or agriculture.

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

iii. Benchmarks

Benchmarks for the Non-Core Real Asset portfolio are set forth in Exhibit

**4. Principal Protection Class Structure**

a. Role

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

b. Investment Structure

- i. The principal protection allocation consists of a diversified mix of publicly traded Fixed income securities, invested across multiple asset types.

1. Quality standards, such as credit, concentration, duration, liquidity, etc., will be specifically set forth in each Manager's Guidelines, as applicable. In the event a security no longer meets the quality standards referenced above, the Manager may continue to hold such security if it believes doing so is in the best interest of SURS. The Manager shall provide written justification of the action to Staff and Consultant as soon as practicable.
  - ii. The principal protection portfolio is composed largely of Treasuries, Agency backed mortgage securities, and other agency backed bonds.
    1. Mortgage-Backed Securities – Agency
      - Managers invest primarily in Mortgage-backed Securities (MBS) issued by the U.S. government agencies (Fannie Mae, Freddie Mac, or Ginnie Mae).
    2. Treasuries
      - Managers invest in treasury securities of the U.S. government.
    3. Other
      - Managers may invest in other high-quality segments as clarified in manager specific guidelines; however, these must be Investment Grade credit, that is rated "BBB" or higher by two or more of the credit rating agencies.
  - iii. Allocation
    1. The policy targets for the subcomponents of the portfolio are set forth in Exhibit 4.
  - iv. Assets may be held in Commingled Funds or privately managed Separate Accounts.
  - v. Use of leverage and short sales will be controlled as appropriate in the Manager's Guidelines.
  - vi. Implementation of the Principal Protection portfolio is primarily via Active Management.
- c. Benchmarks

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

## **5. Inflation Sensitive Class Structure**

### a. Role

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

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

### b. Investment Structure

- i. The Inflation Sensitive Class consists solely of Treasury Inflation Protected Securities:
- ii. Implementation of the TIPS portfolio is currently via Passive Management.

### c. Benchmarks

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

## **6. Crisis Risk Offset Class Structure**

### a. Role

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



## b. Investment Structure

- i. The CRO allocation generally consists of investments in highly-liquid portfolios that are meant to capture key risk premia and market participant behavior that should prove largely beneficial during an equity-related market crisis. Along these lines, the underlying investments and strategies may utilize both long positions and short-selling positions to capture the desired return patterns/behavior.
- ii. The CRO portfolio is composed of four major subcomponents.
  1. Long U.S. Treasury Duration
    - U.S. Treasuries represent the leading “flight-to-quality” investment since they are backed by the U.S. Government. The U.S. Dollar (the base denomination of U.S. Treasuries) is also considered the world’s highest-quality reserve currency.
    - Exposure to U.S. Treasury Duration can take place via cash markets (i.e., actual bonds) or the futures markets (virtual bond proxies).
  2. Systematic Trend Following
    - Long-short portfolios utilizing derivatives-based instruments to capture both periodic appreciation and periodic depreciation trends that evolve and dissipate across a very wide array of liquid global markets. Risk/volatility is calibrated to a pre-determined level derivatives-based leverage.
    - Assets will be invested in highly liquid underlying securities (cash, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.
    - In order to appropriately calibrate the expected volatility of this component and the overall CRO class, significant levels of derivatives-based leverage may be applied. Effects of leverage are adjusted daily through market-based exchanges/facilities, ensuring appropriate and timely mark-to-market valuations.
  3. Alternative Risk Premia
    - Long-short portfolios utilizing both cash and derivatives-

based instruments to capture well-researched/documented non-market risk premiums (e.g., momentum, carry, value, low-volatility, etc.) on a continuous basis, utilizing an array of liquid global markets. Risk/volatility is calibrated to a pre-determined level utilizing cash and derivatives-based leverage.

- Assets will be invested in highly liquid underlying securities (cash, stocks, futures, forwards, etc.), allowing for relatively rapid access for rebalancing and liquidity purposes.
- Strategies should be designed to exhibit “market-neutral” outcomes, exhibiting lack of relationship with the major market-based risk premia (e.g., equity risk premia, duration risk premia).

#### 4. Long Volatility and Tail Risk

- Derivative-based strategies that invest in instruments that have structural or explicit inverse relationships with global Equity markets.
- Assets will be invested in highly liquid underlying securities, such as put options, call options, or index futures on Equity and Volatility indices in order to monetize gains and rebalance into Growth assets during periods of appreciation within the Long Volatility and Tail Risk strategies.
- Long Volatility strategies are expected to decline by a marginal amount (e.g., -4% per annum) during benign or bull market periods.
- Tail Risk strategies are expected to expend a pre-approved premium level (i.e., insurance cost) each renewal period with the assumption that the premium/NAV may decline to zero if no major event occurs.

#### iii. Allocation to Subcomponents

1. The policy targets for the subcomponents of the portfolio are set forth in Exhibit 4.
2. Assuming the capital weights above are consistently maintained, it is highly likely that the volatility associated with

the Systematic Trend Following component will contribute the most to overall CRO class volatility over time.

- iv. Fund account structures (versus separate accounts) will be emphasized in the Systematic Trend Following, Alternative Risk Premia, and Long Volatility strategies. Use of fund account structures will likely reduce the monitoring, accounting, and administrative burdens of these relatively unconstrained and dynamic strategies.
  - v. Derivatives-based leverage will be utilized significantly across these strategies. Leveraged positions are typically adjusted on a daily basis to conform to pre-established guidelines (see below).
  - vi. Implementation of the CRO portfolio will utilize both replication (passive) and active management where deemed appropriate and prudent within each subcomponent.
- c. Risk Profile of CRO Class and its Subcomponents
- i. The aggregate CRO class has a total risk (standard deviation) range/budget set at a level to effectively counterbalance the volatility experienced in the SURS portfolio's major growth-oriented components:
    - 1. Lower risk level limit (annualized standard deviation): 8%
    - 2. Upper risk level limit (annualized standard deviation): 15%

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

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

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

Component	Annualized Volatility Expectation
Long Duration Capture	12% - 20%
Systematic Trend Following	10% - 20%
Alternative Risk Premia	8% - 12%
Long Volatility	8% - 30%

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

d. Benchmarks

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

7. **Opportunity Fund Structure**

a. Role

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

b. Investment Structure

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

c. Benchmark

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

E. **Selection and Retention**

**Introduction**

The processes used for selection and hiring of Consultants, Managers and Custodians are set forth in the ***SURS Investment Procurement Policy***. In general, the criteria used to determine the minimum qualifications of firms to be selected for an assignment are shown below:

**Selection Criteria**

1. Registration with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, or otherwise qualified under the Illinois Pension Code.
2. Experience of the firm in the management of institutional portfolios operated under prudent person standards, as well as related investment management experience.
3. Qualifications and/or depth of the professional Staff.
4. Soundness of the firm's investment philosophy and process.
5. The investment record of the firm and/or the firm's principals in former associations where that record is verifiable.
6. The adequacy of the firm's trading, back office, accounting and reporting, and client servicing capabilities.
7. Fees.
8. Sustainable Investing Principles, as discussed below.

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

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

### **Investment Manager and Fund Monitoring**

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

### **Marketable Securities Portfolios**

An evaluation of each Manager shall be conducted annually by the Staff and the Consultants. The evaluation shall be based on a number of factors, including, but not limited to, organizational and personnel issues and whether the Manager has complied with its Manager Guidelines and met performance objectives. Evaluation will include the results of periodic due diligence meetings and phone calls.

To the extent that significant concerns about a Manager arise, the Staff or Consultant shall communicate their concerns to the Investment Committee/Board and recommend available options, including exit strategies (see Section 5.F., 'Investment Manager Termination Guidelines.'). Between annual reviews, subject to Manager Termination Guidelines, the Staff or Consultants may recommend immediate Termination.

### **Closed-end Fund and Separate Account Evaluation**

Limited partnership interests in private Closed-end Funds and investments in private markets Separate Accounts (i.e., Private Equity, Real Estate, infrastructure, etc.) will be reviewed by Staff and Consultant annually. The evaluation shall be based on a number of factors, including, but not limited to, organizational and personnel issues and whether the Manager has complied with its Manager Guidelines and met performance objectives. Evaluation will include the results of periodic due diligence meetings and phone calls.

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

## **F. Investment Manager Termination Guidelines**

### **Introduction**

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

### **Clearly Defined Objectives**

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

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

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

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

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

### **Investment Manager Transition**

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

## **G. Performance Evaluation and Reporting**

### **Performance Evaluation**

#### **Marketable Securities Portfolios**

Rates of Return and Risk-Adjusted Returns, on a net-of-fees basis, shall be

calculated quarterly by the Custodian or Consultants to measure the performance of each major Asset Class. Actual Trailing Period returns for fiscal year-to-date, one (1) year, three (3) year, five (5) year, ten (10) year periods will be compared to comparable returns for applicable Policy Portfolio indices.

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

### Private Markets Portfolios

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

### Total Portfolio

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

### Style Analysis

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

### **Performance Reporting**

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

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

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



### **Market Values**

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

### **Marketable Securities**

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

### **Private or Illiquid Securities**

For private and illiquid securities, each individual Manager or Fund-of-Funds Manager has the responsibility for estimating and publishing the market value of these investments. The valuation and appraisal methods used should be consistent with current CFA Institute and industry standards.

## **H. Safeguard of Assets**

- **Qualification of Service Providers**

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

- **Asset Limits**

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

- **Monitoring of Service Providers**

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

- **Authorization to Transfer Funds**

Transfer of funds between accounts must be evidenced in writing or conducted electronically by an authorized Staff member and be in compliance with the

Custodial bank's procedures. The following positions have been designated by the Board to have the authority to give direction to the Custodian on any and all actions with respect to the Master Trustee relationship between the Board and the Custodian: Executive Director, CIO, and Deputy CIO. The senior investment officers have been designated by the Board to have the limited authority to approve payments initiated through the Trade Order Entry System related to initial or subsequent investments in limited partnerships, real estate, infrastructure, or other investments approved by the Board.

- Insurance Requirements

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

- Custodial Credit Risk

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

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

1. Performs due diligence on Custodians and advisors with which

SURS will do business and appropriately documents business relationships with these service providers.

2. Provides investment parameters for the investment vehicles detailed in the specific Investment Management Agreements.
3. Monitors the financial condition of the Custodian. If there is cause for concern, the Board of Trustees will determine appropriate action.
4. Endeavors to have all investments held in custodial accounts through an agent, in the name of Custodian's nominee<sup>1</sup>, or in a corporate depository or federal book-entry system. For those deposits or investment assets held outside of the Custodian, SURS will follow applicable regulatory rules.
5. Requires the Custodian or its sub-Custodians will provide safekeeping of all SURS securities in segregated accounts that reflect the holdings of SURS; and the Custodian will not commingle SURS securities with the Custodian's own securities.

## I. General Investment Restrictions and/or Guidelines

### Investment Authorization

No investment or action pursuant to an investment may be taken unless permitted by this Policy or by each Investment Manager's Guidelines. Exceptions may be made subject to prior review by, and express written authorization from, the Board.

## J. Corporate Governance

### 1. Proxy Voting Guidelines

The Board may retain a proxy voting service, pursuant to a contract with SURS, to vote the proxies of U.S. and non-U.S. shares according to the proxy voting service's

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<sup>1</sup>Registered owner of a stock or bond if different from the beneficial owner, who acts as holder of record for securities and other assets. Nominee ownership simplifies the registration and transfer of securities.

proxy voting guidelines, as customized for SURS and approved by the Board.<sup>2</sup> All proxy votes not specifically addressed by the proxy voting service's approved proxy voting guidelines, or if the Board determines not to retain a proxy voting service, will be voted on a case-by-case basis by Managers, subject to Staff review and consistent with the fiduciary responsibilities of the Board.

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

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

## 2. Proxy Voting Reports

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

## 3. Securities Litigation Policy

### a. Identification Of Potential Claims

- i. In order to weigh the costs and benefits of the various alternatives as specified below, Staff will identify potential claims by determining if it bought or sold the securities of a company during applicable periods.
- ii. Staff will regularly match the SURS portfolios against reports of securities litigation cases obtained from Consultants, law firms engaged for securities litigation, and from other sources deemed reliable by Staff.
- iii. If SURS did not buy or sell securities of a company during the applicable period, the inquiry will end. If SURS had purchases or sales during the period, evaluation of the potential claim will proceed as specified below.

### b. Evaluation Of Potential Claims

- i. If SURS bought or sold securities during an applicable period, evaluation of the alternatives available will begin with an initial assessment of the size of the potential claim.
- ii. When potential losses are deemed insignificant, further action will ordinarily be limited to monitoring as specified in subsection .c. below to ensure that class member claims are filed if and when there is a right to

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<sup>2</sup> [Despite new legislation that gives the SURS Board the option to have the Treasurer of the State of Illinois vote SURS' proxies \(40 ILCS 5/15-177.5\), the Board believes the best practice is to continue to vote SURS proxies through the proxy voting vendor selected by the board. This continued practice ensures that SURS proxies will be voted pursuant to the voting directions specifically approved by the SURS Board.](#)

do so, unless there are extenuating circumstances that warrant further consideration by Staff and the Board.

- iii. When potential losses are deemed significant, the alternative courses of action available shall be identified by the Staff. Alternatives will likely include several different courses of action, such as:
  1. Monitoring the course of a class action suit and filing a claim at the end to participate in a class payment.
  2. After consultation with the Illinois Attorney General's office, monitoring the course of a class action suit, but objecting to a proposed settlement if there are reasons to object.
  3. After consultation with the Illinois Attorney General's office, seeking to control a class action by seeking designation as lead plaintiff, either singly or with others.
  4. After consultation with the Illinois Attorney General's office, opting out of a class action suit and filing a separate suit, either singly or with others.
  5. The relative merits of each alternative will be weighed and considered by Staff, as well as by the Illinois Attorney General's Office.
  6. Staff and the Illinois Attorney General's office will make a recommendation to the Executive Committee or to the Board of any course of action beyond participating in the litigation as a passive member of the class. The Executive Committee, or the Board, as applicable, will have the authority to approve any course of action beyond monitoring the case. If the Executive Committee, or the Board, approves active participation in the litigation, additional authorization is not necessary to align with other potential plaintiffs in application for named plaintiff status if such an action is agreed appropriate by the General Counsel and the Executive Director. Counsel will be selected by the Executive Committee or the Board, after consultation with the Illinois Attorney General's office.

c. **Monitoring**

The Staff will utilize the services of the System's Custodian, as well as the services of any consultants, including Securities Litigation counsel, with expertise in this area chosen by the Board, to monitor pending cases which involve securities that SURS bought and sold during the relevant periods to evaluate any settlements proposed and to file claims as necessary for SURS

to participate in distributions of funds. To the extent that Staff finds a proposed settlement inadequate to protect the interests of the System, the Executive Committee may authorize action to file legal objections. Authorization is not necessary for Staff to file an objection to attorneys' fees or expenses if an objection is agreed appropriate by the General Counsel and the Executive Director after consultation with the Illinois Attorney General's office.

**d. Legal Action**

- i. Where the Executive Committee or the Board has determined under subsection b. immediately above Part 2 that the interests of the System will be best served by seeking designation as lead plaintiff, by opting out of a domestic class action to pursue a direct action or by opting into a foreign securities litigation matter, SURS, in consultation with the Illinois Attorney General's Office, will choose appropriate counsel and will negotiate a fee agreement, if necessary, when the Attorney General's Office is unable to represent the System as its legal counsel in any such action. If the Executive Committee or the Board determines that appropriate counsel is a firm not on SURS' approved list, the recommendation of such firm shall be made to, and approved by, the Executive Committee or the Board.
- ii. Where the Executive Committee and the Illinois Attorney General's office disagree as to the desirability of seeking designation as lead plaintiff or opting out of a class action, the Executive Committee shall act in accordance with its fiduciary obligations in making a final determination.
- iii. Any legal action authorized or taken shall be reported to the Board, who shall also be provided periodic updates on the status of such actions.

**e. Approved Law Firms**

- i. The Board, or Staff at the Board's direction, will interview and select, through an RFP, a roster of no more than three-five qualified securities litigation firms. This roster will constitute SURS' "approved list."
- ii. In cases where the initiation of litigation is a formality designed to provide support for another institutional investor, Staff may recommend that the most sensible and cost-effective source of legal representation will be the General Counsel or the legal counsel representing the institutional investor that SURS wishes to support.

**f. Authority to Settle Claims and Lawsuits**

Staff has the authority to resolve securities related litigation claims with a settlement value of \$250,000.00 or less, with required approval from the

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

## **K. Emerging Investment Managers, MWDBE Managers and Minority-Owned Broker/Dealers**

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

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

### **1. Goals for Utilization of Emerging Investment Managers and MWDBE Managers**

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

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

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

## 2. **Goals for Utilization of Minority-Owned Broker/Dealers**

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

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

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

### **Reporting Guidelines**

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

### **Consequences of Non-Compliance**

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

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

## 3. **Manager Diversity Program**

### **Program Description**



SURS has implemented a Manager Diversity Program (“**MDP**”) to identify highly successful MWDBE firms. The process used for selection of investment managers is set forth in ~~the~~ Policy No. 6.3, **SURS Investment Procurement Policy**. Manager Benchmarks are identified in the Manager Guidelines for each Manager in the program.

#### **4. Manager-of-Managers Program**

##### **Program Description**

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

##### **Graduation Program**

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

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

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

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

Beginning January 1, 2022, if an investment adviser acting in its capacity as an investment manager of a multimanager portfolio made up of emerging investment

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

## **L. Reporting and Other Compliance Requirements**

### **1. Compliance Reporting**

#### **a. Website**

1. Investment Information Report (30 ILCS 237/10) must be posted to SURS website by the 15<sup>th</sup> of each month, identifying the following:
  - (a) the amount of funds held by SURS on the last day of the preceding month or the average daily balance for the preceding month;
  - (b) the total monthly investment income and yield for all funds invested;
  - (c) the asset allocation of the investments;
  - (d) a complete listing all approved depository institutions, commercial paper issuers, and broker-dealers approved to do business with SURS.
2. Procurement Policy (40 ILCS 5/1-113.14(b)) must be posted to SURS website.
3. Investment services contract description (40 ILCS 5/1-113.14 (g)) must be updated on SURS website quarterly

4. Procurement exception (40 ILCS 5/1-113.14) for follow-on commitments with the same fund sponsor must be posted to SURS website.
5. The retirement system shall develop uniform documents (40 ILCS 5/1-113.14 (f)) that shall be used for the solicitation, review, and acceptance of all investment services, and shall contain all the terms contained in 40 ILCS 5/1-113.14(c).
6. A description of every contract for qualified fund-of-fund management (40 ILCS 5/1-113.15) must be posted, in a conspicuous manner, on SURS' website, and should include the name of the fund-of-funds, the name of its investment adviser, the total investment commitment of the retirement system, pension fund, or investment board to invest in such fund-of-funds, and a disclosure approved by the Board describing the factors that contributed to the investment in such fund-of-funds.
7. To contribute to Investment Transparency (40 ILCS 5/1-113.16), SURS shall maintain an official website and make available in a clear and conspicuous manner, and update at least quarterly, all of the following information concerning the investment of funds:
  - (a) The total amount of funds held by the retirement system.
  - (b) The asset allocation for the investments made by the retirement system.
  - (c) Current and historic return information.
  - (d) A detailed listing of the investment advisers for all asset classes.
  - (e) Performance of investments compared against established benchmarks.
  - (f) A detailed list of all consultants doing business with the retirement system.
  - (g) A detailed list of all contractors, other than investment advisers and consultants, doing business with the retirement system.
  - (h) Any requests for investment services.

- (i) The names and email addresses of all board members, directors, and senior staff.
  - (j) The report required under Section 1-109.1 of the Code (Annual Report to the Governor).
  - (k) The description of each contract required under subsection (g) of Section 1-113.14 of the Code.
8. All exceptions to 40 ILCS 5/1-113.14 granted under the Procurement exception for contracts with emerging investment managers through a qualified manager of emerging managers must be published on the SURS' website, and naming the person authorizing the procurement and a brief explanation of the reason for the exception, 40 ILCS 5/1-113.24.
9. SURS must post an Annual Fiduciary Report to its website by September 1 (40 ILCS 5/15-177.6) outlining how the Board considers sustainability factors, as defined in the Illinois Sustainable Investing Act.

#### b. Report Submissions

- 1. The retirement system shall provide by April 1 (40 ILCS 5/1-110.16 (g)) the Illinois Investment Policy Board with information regarding investments sold, redeemed, divested, or withdrawn.
- 2. Investment Policy (40 ILCS 5/113.17) must be filed with the Illinois Department of Insurance within 30 days of an update
- 3. An Economic Opportunity Investments report that identifies the economic opportunity investments made by the fund, the primary location of the business or project, the percentage of the fund's assets in economic opportunity investments, and the actions that the fund has undertaken to increase the use of economic opportunity investments. (40 ILCS 5/1A-108.5) shall be submitted by September 1 to the Governor and the General Assembly
- 4. SURS must submit a Report to the Governor and General Assembly by January 1 (40 ILCS 5/1-109.1) regarding Emerging Investment Managers

c. Reports Received

1. Diversity disclosure (40 ILCS 5/1-113.21) - No contract for investment services, consulting services, or commitment to a private market fund shall be awarded unless the investment advisor, consultant, or private market fund first discloses: the number of its investment and senior staff , and the percentage of its investment and senior staff who are (i) a minority person, (ii) a woman, and (iii) a person with a disability; and the number of contracts, oral or written, for investment services, consulting services, and professional and artistic services that the investment advisor, consultant, or private market fund has with (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability; and the number of contracts, oral or written, for investment services, consulting services, and professional and artistic services the investment advisor, consultant, or private market fund has with a business other than (i) a minority-owned business, (ii) a women-owned business or (iii) a business owned by a person with a disability, if more than 50% of services performed pursuant to the contract are performed by (i) a minority person, (ii) a woman, and (iii) a person with a disability.
2. Consultant Disclosures to the Board are required no later than January 1, as follow:
  - (a) 40 ILCS 5/1-113.22 – specified manager search information shall be disclosed
  - (b) 40 ILCS 5/1-113.23 - compensation and economic opportunity received in the prior 24-month period
3. An Illinois finance entity (40 ILCS 5/1-110.10) must annually certify that it complies with the requirements of the High-Risk Home Loan Act and the rules adopted pursuant to that Act that are applicable to that Illinois finance entity. Certification must be completed before the retirement system may invest or deposit assets. The certification must be submitted to the Public Pension Division of the Department of Financial and Professional Regulation .

3.4. SURS Sustainability Disclosure (30 ILCS 238/10) - Investment managers shall disclose, prior to the award of a contract, a description of any process through which the manager prudently integrates the sustainability factors, outlined in the Illinois Sustainable Investing Act, into their investment decision making, investment analysis, portfolio construction, due diligence, and investment ownership in order to maximize anticipated risk-adjusted financial returns, identify projected risk, and execute the manager's fiduciary duties.

## 2. Investment Reporting

- a. Per 40 ILCS 5/1-111, Ten Per Cent Limitation of Employer Securities, a plan may not acquire a security issued by an employer of employees covered by the retirement system, if, immediately after such acquisition, the aggregate fair market value of such employer securities exceeds 10 per cent of the fair market value of the assets of the retirement system.
- b. Annual Certification of Fiduciary Duty and Insurance - SURS contractual provisions may require managers to annually certify that they are aware of their fiduciary duties, and to provide proof of insurance.
- c. Investment Advisors annual submission of ADV Form - Managers are required to publish ADV Forms for registration with SEC; SURS must confirm filing by either receiving copy of ADV or checking and confirming status on SEC website

## 6. Exhibits

Attached hereto and incorporated herein are the following Exhibits:

- A. **Exhibit 1** - System Assumed Rates of Return
- B. **Exhibit 2** - Formal Board Review Schedule
- C. **Exhibit 3** - Manager's Roles and Responsibilities
- D. **Exhibit 4** - Asset Allocation Policy Mix
- E. **Exhibit 5** - Benchmarks
- F. **Exhibit 6** - SURS Utilization Goals for Emerging Investment Managers
- G. **Exhibit 7** - Manager Utilization Goals for Minority-Owned Broker/Dealers

**7. Staff Approval**

<b>Name</b>	
<b>Title</b>	
<b>Signature</b>	
<b>Date</b>	

**THIS POLICY WAS APPROVED BY THE SURS BOARD OF TRUSTEES**

**on**

**~~SEPTEMBER 16, 2022~~OCTOBER 19, 2023.**

**EXHIBIT 1****System Assumed Rates of Return**

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



**EXHIBIT 2****Formal Board Review**

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

### EXHIBIT 3

#### Managers' Roles and Responsibilities

1. Selection, purchase and sale of specific securities or investments, within the parameters specified by Staff and Consultants and in adherence to this Policy;
2. Construction and management of investment portfolios that are consistent with their specific Manager Guidelines;
3. Providing performance reporting to the Staff at intervals specified by Staff and sufficient to meet the requirements set forth in this Policy;
4. On an annual basis as applicable, providing Staff with proof of insurance coverage in an amount and type specified in their Investment Management Agreement;
5. On an annual basis as applicable, certifying in writing to Staff that they remain a fiduciary to the System and that they have been in compliance with the Manager Guidelines during the past year;
6. Utilizing investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and total proceeds in every transaction are the most favorable under the circumstances;
7. Complying with all applicable laws and regulations, including those of the State of Illinois and the United States of America including, without limitation, the provisions of Rule 206(4)5 under the Investment Advisers Act of 1940, as amended.

## EXHIBIT 4

## Asset Allocation Policy Mix

	Strategic Policy Target as of 9/1/23		Long-Term Strategic Policy Target
<b><u>Broad Growth</u></b>	<b>68%</b>	<b><u>Broad Growth</u></b>	<b>68%</b>
<i><u>Traditional Growth</u></i>	<del>37</del> 36%	<i><u>Traditional Growth</u></i>	35%
US Equity		US Equity	
Non-US Equity		Non-US Equity	
Global Equity		Global Equity	
<i><u>Stabilized Growth</u></i>	17%	<i><u>Stabilized Growth</u></i>	17%
Core Real Assets*	68%	Core Real Assets*	8%
<del>Options Strategies</del>	2%	<del>Options Strategies</del>	2%
Liquid Credit**	86.5%	Liquid Credit**	24%
Private Credit	42.5%	Private Credit	5%
<i><u>Non-Traditional Growth</u></i>	<del>14</del> 15%	<i><u>Non-Traditional Growth</u></i>	16%
Private Equity	11%	Private Equity	11%
Non-Core Real Assets	34%	Non-Core Real Assets	5%
<b><u>Inflation Sensitive</u></b>	<b>5%</b>	<b><u>Inflation Sensitive</u></b>	<b>5%</b>
TIPS	5%	TIPS	5%
<b><u>Principal Protection</u></b>	<b>810%</b>	<b><u>Principal Protection</u></b>	<b>810%</b>
<b><u>CRO</u></b>	<b>179%</b>	<b><u>CRO</u></b>	<b>179%</b>
Long Duration	2%	Long Duration	2%
Long Volatility	1.7%	Long Volatility	1.7%
Tail Risk	0.3%	Tail Risk	0.3%
Trend Following	10%	Trend Following	10%
Alt. Risk Premia	53%	Alt. Risk Premia	53%
Opportunity Fund	0%	Opportunity Fund	0%
<b>Total</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>

\*Includes Real Assets and Infrastructure investments.

\*\*Liquid Credit includes EMD, HY, Loans, Invest. Grade, and other income-driven strategies.

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

**EXHIBIT 5:  
Benchmarks**

<b>ASSET CLASS POLICY MIX</b>	<b>BENCHMARK</b>	
<b>Total Broad Growth Aggregate</b>	Blend of Blends	
<b>Traditional Growth</b>	MSCI ACWI IMI	
U.S. Equity	Dow Jones U. S. Total Stock Market Index	
Non-U.S. Equity	MSCI ACWI Ex-US IMI	
Global Equity	MSCI ACWI IMI	

<b>Stabilized Growth</b>	Blend	
<b>Real Assets</b>	Blend	
Core/Core-Plus Real Estate	NFI-ODCE Value Weight Net	
Core/Core-Plus Infrastructure	FTSE Developed Core Infrastructure 50/50 Index	
<b>Options Strategies</b>	<p align="center"><b>Blend of two Benchmarks:</b>  <del>Bench 1: 22.5% CBOE S&amp;P 500 PutWrite / 22.5% CBOE S&amp;P 500 BuyWrite / 2.5% Russell 2000 PutWrite / 2.5% Russell 2000 BuyWrite / 5% MSCI EM PutWrite / 5% MSCI EM BuyWrite / 20% MSCI EAFE PutWrite / 20% MSCI EAFE BuyWrite</del>  <b>Bench 2: CBOE S&amp;P 500 PutWrite</b></p>	
<b>Total Public Credit</b>	25%IG+30%HY+30%EMD+15%BL Blend	Hedged
Investment Grade	BB Global Agg Corporate Index	Hedged
High Yield	ICE/BoA Global HY Constrained	Hedged
Emerging Market Debt (EMD)	50% JPM EM Bond Index - Global Diversified + 50% JPM Corp. EM Bond Index - Broad	Hedged
Bank Loans	S&P U.S. LSTA Leveraged Loan	Hedged
<b>Private Credit</b>	50% ICE/BofA Global HY Constrained +50% S&P LSTA Global Leveraged Loan + 1%	Hedged

<b>Non-Traditional Growth</b>	Blend	
Private Equity	MSCI ACWI IMI+2.0% Secondary Benchmarks may include: peer group comparison, return multiple or public market equivalent comparisons.	
Non-Core Real Estate	NFI-ODCE Value Weight Net+1.5%	
Farmland	NCREIF Farmland Property Index	
Non-Core Infrastructure	Measured by stated strategy target	

<b>Total Inflation Sensitive</b>	Blend	
TIPS	Barclays Capital U.S. TIPS Index	

<b>Principal Protection</b>	Bloomberg Barclays Intermediate Agg. Ex Credit	
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<b>Total Crisis Risk Offset</b>	Blend	
Long Duration	BB Long Government Index	
Long Volatility/Tail Risk*	CBOE EurekaHedge Long Volatility Index	
Systematic Trend Following	CS Managed Futures (15%Vol)	
Alternative Risk Premia	90 Day Treasury Bills + 2.0%	

<b>Grand Total</b>	Policy Portfolio	
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\*The SURS Tail Risk program is implemented in an overlay/notional fashion and does not have a specific weight in the Total Portfolio benchmark. The 0.3% target allocation (as a % of the Total Portfolio) has been added to the 1.7% target allocation for Long Volatility for the purposes of the blended benchmarks

## EXHIBIT 6

## SURS Utilization Goals for Emerging Investment Managers

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

\* Includes allocations to Principal Protection, Credit, TIPS, and Long Duration

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

## SURS Utilization Goals for Minority Investment Managers

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

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

## EXHIBIT 7

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

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

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



## OFFICIAL POLICY

# Investment Procurement Policy

<b>Policy Register Part:</b> VI – Investments		<b>Policy Number:</b> 6.3
<b>Approval Authority:</b> Board of Trustees		<b>Originating Department:</b> Investments  <b>Responsible Executive Staff Member:</b> Chief Investment Officer
<b>Version:</b>	<b>Effective Date:</b>	<b>Description of Changes and Link(s) to Earlier Version(s):</b>
1	March 9, 2018	N/A – Original
2	March 8, 2019	Clarified that the Quiet Period applies to RFP process, reorganized existing language regarding specialty consultants, and clarified that specialty consultant is required to satisfy procurement diversity requirements
3	September 13, 2019	Updated procurement exceptions to match Pension Code Section 1-113.14(b) and to clarify staff involvement in strategic allocation and periodic search updates to Board
4	June 5, 2020	Added a new section detailing procurement requirements for Opportunistic Investments

5	January 29, 2021	Amended to permit Staff to authorize Specialty Consultant recommendations for commitments of \$50 million or less, to remove requirement of General Partner presentations of follow-on funds, and to require commitments to new General Partners in excess of \$50 million to be presented to the Investment Committee
6	September 15, 2022	Formatted into template and amended as follows: <ul style="list-style-type: none"> <li>• In Section 5.A., Applicability of RFP Procedures, added 5.A.1.d and e as allowable exceptions per statute</li> <li>• Amended Section 5.B.8 to raise the mandate limit requiring manager appearance before the Board from \$50 million to \$100 million</li> <li>• In section 5.B., deleted 5.B.9 to reflect expansion of definition of investment committee to include entire board</li> <li>• Added language to Section 5.E., Procurement Requirements for Recommendations by Specialty Consultant, to document desire to seek emerging firm representation</li> <li>• In Section 5.E, increased size of mandate coming to the Board from \$50 million to \$100 million. Same change made to 5.E.2.d related to RFPs with the Specialty</li> </ul>
<u>7</u>	<u>October 19, 2023</u>	<u>Updated to reflect Sustainability Disclosure requirements effective January 1, 2024 (30 ILCS 238/10)</u>

## 1. Policy Statement

This policy (the “Policy”) addresses the general procedures of the State Universities Retirement System (“SURS”) in soliciting bids and surveying the market for Investment Services. The selection and appointment of firms to provide Investment Services shall be made and awarded in accordance with the Illinois Pension Code (the “Code”), 40 ILCS 5/1-101 *et seq.*, and all other relevant authority under the Illinois Compiled Statutes.



## 2. Departments and/or Staff Positions Required to Comply with Policy:

All Investment Department employees are required to read and comply with this Policy.

## 3. Directives

Is Policy internal only?	Does Policy Include any reporting requirements for Stoplight Report?	Citation to Statutory Mandates, if applicable
No	Procurement Policy must be posted to SURS website and filed with the Illinois Procurement Policy Board	Pension Code, 40 ILCS 5/1-113.14(b)

## 4. Definitions

As used in this Policy, the following term(s) shall have the meanings indicated.

- A. “Board”** - The Board of Trustees of SURS, or the Investment Committee of the Board exercising the authority of the Board pursuant to the Board’s bylaws, as the context may indicate.
- B. “Consultant”** - Any person or entity retained or employed by the Board to make recommendations in developing an investment strategy, assist with finding appropriate investment advisers or monitor the Board’s investments. “Consultant” does not include discretionary Investment Advisers or non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy-voting services, services used to track compliance with legal standards and investment in fund of funds where the Board has no direct contractual relationship with the investment advisers or partnerships. A Consultant must be registered as an investment adviser under the federal Investment Advisers Act of 1940 or as a bank, as defined in the federal Investment Advisers Act of 1940. Included in the definition of a consultant is a **“Specialty Consultant”**. A “Specialty Consultant” is a consultant who specializes in one or more investment areas of expertise and is selected by the Board pursuant to a Request for Proposal (“RFP”) process. Also included in the definition of a consultant is a **“General Investment Consultant.”** A “General Investment Consultant” is a consultant selected by the Board pursuant to an RFP process to provide general investment consulting services, including investment manager search and selection, among other things.

- C. **“Chief Procurement Officer”**- An individual designated by SURS to oversee and monitor the procurement process consistent with the requirements of this Policy, the Code and all other relevant authority under the Illinois Compiled Statutes.
- D. **“Investment Adviser”**- Any person or firm who: (1) is a fiduciary appointed by the Board in accordance with Section 1-109.1 of the Code, 40 ILCS 5/1-109.1; (2) has the power to manage, acquire or dispose of any asset of SURS; (3) has acknowledged in writing that he or she is a fiduciary with respect to SURS; and (4) is either registered as an investment adviser under the federal Investment Advisers Act of 1940 or as a bank as defined in the federal Investment Advisers Act of 1940, 15 U.S. C. 80b-1 *et seq.* and 40 ILCS 5/1-113.14(b)
- E. **“Investment Services”** - Services provided by an Investment Adviser or a Consultant pursuant to Section 1-113.14 of the Code, 40 ILCS 5/1-113.14
- F. **“Opportunistic Investment”** - An investment opportunity resulting from dramatic market mispricing due to atypical external forces, which is time-sensitive in nature and would be expected to produce either: 1) risk-adjusted —investment returns exceeding those found in more typical market environments or 2) enhanced downside protection of SURS assets.
- G. **“Quiet Period”** - A period of time during which an RFP for a potential Consultant, custodian, Investment Adviser or vendor is underway and during which a set of guidelines governs any communication by the Board, Consultant or Staff with such parties.

## 5. The Policy

### A. Applicability of RFP Procedures

1. The RFP procedures in this Policy apply to, but are not limited to, hiring of Consultants, Investment Advisers, custodians, proxy voting service providers and defined contribution recordkeepers, other than:
  - a. sole source procurements,
  - b. emergency procurements,
  - c. at the discretion of the Board, contracts that are nonrenewable and one year or less in duration, so long as the contract has a value of less than \$20,000.00. All exceptions granted under this section must be published on the SURS website, shall name the person authorizing the procurement, and shall include a brief explanation of the reason for the exception,

- d. at the discretion of the Board, contracts for follow-on funds with the same fund sponsor through closed-end funds or limited partnerships, and
  - e. procurement exception (40 ILCS 5/1-113.24) for contracts with emerging investment managers provided through a qualified manager of emerging managers.
2. If in any case an “emerging investment manager” (as such term is defined in the Code) submits an RFP response that meets the requirements for a specific search then the “emerging investment manager” shall receive an invitation to present to the Investment Committee/Board. In the case where multiple “emerging investment managers” meet the criteria of the search, the most qualified firm or firms shall be selected to present to the Investment Committee/Board.

## **B. Procurement Procedures and Schedule**

The following are the general procurement actions that shall be taken by SURS when considering procurement actions. SURS shall develop and use uniform documents for the solicitation, review and acceptances of all Investment Services. References to actions by the Staff in this Policy shall mean the Staff in consultation with any applicable Consultant retained by SURS.

1. Staff is authorized to issue RFPs as necessary to implement, or maintain, the strategic policy targets established by the Board.
2. Staff is expected to consult with third parties and potential respondents prior to the proposed RFP as necessary to address any inquiries and encourage participation in the procurement process. Members of the Board may communicate with third parties and potential respondents consistent with applicable law and applicable policy.
3. Following initial due diligence, Staff shall prepare the RFP. The RFP shall contain all information statutorily required, as well as such information as necessary for, or related to, any potential procurement action. Staff shall provide the Investment Committee with a tentative timeline for all actions relating to the RFP. Such timeline shall include, but not be limited to, the RFP issuance date, the date all responses are due and the date of the expected final decision. The Quiet Period is initiated with the issuance of an RFP.
4. At a minimum, Staff shall post the RFP on the SURS website, and advertise the RFP in a nationally circulated investment publication and any other publication deemed appropriate by Staff or as required by law. Staff additionally may:

- a. contact potential respondents in order to notify them of the issuance of the RFP, and
  - b. disseminate such RFP to potential respondents.
5. The deadline for submission of proposals shall be not less than fourteen (14) days following the posting of the RFP. RFP responses received by the deadline stated in the RFP shall be recorded and receipted by Staff. Staff shall review and analyze the responses to the RFP as expeditiously as reasonably practical within the RFP specifications. Staff shall verify information submitted and resolve or confirm any discrepancies. Staff will eliminate any response that fails to conform to the minimum qualifications outlined in the RFP. Staff will periodically throughout the procurement process provide an update with respect to the RFP process and include such report in Investment Committee materials.
6. Staff and/or Consultants shall meet or conduct telephone or videoconference interviews with representatives of the respondents selected as semi-finalists by Staff and/or Consultants to obtain an independent assessment of the firm's capabilities.
7. Following the interview process, Staff and/or Consultants shall identify qualified firms to recommend to the Investment Committee for possible engagement by the Board. If in any case an "emerging investment manager" (as such term is defined in the Code) submits an RFP response that meets the requirements for a specific search then the "emerging investment manager" shall receive an invitation to present to the Investment Committee/Board. In the case where multiple "emerging investment managers" meet the criteria of the search, the most qualified firm or firms shall be selected to present to the Investment Committee/Board.
8. Following Staff's and/or Consultant's recommendation, if the amount of the contemplated investment or commitment will exceed \$100 million, the Investment Committee shall interview the respondents recommended or direct that additional respondents be invited for interview. If the contemplated investment or commitment is \$100 million or less, the recommended respondents shall be invited to make final written submissions to the Investment Committee, but live interviews shall not be required unless the Investment Committee so directs. The Investment Committee shall approve a recommendation to the Board for selection of a respondent. The Investment Committee may, in good faith, decline to recommend any respondent following such interviews. The Investment Committee may recommend a recommencement of the RFP process or terminate the search entirely.

9. Staff and/or Consultants shall, in conjunction with their legal counsel, negotiate the contract with the approved respondent. If required by the Code, such contract must at a minimum contain the specific requirements found in Section 1-113.14 of the Code, 40 ILCS 5/1-113.14. Staff shall promptly provide a report to the Investment Committee in the event Staff is unable to negotiate contract terms with the approved respondent that meet the requirements of the Code. The Quiet Period concludes with the completion of successful contract negotiations. See also, Section 5.C.7 hereinafter.
10. SURS shall post the name(s) of the successful respondent(s) on SURS' web site, along with a disclosure including the total amount applicable to the contract, the total fees paid or to be paid, and a description of the factors that contributed to the selection of the respondent consistent with the requirements of the Code.

### **C. Other RFP Requirements**

1. The RFP process shall comply with all relevant sections of State and Federal law, including the Pension Code and applicable case law.
2. Fees are an important factor when evaluating procurement for Investment Services and will be given full consideration in the procurement process. If a recommended RFP respondent's fees are materially different from other respondents presenting to the Investment Committee, Staff will include the rationale for considering the higher cost option in supporting materials provided to the Investment Committee.
3. SURS shall not enter into a contract with a Consultant that exceeds five (5) years in duration. No contract to provide consulting services may be renewed or extended. At the end of the term of a contract, however, the Consultant is eligible to compete for a new contract as permitted in the Code.
4. Any report, documentation, or list compiled or received by Staff or a Consultant relating to an RFP or procurement action shall be promptly made available to the Board upon request.
5. Nothing in this Policy is meant to prohibit or discourage any Board Member from being involved in any part of the procurement process; provided that such Board Member provides prior notice of his/her intent to participate to Staff in order to ensure such participation is in compliance with applicable law. It is expected that Staff and Consultants shall each provide independent recommendations to the Board regarding all such procurements.

6. No Board member, SURS employee or SURS vendor shall knowingly cause or advise the Board to engage in an investment transaction with a vendor when the Board member, SURS employee, SURS consultant or any of their spouses:
  - a. has any direct interest in the income, gains or profits of the investment vendor through which the investment transaction is made or
  - b. has a relationship with that investment vendor that would result in a pecuniary benefit to the Board member, SURS employee or SURS vendor or any of their spouses as a result of the investment transaction. References to the “investment vendor” include an employee or agent of such firm who has greater than 7.5% ownership of the consulting firm.
  
7. Quiet Period Policy
  - a. A Quiet Period will commence upon issuance of an RFP and end once a selection has been made by the Board and contract negotiations with the selected respondent are completed
  - b. Initiation, continuation and conclusion of the Quiet Period shall be publicly communicated to prevent inadvertent violations;
  - c. All Board members, and Staff other than those directly involved in the search or the Chief Procurement Officer or their designee, shall refrain from communicating with respondents regarding any product or service related to the search in process. All Board members and Staff shall refrain from accepting meals, travel, hotel, or other value from such respondents;
  - d. Throughout the Quiet Period, if any Board member is contacted by a respondent, the Board member shall refer such party to the Chief Procurement Officer;
  - e. All authority related to the search process shall be exercised solely by the Investment Committee or Board as a whole, and not by individual Board members;
  - f. The Quiet Period does not prevent Board approved due diligence, client conference attendance or communications with an existing vendor; provided, however, that discussions related to the procurement and pending selection shall be avoided during those activities;

- g. The provisions of this Policy shall apply throughout the Quiet Period and shall be communicated to respondents in conjunction with any search; and
- h. A respondent may be disqualified from a search process for a violation of the Quiet Period or any portion of this Policy.

#### **D. Procurement Requirements for Opportunistic Investments**

1. The Board will not be required to fulfill the RFP procurement requirements of this Policy when considering Opportunistic Investments as defined at Section 4.F of this Policy, if the requirements of this Section 5.D are complied with.
2. The following are the general procurement requirements for an Opportunistic Investment recommended by any Investment Consultant hired by the Board; provided, however, that any procurement or due diligence requirement in the contract between such Investment Consultant and the Board, and any specific directive from the Board to such Consultant regarding a proposed Opportunistic Investment takes precedence over the general requirements of this Section.
  - a. In recommending any Opportunistic Investment to the Investment Committee/Board for consideration, the Investment Consultant shall develop and utilize a consistent and uniform competitive process for analyzing and vetting potential Opportunistic Investments that shall be substantially similar to the competitive process outlined in Article 35 of the Illinois Procurement Code, 30 ILCS 500/35-1 *et seq.* if required by the Code.
  - b. The Investment Consultant shall ensure that any potential Opportunistic Investment and its terms are in compliance with the Code and any applicable law, regulation or directive of the Board, including SURS' Defined Benefit Investment Policy and approved asset allocation.
  - c. The Investment Consultant shall conduct such competitive process in a transparent and streamlined manner to ensure potential Opportunistic Investments are recommended to the Board in a timely manner.
  - d. In recommending any Opportunistic Investment to the Investment Committee/Board, the Investment Consultant shall prepare a detailed report for the Investment Committee/Board outlining the utilized competitive process and its due diligence on the potential

investment. As part of the recommendation process the Investment Consultant and Staff will secure and review all statutorily required disclosures and provide those disclosures to the Investment Committee/Board for consideration prior to taking action on the recommendation.

**E. Procurement Requirements for Recommendations by a Specialty Consultant**

1. The Board will not be required to fulfill the RFP procurement requirements of this Policy for any investment if the investment is specifically recommended by a Specialty Consultant and if such Specialty Consultant has adhered to the procurement requirements specifically outlined in this Policy for a Specialty Consultant in formulating the recommendation.
2. The following are the general procurement requirements for any investment recommended by a Specialty Consultant; provided, however that any procurement or due diligence requirement in the contract between such Specialty Consultant and the Board regarding a proposed investment takes precedence over the general requirements of this Section.
  - a. In recommending any investment to the Investment Committee/Board for consideration, the Specialty Consultant shall develop and utilize a consistent and uniform competitive process for analyzing and vetting potential investments that shall be substantially similar to the competitive process outlined in Article 35 of the Illinois Procurement Code, if required by the Code.
  - b. The Specialty Consultant shall ensure that any potential investment and its terms are in compliance with the Code and any applicable law, regulation or directive of the Board, including SURS' Investment Policy and approved asset allocation.
  - c. The Specialty Consultant shall conduct such competitive process in a transparent and streamlined manner to ensure the Specialty Consultant is recommending potential investments to the Board in a timely manner. Firms meeting the definition in the Code as an "emerging investment manager" are to be actively sought for potential investment in keeping with SURS' utilization goals.
  - d. In recommending any investment to the Investment Committee/Board, the Specialty Consultant shall prepare a detailed report for the Investment Committee/Board outlining the utilized competitive process and its due diligence of the potential investment. As part of the recommendation process, the Specialty Consultant and Staff will secure and review all statutorily required disclosures



and provide those disclosures to the Investment Committee/Board for consideration prior to taking action on the recommendation. If the contemplated investment or commitment is \$100 million or less, the recommended respondents shall be invited to make final written submissions to the Investment Committee, but live interviews shall not be required unless the Investment Committee so directs. The Specialty Consultant can recommend a follow-on fund commitment. The General Partner of any follow-on fund previously approved by the Board will not be required to present to the Investment Committee.

- e. Where appropriate, the Specialty Consultant should endeavor to recommend one or more qualified firms to the Investment Committee/Board on a quarterly basis, if consistent with SURS' Investment Policy, asset class pacing plan and approved asset allocation.

## F. Reporting and Other Compliance Requirements

- 1. Must be posted to SURS website
  - a. Procurement Policy (40 ILCS 5/113.14(b))
  - b. Procurement exception (40 ILCS 5/113.14) for follow-on commitments with the same fund sponsor
  - c. Procurement exception (40 ILCS 5/113.24) for contracts with emerging investment managers through a qualified manager of emerging managers
  - d. ~~Diversity disclosure (40 ILCS 5/1-113.21) No contract for investment services, consulting services, or commitment to a private market fund shall be awarded without an appropriate disclosure.~~
- 2. Investment Procurement Reporting
  - a. Per 40 ILCS 5/1-109.1(8) SURS shall submit a report to the Governor and the General Assembly by January 1 of each year that includes the following: (i) the emerging investment manager policy adopted, including the names and addresses of the emerging investment managers used, percentage of

the assets under the investment control of emerging investment managers for the 3 separate goals, and the actions undertaken to increase the use of emerging investment managers, including encouraging other investment managers to use emerging investment managers as subcontractors when the opportunity arises; (ii) the policy adopted setting forth goals for increasing the racial, ethnic, and gender diversity of SURS' fiduciaries, including its consultants and senior staff; (iii) the policy setting forth goals for utilization of businesses owned by minorities, women, and persons with disabilities for all contracts and services; (iv) the policy adopted setting forth goals for increasing the utilization of minority broker-dealers, including specific actions undertaken to increase the use of minority broker-dealers; and (v) the policy adopted setting forth goals for increasing the utilization of minority investment managers.

- b. Per 40 ILCS 5/1-113.22, no later than January 1 annually, each consultant retained by SURS shall disclose to its board of trustees: the total number of searches for investment services made by the consultant in the prior calendar year; the total number of searches for investment services made by the consultant in the prior calendar year that included (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability; the total number of searches for investment services made by the consultant in the prior calendar year in which the consultant recommended for selection (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability; the total number of searches for investment services made by the consultant in the prior calendar year that resulted in the selection of (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability; and the total dollar amount of investment made in the previous calendar year with (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability that was selected after a search for investment services performed by the consultant.
- c. Per 40 ILCS 5/1-113.23, no later than January 1 annually, a consultant retained SURS shall disclose to its board of trustees all compensation and economic opportunity received in the last 24 months from investment advisors

retained by the board of a retirement system, board of a pension fund, or investment board. Additionally, each consultant must be disclosed to the Board any compensation or economic opportunity received in the last 24 months from an investment advisor that is recommended for selection by the consultant. A consultant shall make this disclosure prior to the board selecting an investment advisor for appointment.

### 3. Reports Received

aA. Diversity disclosure (40 ILCS 5/1-113.21) - No contract for investment services, consulting services, or commitment to a private market fund shall be awarded without an appropriate disclosure.

b—SURS Sustainability Disclosure (30 ILCS 238/10) - Investment managers shall disclose, prior to the award of a contract, a description of any process through which the manager prudently integrates the sustainability factors, outlined in the Illinois Sustainable Investing Act, into their investment decision making, investment analysis, portfolio construction, due diligence, and investment ownership in order to maximize anticipated risk-adjusted financial returns, identify projected risk, and execute the manager's fiduciary duties.

## **5. Exhibits**

Attached hereto and incorporated herein are the following Exhibits:

N/A

**6. Approval**

<b>Name</b>	
<b>Title</b>	
<b>Signature</b>	
<b>Date</b>	

**THIS POLICY WAS APPROVED BY THE SURS BOARD OF TRUSTEES**

**on**

**SEPTEMBER 16, 2022.**



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 www.surs.org

Investment Department

To: Investment Committee  
 From: Investment Staff  
 Date: October 2023  
 Re: Ariel Global Update Memo

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### Summary

Ariel Investments, LLC (Ariel) was approved by SURS Board in June 2020 as a global equity manager in the Traditional Growth Portfolio. On August 16, 2023, SURS was notified that the lead portfolio manager, Rupal Bhansali, on the SURS strategy is leaving Ariel to start her own firm. Ms. Bhansali has led the strategy at Ariel since 2012.

Henry Mallari-D'Auria will become the new CIO of the global strategy. Mr. Mallari-D'Auria joined Ariel this year to lead a dedicated emerging markets strategy. He also served as co-CIO of international value equities. Prior to Ariel, he worked at AllianceBernstein for 31 years as CIO of Emerging Markets Value Equities.

SURS staff and Consultant Meketa held calls with the Ariel team including the new portfolio manager to discuss the transition and potential changes to the portfolio strategy. In addition, SURS staff and Meketa researched the portfolios and performance of Mr. Mallari-D'Auria's previous investment strategies at AllianceBernstein.

As of June 30, 2023, Ariel had assets under management of \$17.2 billion with \$2.7 billion in the global strategy. As of September 30, 2023, the SURS portfolio was valued at \$234 million, representing 1.0% of the total SURS portfolio. Ariel Investments has returned 7.4% annualized versus the MSCI ACWI return of 7.4% since inception.

	7-31-20 to 12-31-2020	2021	2022	YTD 9-30-23	Since Inception
Ariel Global	12.6%	11.5%	-4.4%	4.3%	<b>7.4%</b>
Benchmark (ACWI)	17.8%	18.5%	-18.4%	10.1%	<b>7.4%</b>

### Consultant Comments

Meketa recommends that SURS maintain the Ariel mandate for the foreseeable future, although we recommend that the allocation be partially used as a source of funds for upcoming required benefit payments (i.e., a modest reduction in assets to be managed by Ariel). Based on our view of Ariel broadly and Mr. Mallari-D'Auria's experience and approach to managing assets, we

believe that maintaining the allocation represents the most appropriate decision when examining both transaction costs and prospective positioning of the broader SURS Global Equity portfolio. Both SURS Staff and Meketa will seek more frequent updates and analysis of the Ariel portfolio, and additional decisions regarding Ariel's long-term role in the SURS portfolio are expected to be made over the next 12-24 months.



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Investment Department

To: Investment Committee  
From: Investment Staff  
Date: October 6, 2023  
Re: Consent to Assignment of Advisory Agreement by CAPTRUST

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In September 2023, CAPTRUST announced the addition of Carlyle as strategic investor in the firm, joining current strategic partner GTCR. In connection with the addition of Carlyle as a new investor, GTCR elected to exercise its rights to convert its nonvoting shares of CAPTRUST to voting shares and to appoint a third board member to the CAPTRUST board, increasing the total number of board members to 10 from 9. The change from nonvoting to voting shares brings GTCR's voting percentage over 25%, which constitutes a change in control of CAPTRUST pursuant to SEC guidelines. Also pursuant to SEC guidelines, such a change in control constitutes a deemed assignment of an investment advisory agreement, and the deemed assignment requires client consent.

CAPTRUST notified SURS staff of these changes and sent a letter and client consent form to SURS for approval of the assignment of the existing agreement. The letter from CAPTRUST and the client consent form (as edited by SURS) follow this memorandum in the Board materials.

After reviewing the materials provided, SURS staff held a conference call with CAPTRUST on October 4, 2023. CAPTRUST provided answers to questions from SURS staff and provided additional details relating to the transaction with Carlyle and the change in control.

For reference, some key facts about the SURS relationship with CAPTRUST are included below:

- SURS' relationship with CAPTRUST began in 2018 after Cammack was selected through an RFP process as our defined contribution consultant.
- Cammack was instrumental in helping SURS through the plan redesign and reenrollment of the SURS RSP, concluding in 2020, and the rollout and launch of the DCP in 2021.
- In 2021, Cammack was acquired by CAPTRUST, for which SURS agreed to a similar consent to assignment of our contract.
- In a statutorily required RFP, CAPTRUST was selected to be retained as SURS' DC consultant in 2023, with the current agreement continuing until April 1, 2028.
- The existing SURS service team is not expected to change.
- SURS can issue an RFP for a consultant at any time, and if needed, SURS can terminate the contract with CAPTRUST given 30 days written notice to the consultant.

### **Recommendation**

**Staff recommends that SURS consent to the assignment of the Investment Consulting Services Agreement dated April 1, 2023 between the State Universities Retirement System and CAPTRUST Financial Advisors, subject to satisfactory completion of legal review.**



Dear Suzanne Mayer

I am reaching out to you today to share a few exciting updates about CAPTRUST that I believe will allow us to further our mission to enrich the lives of our clients, colleagues, and communities.

In June of 2020, CAPTRUST embarked on a new chapter, adding a minority growth investment from leading private equity firm GTCR. We have deployed that capital to expand our offerings, while investing in our business infrastructure to provide exemplary service to you, our valued clients.

We are delighted to announce that we have recently attracted global investment firm Carlyle (NASDAQ: CG). It will provide additional capital that will allow us to further reinvest in our business as we deliver best-in-class solutions for our clients. Both Carlyle and GTCR are minority investors, who collectively own less than 50 percent of CAPTRUST. Additionally, CAPTRUST employees continue to hold a majority of the company's shares.

We also have an upcoming change that requires us to obtain client consent, due to a regulatory requirement. CAPTRUST's original agreement with GTCR permits GTCR to convert nonvoting ownership to voting and to appoint a third board member. These actions will extend GTCR's voting percentage and board appointment percentage beyond 25 percent. Under the SEC's guidance, a change in 25 percent or more of voting interests is considered to be a *change in control* and results in a *deemed assignment* of clients' advisory agreements. Accordingly, we are required to obtain client consent in such circumstances.

It is important to note that this is not a change in *actual control* of CAPTRUST. Your advisor and our management team will continue in their roles, in addition to our existing employee owners.

Under the terms of your agreement, we request that you indicate your consent to the *deemed assignment* of your Advisory Agreement to CAPTRUST, which you will receive via DocuSign shortly. We ask that you please sign and return the consent form by October 27, 2023. Furthermore, to minimize any inconvenience should there be future changes of control, the consent form includes an option that would not require your signature in the future. We would still be required to notify you of any changes of control. Please note that consenting to this future change of approach is not required to consent to continuing as a client of CAPTRUST following the additional voting rights granted to GTCR but is included for administrative ease.

We remain dedicated to providing you with outstanding service and financial advice as we move forward. If you have any questions, please do not hesitate to reach out to me directly or to your financial advisors.

A handwritten signature in black ink that reads 'Fielding Miller'.

J. Fielding Miller  
Co-Founder and Chief Executive Officer





## CLIENT CONSENT

I/We consent to the deemed assignment of my/our Investment Advisory Agreement, Retirement Plan Advisory Services Agreement, Services Agreement, and/or other agreement for investment advisory services (the "*CAPTRUST Agreement*") with CapFinancial Partners, LLC, d/b/a CAPTRUST Financial Advisors ("*CAPTRUST*") as described in the September 2023 letter from J. Fielding Miller.

Suzanne Mayer

Name

Tara R. Meyers

Name

Bianca T. Green

Name

Signature

Signature

Signature

State Universities Retirement System  
Company (if applicable)

State Universities Retirement System  
Company (if applicable)

State Universities Retirement System  
Company (if applicable)

Executive Director  
Title (if applicable)

Chief Financial Officer  
Title (if applicable)

General Counsel  
Title (if applicable)

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Please complete and return this Client Consent to us as soon as possible but in any event by no later than October 27, 2023. You can complete this consent via DocuSign and no additional follow up is necessary. If you prefer not to sign via DocuSign, you may download, print, and sign this consent. Please email a copy of the signed consent to CAPTRUST at [clientcommunication@captrust.com](mailto:clientcommunication@captrust.com). To access certain disclosures about CAPTRUST, including its ADV, please visit [www.captrust.com/important-disclosures](http://www.captrust.com/important-disclosures).

Callan

October 2023



**Energy Transition**

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**Jan Mende**  
Senior Vice President

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# Agenda

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## **Energy Transition Definition and Assets**

Tailwinds and Headwinds for Energy Transition

How to Access Energy Transition

Energy Transition Assets in SURS Real Assets Portfolio

## Energy Transition



Energy transition refers to the global energy sector's shift from fossil-based systems of energy production and consumption — including oil, natural gas and coal — to **renewable energy sources like wind and solar**, as well as lithium-ion batteries.



The increasing penetration of renewable energy into the energy supply mix, the onset of electrification and improvements in energy storage are also drivers of the energy transition.

In addition to investment in renewable energy assets (wind and solar), renewable energy storage and electric vehicle infrastructure, SURS' managers are implementing actions at the asset and portfolio company level to further decarbonization goals.



Regulation and commitment to decarbonization has been mixed, but the energy transition will continue to increase in importance as corporations and investors prioritize environmental, social and governance (ESG) factors.

## Energy-Transition Investment Types

1

### Traditional renewables

(e.g., onshore wind and solar, hydro power)



2

### Today's renewables

(e.g., offshore wind, battery storage to provide grid stability)



3

### Electric vehicle infrastructure

(e.g., chargers)



4

### Energy efficiency

(i.e., improvements in energy performance)



Investment in electric grids to transport renewable power

5



Carbon capture utilization and storage

6

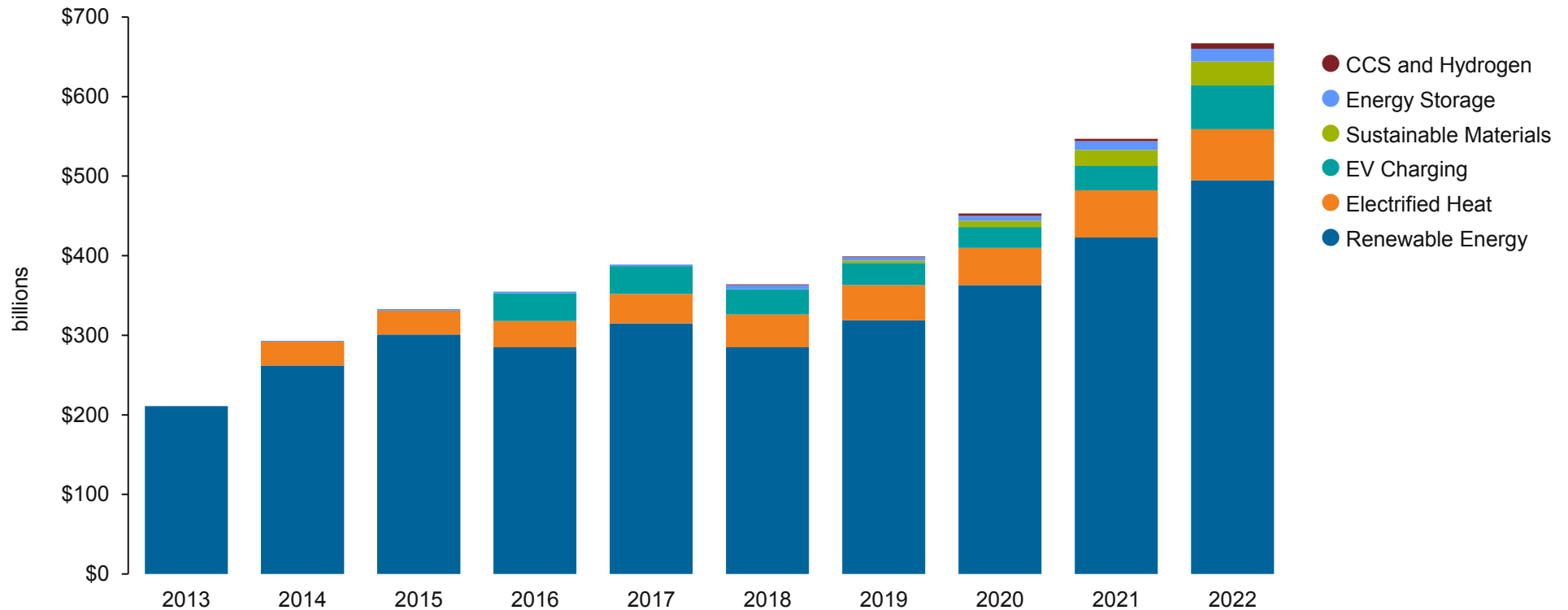


Hydrogen used as low-emissions fuel

7

## Global Investment in Energy Transition – Renewable Energy is a Significant Share

Energy transition investment surpassed \$750 billion in 2022, with \$141 billion invested in the U.S.



### U.S. Energy Transition Investments (\$billion)

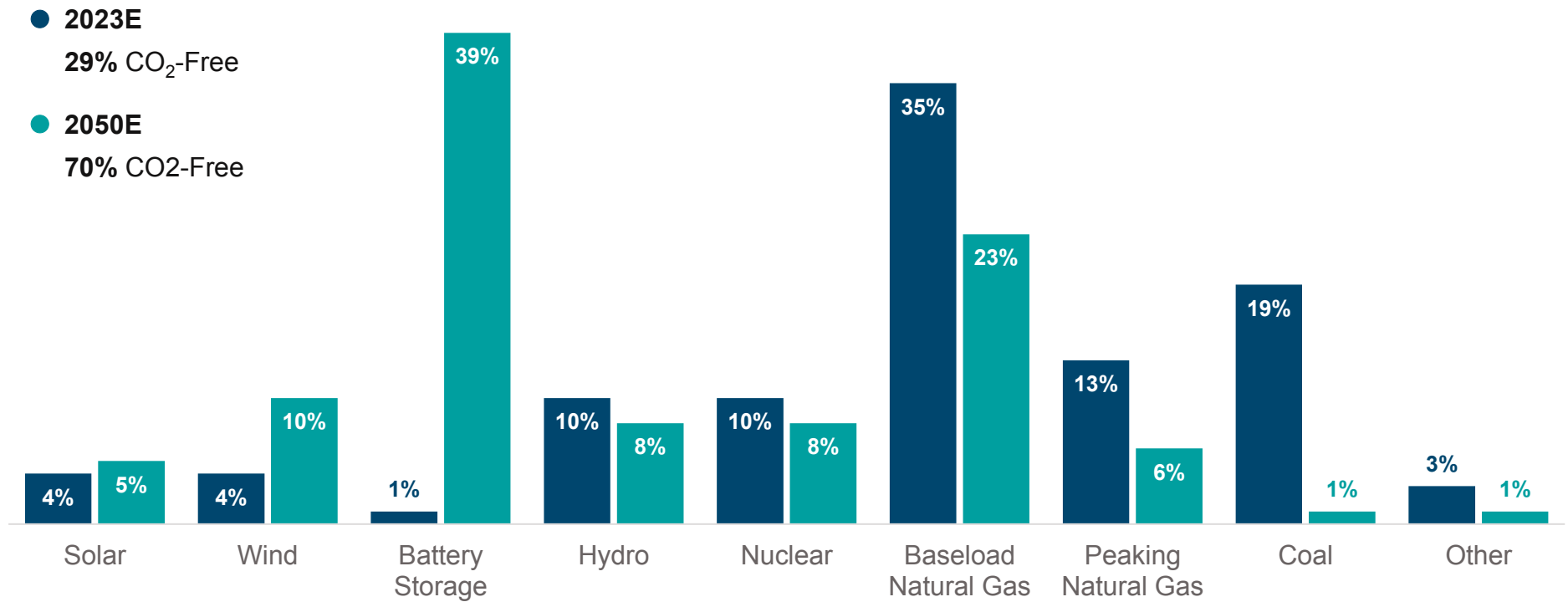
Renewable Energy	Nuclear	Energy storage	CCS	Hydrogen	Electrified transport	Electrified heat	Sustainable materials	Grand Total
\$49.53	\$1.43	\$5.34	\$1.75	\$0.00	\$57.37	\$21.62	\$4.28	\$141.31

Source: Callan research, JPM/Bloomberg NEF – Energy Transition Investment Trends Executive Summary 2022 and Bloomberg New Energy Finance's Energy Transition Investment Trends 2023

## US Energy Capacity – Expected for 2023 and 2050

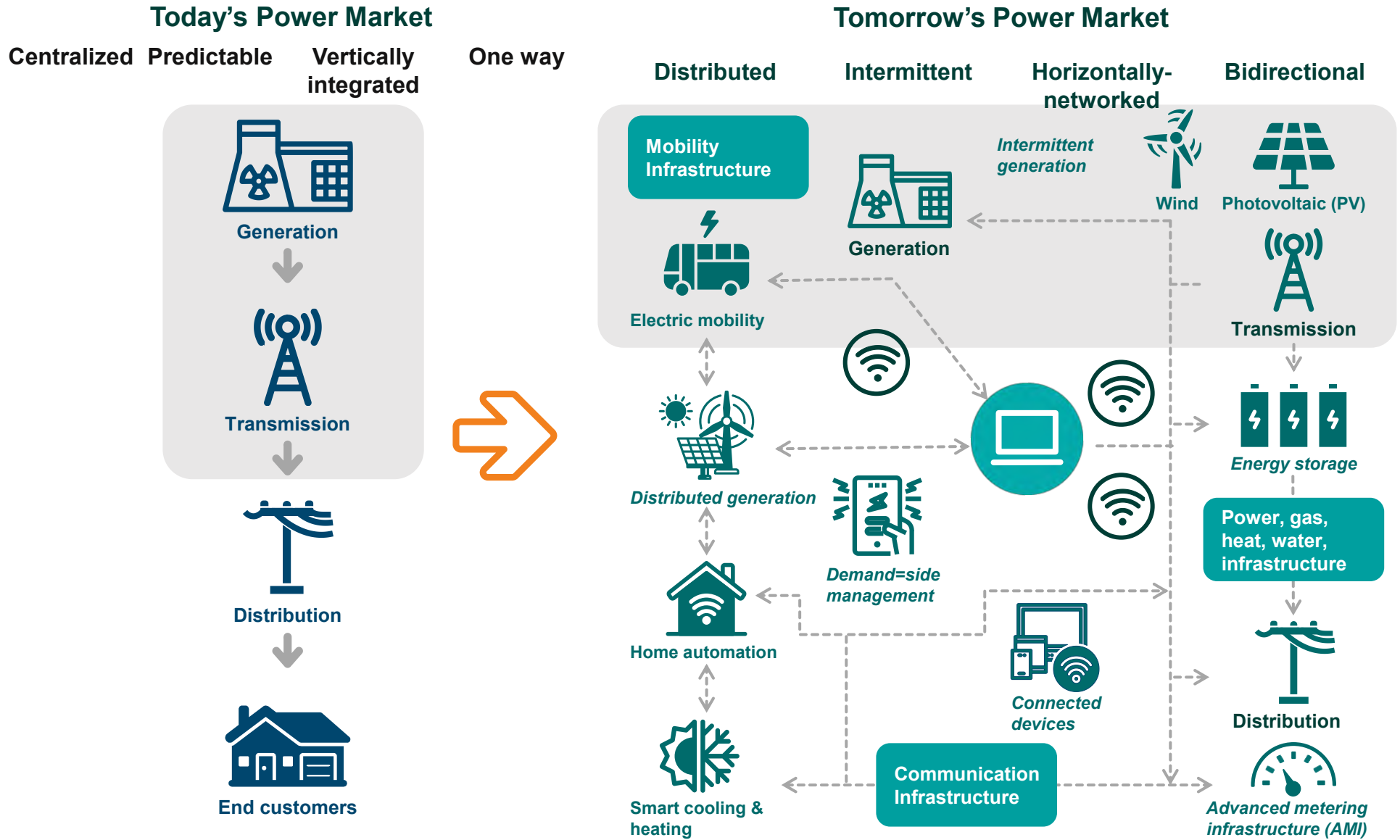
2022: Inflection point - \$1.2 trillion invested in clean energy, more than in conventional energy

### Projected U.S. Capacity Mix by Technology (MW)



Source: Wood Mackenzie North America Power Service 2023 Base Case

# Evolution of Power Sources



Source: Deloitte – 2019 Energy as a Service Report



Callan

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**Tailwinds and Headwinds for Energy  
Transition**

# Market Forces At Work

## Tailwinds



Energy Security / Current Political Landscape  
UN Climate Change Agreements  
Government Policies / Corporate and Community Goals

## Energy Security

Global conflict compelled countries to review their energy sources and led to increased energy costs

Renewable power contributes to a country's energy independence and potentially provides political benefits.

Higher energy costs because of the war in Ukraine have influenced the pricing levels of power purchase agreements (PPAs), the contracts used by sellers of renewable power to set the price and secure long-term off-take contracts (referring to agreements to consume power from renewables). This helps to guarantee the renewable power seller's returns and provides certainty for the off-take customer's cost of power.

Ultimately, pricing in the future for new PPAs depends on conditions in the energy market.



# UN Climate Change Agreements

## Conference of the Parties (COP) – UN Climate Change

<b>COP 21 (2015)</b> <b>Paris</b>	<b>COP 26 (2021)</b> <b>Glasgow</b>	<b>COP 27 (2022)</b> <b>Sharm El-Sheikh</b>	<b>COP 28 (2023)</b> <b>Dubai</b>
<p>196 countries</p> <p>International agreement was signed that set the target of limiting global warming by the end of this century to below 2°C compared with pre-industrial levels</p>	<p>Companies made commitments to limit global temperature increases</p> <p>103 countries signed up to the Global Methane Pledge to collectively reduce methane emissions 30% below 2020 levels by 2030</p>	<p>197 countries</p> <p>Increased target to 1.5°C above pre-industrial levels</p>	<p>First assessment of progress to achieve goals of the Paris Agreement</p>

### Expectations for COP 28

More focus on getting everyone at the table, including energy companies to responsibly phase down traditional energy assets, focus on near term results, focus on industry decarbonization and importance of private sector

## Government Policies Supporting Energy Transition

### Inflation Reduction Act (U.S.)

**~\$370 billion in funding for clean energy**

Extends production and investment tax credits for wind and solar by 10 years, allowing developers to claim up to 30% of the value of a project as a credit in the case of solar and per-watt production tax credit for wind.

Introduces tax credits for battery technology, hydrogen storage, stand-alone energy storage, and clean hydrogen. Includes bonus tax credits on equipment produced in the U.S., if development is within an “energy community,” or low-income communities.

### RePower EU (EU-region)

Slashed permitting of renewables to one year, triples the pace of renewable deployment.

### Energy Security Strategy (U.K.)

Slashed permitting of renewables to one year, triples the pace of renewable deployment.

### Asian Energy Transition Initiative (Association of Southeast Asian Nations)

The initiative was inaugurated by Japan in 2021 and supported by the Association of Southeast Asian Nations (ASEAN). There is financial assistance of \$10 billion for transition through renewable energy and the aim of the initiative is to support countries to achieve net zero emissions.

Source: Callan research

# Greenhouse Gas Tracking

**Decarbonization focuses on reducing greenhouse gases (“GHG”), gasses that trap heat in the atmosphere**

CO<sub>2</sub> is the most common greenhouse gas and comes from burning fossil fuels, industrial production and land use.

However, there are several other gases that contribute to climate change, all of which together are quantified in one single metric referred to as CO<sub>2</sub>e (carbon dioxide equivalent).

## Greenhouse Gases

CO<sub>2</sub> Methane, Nitrous Oxide, Fluorinated Gases

### Scope 1



#### Direct Sources

Emissions from sources owned or controlled by a company  
(e.g., fuel combustion, company-owned vehicles)

### Scope 2



#### Indirect Sources

Emissions resulting from electricity, steam, heat and cooling purchased by a company  
(e.g., purchased electricity for own use)

### Scope 3



#### Indirect Sources

Emissions from sources not owned or directly controlled by a company but related to a company's activities across the value chain  
(e.g., construction, transportation and distribution, use of products)

# Net Zero Goals

National, corporate and asset manager goals are advancing the investment case

## National and Community Goals:

More than 70 countries accounting for more than 80% of global CO2 emissions and about 90% of global gross GDP have put net-zero commitments in place as part of the United Nations' Race to Zero campaign.

More than 1000 cities, 1000+ educational institutions, and 400+ financial institutions joined the Race to Zero, pledging to take action to halve global emissions by 2030.

## Corporate Goals:

Over 3,000 businesses and financial institutions are working with the Science-Based Targets Initiative to reduce emissions.

Corporate demand for renewable power. 1) RE100 coalition: large companies committed to source 100% of power from renewable sources. 2) Renewable Energy Buyers Alliance: 300+ firms including Facebook, Google, Walmart, and General Motors.

## On Track to Reach Net Zero?

Current national climate plans – for 193 Parties to the Paris Agreement taken together – would lead to an almost 11% reduction in global greenhouse gas emissions by 2030, compared to 2010 levels.

Getting to net zero requires the biggest emitters – to significantly strengthen their Nationally Determined Contributions (NDCs) and take bold, immediate steps now.

The Glasgow Climate Pact called on all countries to revisit and strengthen the 2030 targets in their NDCs by the end of 2022, but only 24 new or updated climate plans were submitted by September 2022.

## Shell Oil

Reduce absolute emissions by 50% by 2030, compared to 2016 levels on a net basis.

This covers all emissions in Scope 1, which come directly from Shell's operations, and in Scope 2, from the energy bought to run the operations

## BP

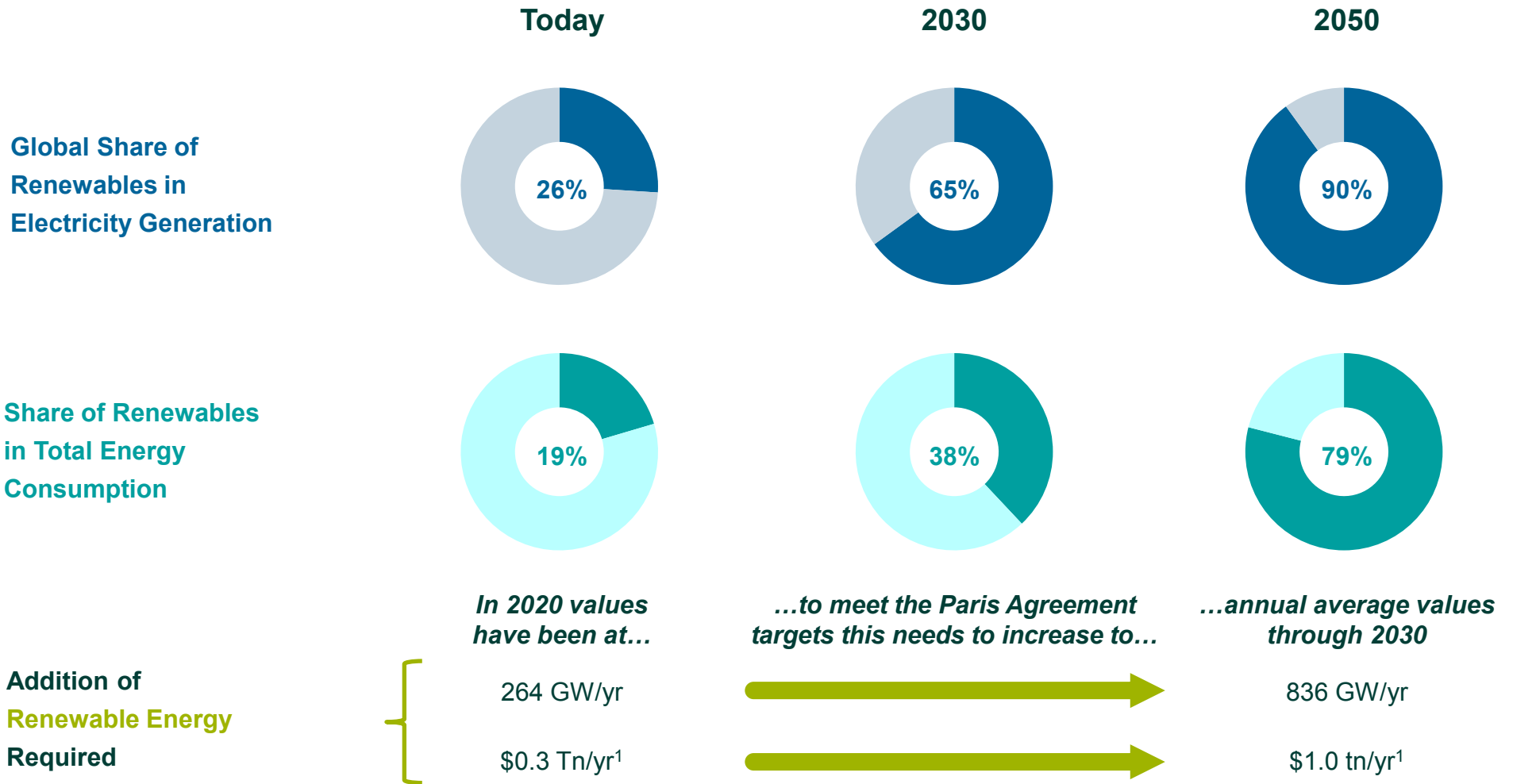
Reduce to net zero the average carbon intensity of sold energy products by 2050.

BP is expected to invest more than 40% or \$6–8 billion of capital expenditure in transition growth engines by 2025 and around 50% by 2030—or \$7–9 billion.

Source: Callan Research, McKinsey Net Zero report, published in December 2021, <https://www.un.org/en/climatechange/net-zero-coalition>

# Projections on Renewable Energy

The investment required to deliver the Paris Agreement goals helps conceptually to size the market opportunity



Source: BloombergNEF, IRENA (International Renewable Energy Association) Outlook 2022  
 1 Investments excludes electrification of transport and heat, energy storage, hydration, CCS and energy efficiency.



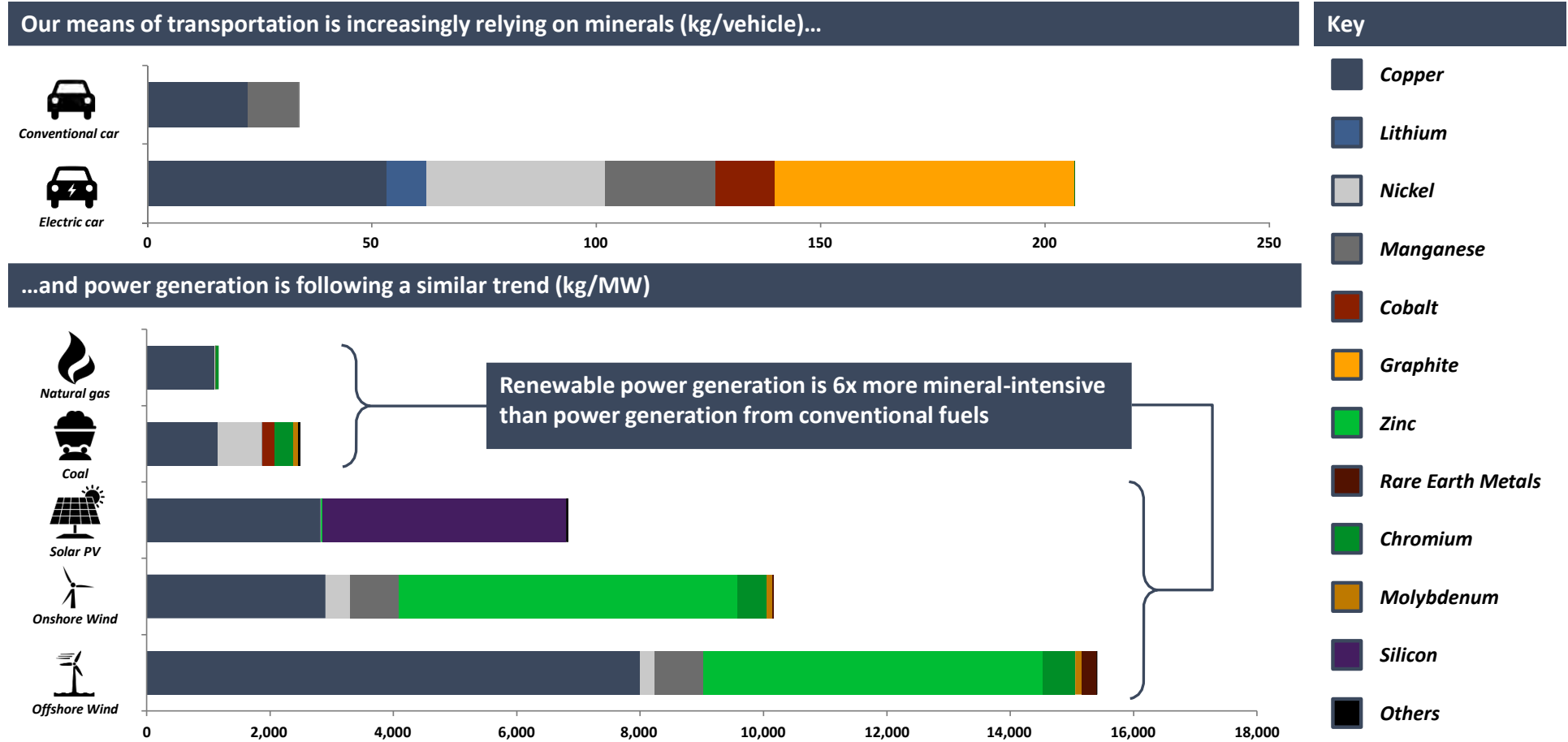
## Market Forces At Work

### Headwinds



Minerals Required / Supply Chain Issues and Considerations  
Interconnection and Transmission – Permitting / NIMBY  
Affordability / Regulatory Environment / Headline Risk

# Energy Transition Technologies Require Significant Mineral Resources

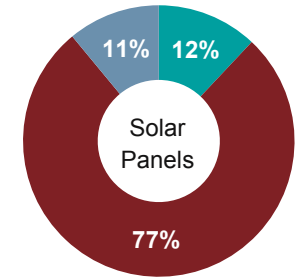
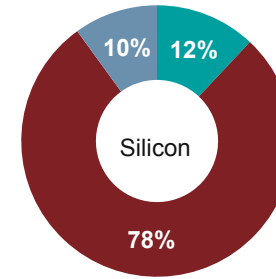
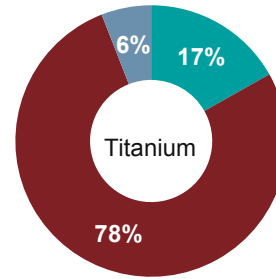
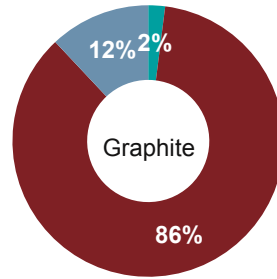


Source: Quantum Energy, IEA

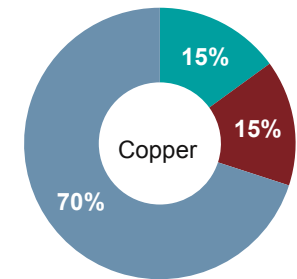
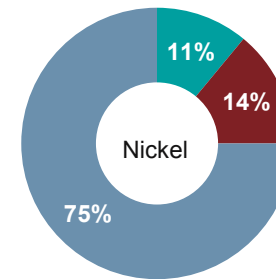
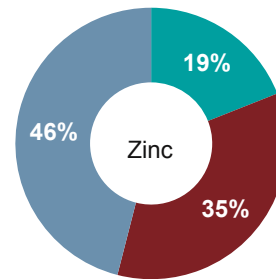
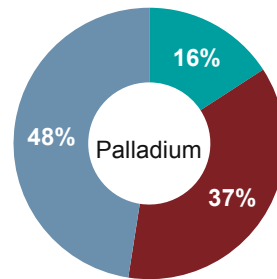
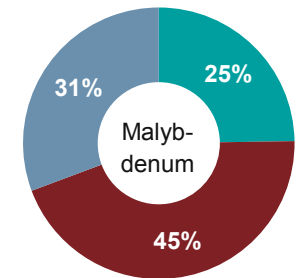
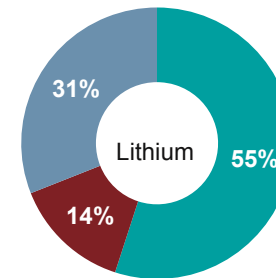
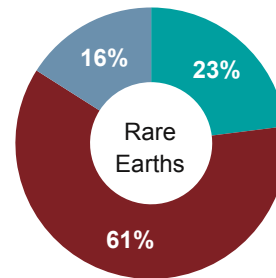
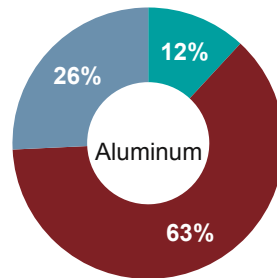
## Critical Materials Controlled By The China-Russia Bloc

Source of critical materials, by country or region shown in the below diagram

- U.S., Western Europe, Japan, Canada, Australia, and South Korea
- China, Russia, Kazakhstan, Venezuela, Iran, and North Korea
- All Other Countries



While the Russia-Ukraine War will accelerate the desire to transition away from foreign hydrocarbons, China/Russia resource dominance will cause delays.

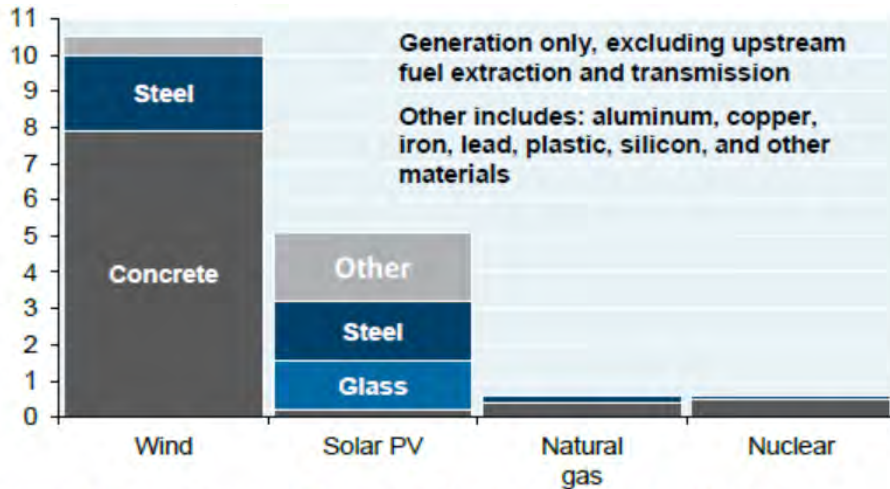


Source: USGS, World Nuclear, Statista, Quantum Energy

# Supply Chain Considerations For Wind and Solar Investments

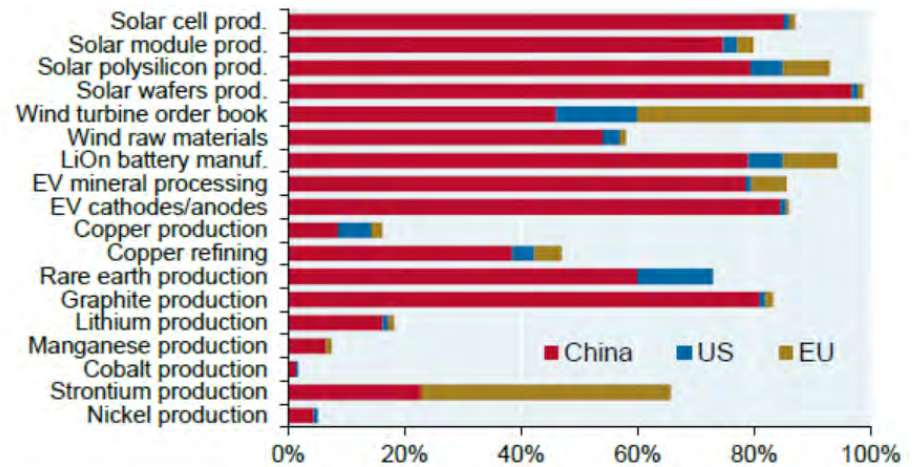
## Construction materials by generation source

Thousand tonnes per TWh of electricity



Source: Argonne National Laboratory, Dept. of Energy, JPMAM. 2022.

## Many renewable supply chains go through China, for now



Source: Benchmark Mineral Intelligence, BNEF, EC, IEA, S&P, USGS, JPMAM. 2022.

Cement is made from abundant limestone, clay and gypsum, heated to 2,700°F and ground into a powder.

The issue with cement is not scarcity of the minerals but the energy required to utilize them.

China is a key source of solar-related materials, which include panels and raw materials.

# Difficulties Getting Renewable Power to the Grid: Transmission and Interconnection

**In the U.S.** – transmission infrastructure has been underinvested.

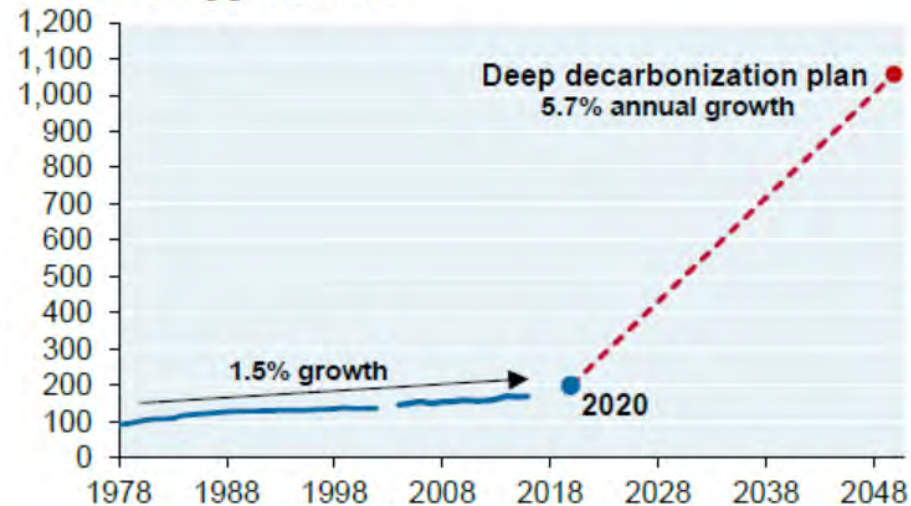
Significant investment in the transmission grid is required to move renewable energy across the grid.

**Interconnection:** the ability to supply renewable power to the grid requires regulatory approval.

This process continues to suffer from delays and renewable power projects are seeing increased development time resulting project delays.

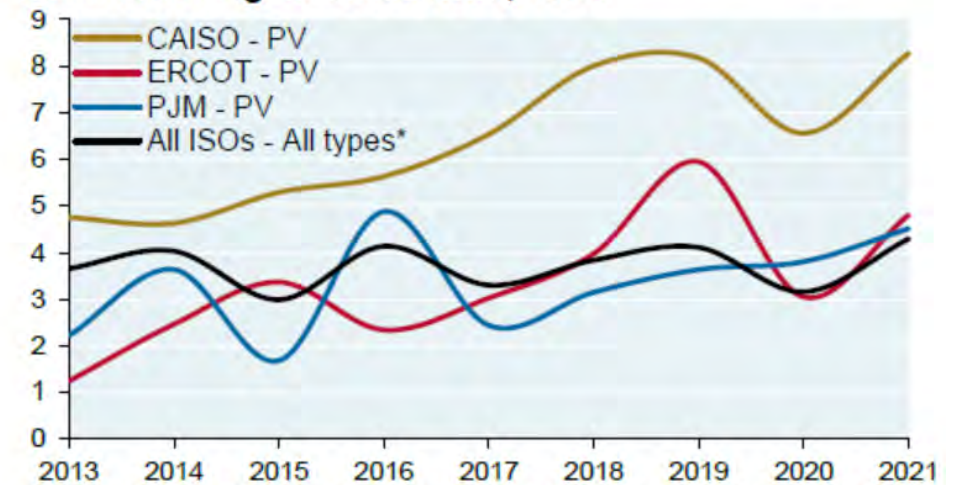
## US transmission growth, history vs targets

Thousands of gigawatt-miles



Source: DOE, UT Austin, Larson et al (Princeton), JPMAM. 2022.

## Median time between interconnection request and plant commissioning for select ISOs,\*Years



Source: IEA, LBNL. 2022. \*Note: All types includes gas, solar and wind for CAISO, ERCOT, PJM and NYISO.

\*Independent System Operator ("ISO"): Unlike utilities, ISOs don't own any of the transmission or generation assets they manage. ISOs coordinate, control and monitor the operation of the electrical power system, usually within a single U.S. state, but sometimes across multiple states. ISOs also act as a marketplace operator in wholesale power.

## Change in Sentiment, Frustration on Implementation, Opposition

UK delays bans on gasoline/diesel car sales, Germany delays ban on sale of oil/gas heating systems

### Opposition to Renewables Across the U.S.<sup>1</sup>

In nearly every state, local governments have enacted laws and regulations to block or restrict renewable energy facilities, and/or local opposition has resulted in the delay or cancellation of particular projects. In this edition, the authors found at least 228 local restrictions across 35 states, in addition to 9 state-level restrictions, that are so burdensome that they could have the effect of blocking a project. The authors also found 293 renewable energy projects that have encountered significant opposition in 45 states.

The 228 local restrictions in this report include 59 newly adopted restrictions (adopted post-March 2022) and 58 previously overlooked restrictions (adopted pre-March 2022).

In a major watering down of key targets, the Prime Minister has abandoned the 2030 ban on the sale of new petrol and diesel cars.



Rishi Sunak announced the U-turn at a surprise press conference on Wednesday (Image: Getty Images)

Protesters demonstrate against Germany's proposed Building Energy Act in Munich on July 1

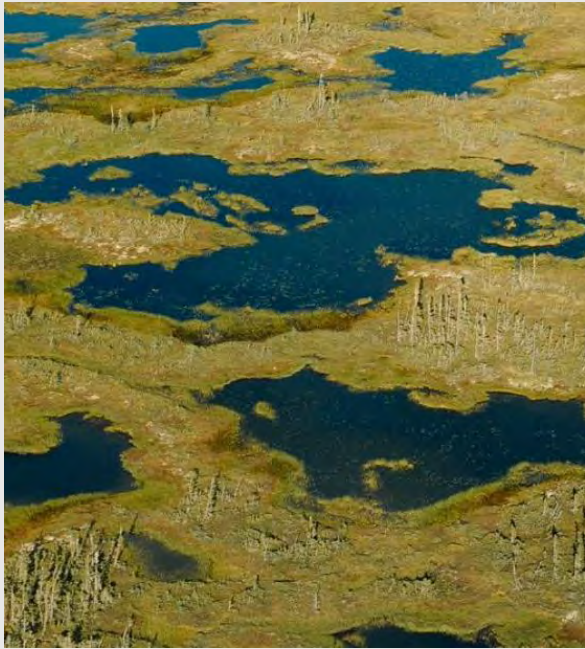


Source: Callan research. 1. Matthew Eisenson, Opposition to Renewable Energy Facilities in the United States (Sabin Center for Climate Change Law May 2023 ed.). Available at: [https://scholarship.law.columbia.edu/sabin\\_climate\\_change/200/](https://scholarship.law.columbia.edu/sabin_climate_change/200/)

## North American Headlines Related to Energy Transition Activity

### Local communities at odds with energy transition-related investment

**\$67 billion of Rare Minerals Is Buried Under One of the World's Biggest Carbon Sinks. A fight is brewing in Canada about how, or whether, to dig out materials essential for EV batteries that lie deep beneath vast peat bogs<sup>1</sup>**



New EV battery factory in De Soto, Kansas – where Panasonic is building a \$4 billion EV battery factory requires so much energy a coal power plant will be expanded, and its closure delayed by years.<sup>2</sup>



A Caldera in Nevada Now Has the Most Lithium in the World. Let the Gold Rush Begin. Mining the area is controversial; with environmental impacts on water and nature.<sup>3</sup>



Source: Callan research. 1. <https://www.wsj.com/world/americas/minerals-nickel-batteries-canada-climate-carbon-376f11fd> 2. <https://www.theblaze.com/news/electric-vehicle-battery-factory-coal-plant-kansas> 3. <https://www.popularmechanics.com/science/green-tech/a45086253/worlds-largest-lithium-deposit-found-in-nevada/>

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## How to Access Energy Transition



## Ways to Access Energy Transition Assets

Funds offered by infrastructure managers, energy managers and specialist managers.

### Open-End Funds



- ▶ Circa 20 open end funds with track records of 3+ years. The majority of open end funds are sector-diversified.
- ▶ Since 2020, managers have launched energy transition-focused open-end funds.
- ▶ Currently there are ~five open end funds focused on energy transition.
- ▶ These kinds of funds typically invest in stabilized, or brownfield, existing solar and wind assets.
- ▶ Return targets vary; typically single digit returns, with majority of return from income.

### Closed-End Funds








- ▶ The first renewables-focused funds were launched pre 2009 and several fund series are in their third and fourth vintages.
- ▶ Closed end renewables funds often have development and construction risk; this allows managers to target higher returns.
- ▶ Since 2020, managers have been expanding beyond wind and solar investments to include other energy transition asset-types (e.g. EV-related infrastructure and batteries).
- ▶ Return targets vary.
- ▶ At the low end: strategies target high single digits for debt on renewable assets and/or investment in assets that have completed construction.
- ▶ At the higher end: strategies target mid to high teens, in some cases, higher returns. Higher return targets include increased construction, technology and/or merchant risk in the investment strategy.

# Revenue Types and Risks

## Revenue Categories

Most Predictable

Least Predictable

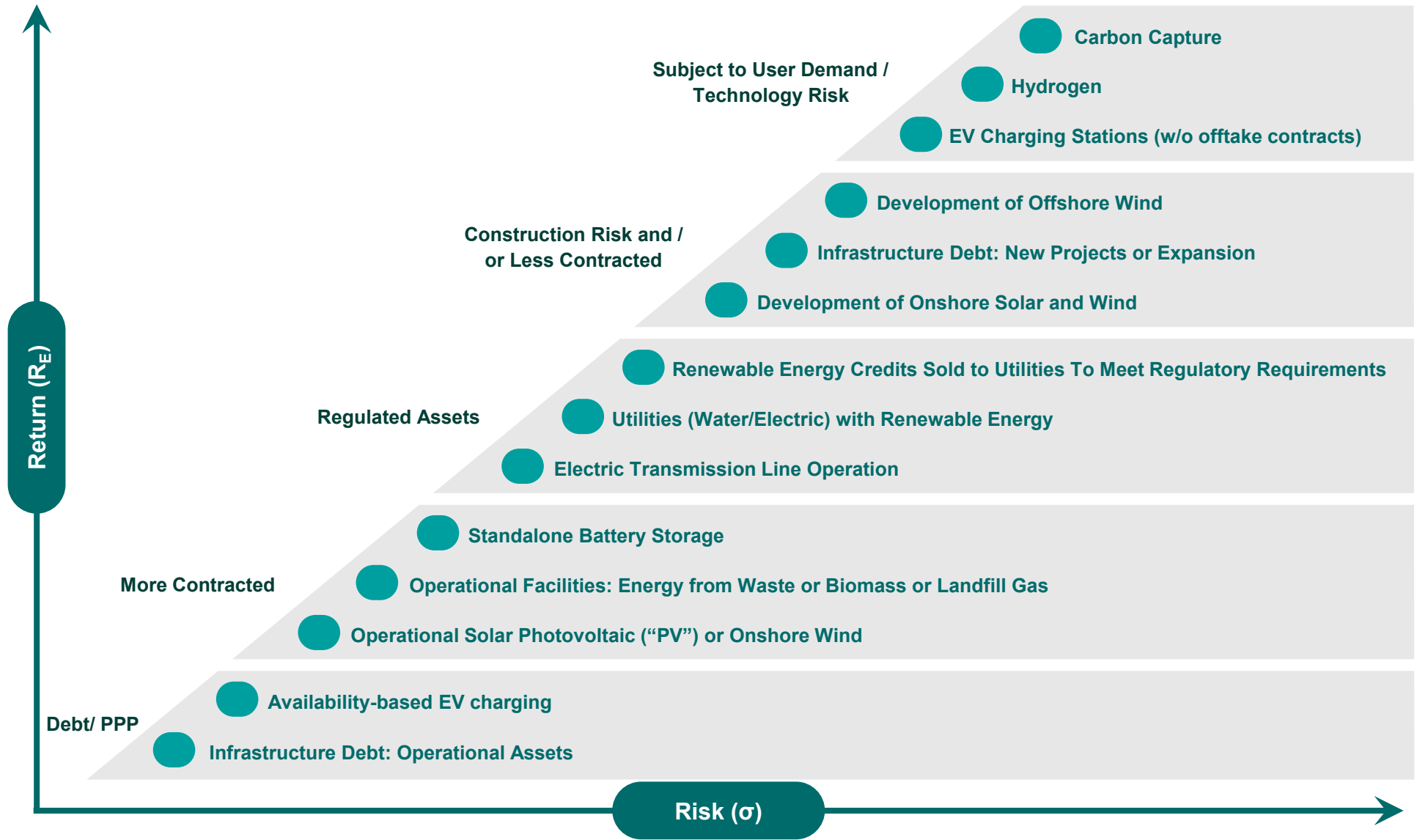
Availability	Regulated	Contracted	Patronage (Usage or GDP-linked)	Merchant
Revenue is constant as long as asset is maintained according to the contract	Revenue is subject to government regulation	Revenue based on contracts with public or private-sector counterparties	Revenue models vary and are based on asset usage	Revenue depends on the current market price of the natural resource
Inflation Adjustment Mechanism				
May have potential for consumer price index, or similar, type increases 	Periodic government reviews (rate cases) allow companies to pass on higher costs to customers 	Companies allow toll/fee increases based on consumer price index increases or typical annual revenue escalators of 3–4% 	May benefit from business-dependent indirect or direct linkage of revenue escalators 	Least formal inflation linkage, although unexpected inflation may coincide with a strong economy 

- ▶ Revenue risk is essential to consider when evaluating infrastructure assets
- ▶ Key attraction of infrastructure investing is long term contracts and cash flow
- ▶ Cash flows tend to be sensitive to inflation

Source: Callan

## Energy Transition Asset Examples: Varying Degrees of Risk and Return

SURS has exposure to many of these kinds of assets



Source: Callan research

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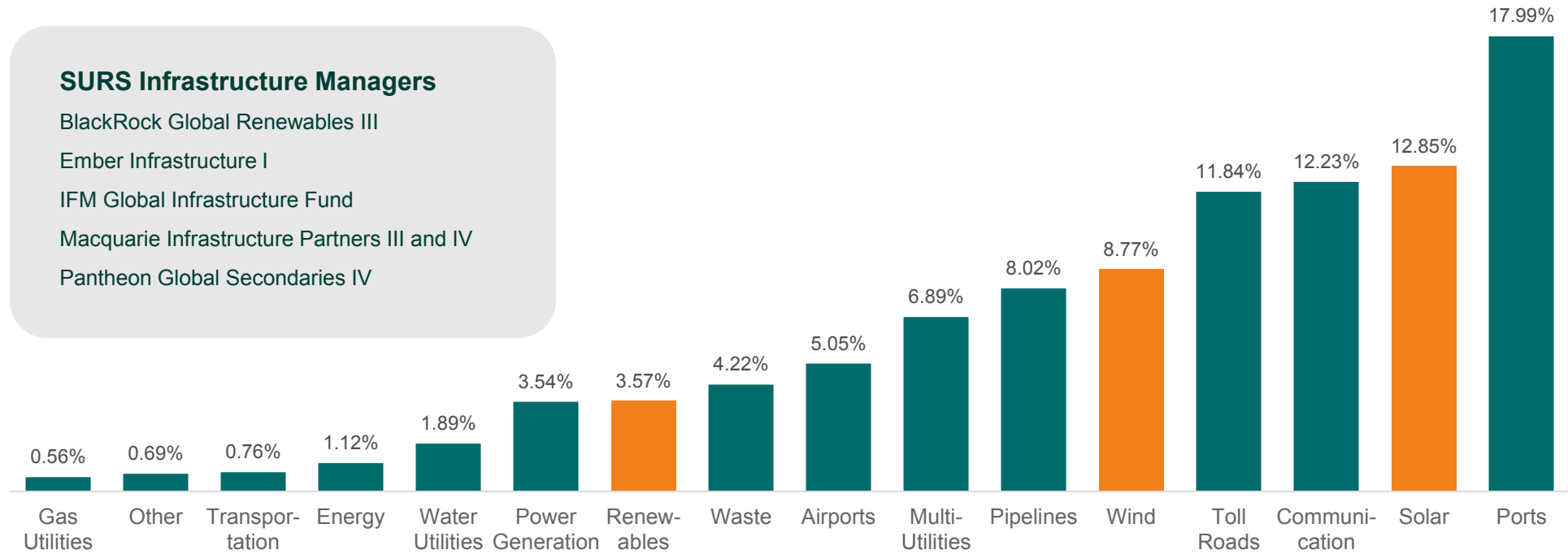


**SURS Portfolio**

# Solar, Wind, Renewables Assets Represent Approximately 25% of SURS' Infrastructure NAV

## SURS Infrastructure NAV by sector at June 30, 2023

### Diversification by Infrastructure Type as of June 30, 2023 (Percent of Portfolio)



#### SURS Infrastructure Managers

- BlackRock Global Renewables III
- Ember Infrastructure I
- IFM Global Infrastructure Fund
- Macquarie Infrastructure Partners III and IV
- Pantheon Global Secondaries IV

#### Other SURS infrastructure investments have Energy Transition initiatives or Net Zero goals:

**Port** goal of zero emissions by 2030, with electrification of infrastructure & equipment. Received \$67M of government grants.

**Water company** with carbon neutral 2050 goal, implemented renewable capacity (solar: 6MW; biogas: 92MW).

**Integrated utility company**, with gas and electricity distribution networks; has 5.5 GW portfolio of wind, solar and hydro.

**Utility** potential carbon capture and sequestration (CCS) development project; the design study is supported by \$9 million in Congressional funding and will re-engineer an existing plant to reduce its carbon dioxide emissions through CCS.

Renewables (3.57%) exposure reflects an investment comprised of both wind and solar assets.

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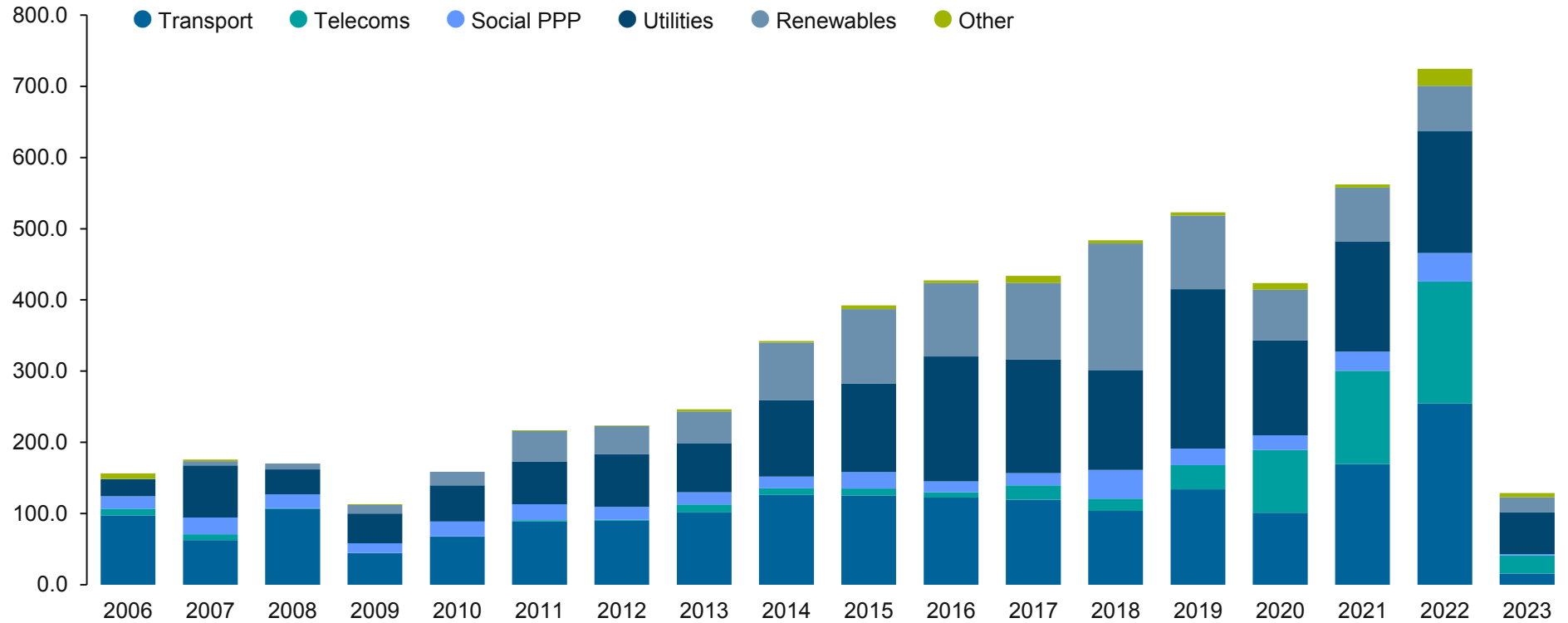


**Appendix**

# Global Infrastructure Deal Flow by Sector

Renewables are the major component of energy transition investments

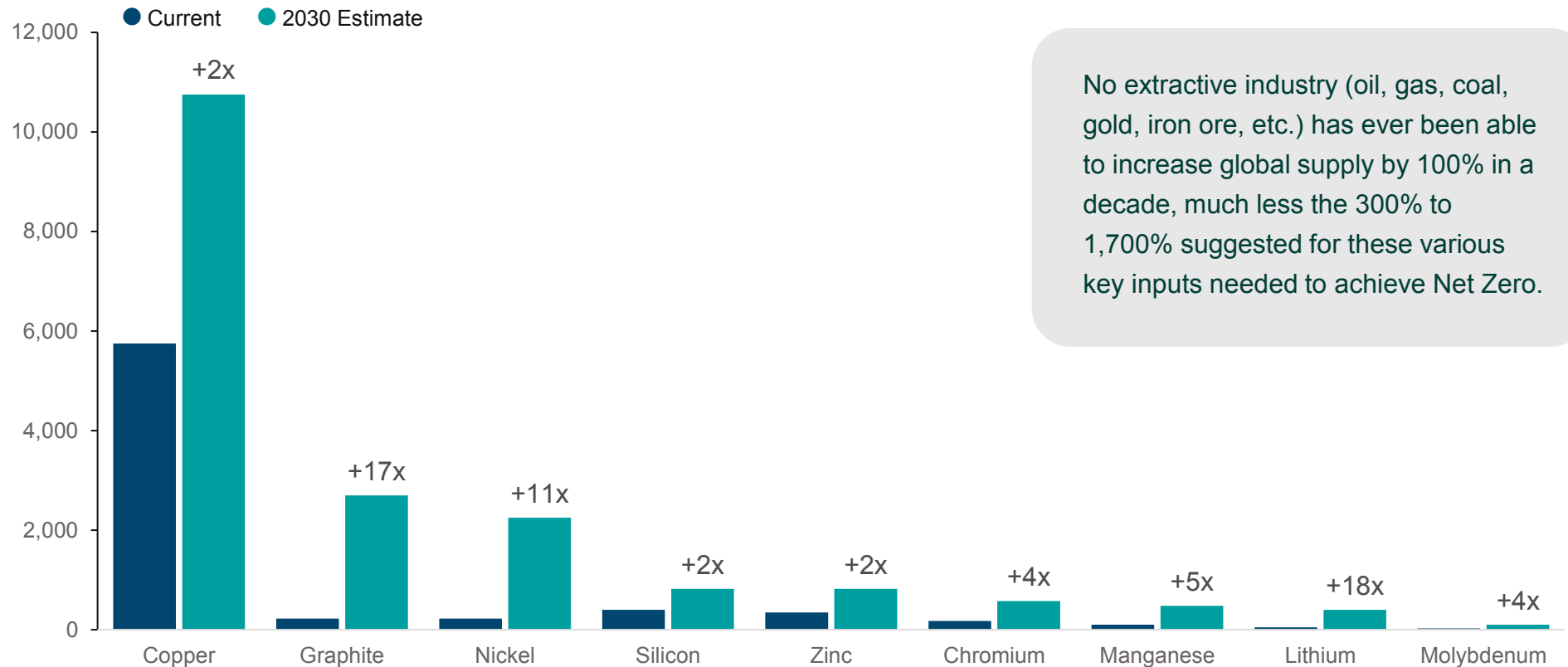
Sector Split of Transactions, 2006 – March 31, 2023 (\$bn)<sup>1</sup>



Source: <sup>1</sup> Inframation Deals as of March 31, 2023. Note: Only includes deals that reached Financial Close.

## Demand For Key Minerals Set To Meaningfully Increase

Current vs. future demand from clean energy uses (thousands of tons)<sup>1</sup>



No extractive industry (oil, gas, coal, gold, iron ore, etc.) has ever been able to increase global supply by 100% in a decade, much less the 300% to 1,700% suggested for these various key inputs needed to achieve Net Zero.

<sup>1</sup> Based on IEA World Energy Outlook estimates for the Sustainable Development Scenario.

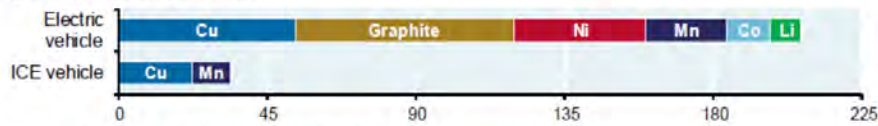
Source: IEA Critical Minerals Outlook and Quantum Energy.



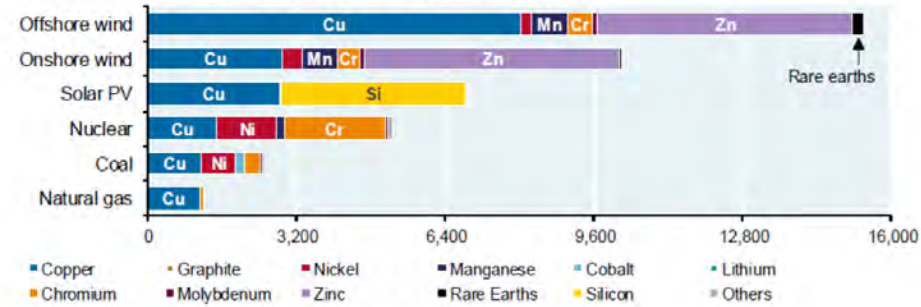
# Supply Chain Considerations For Renewables

## Minerals used in wind / solar / EVs vs. legacy energy systems

Kilograms of minerals per vehicle

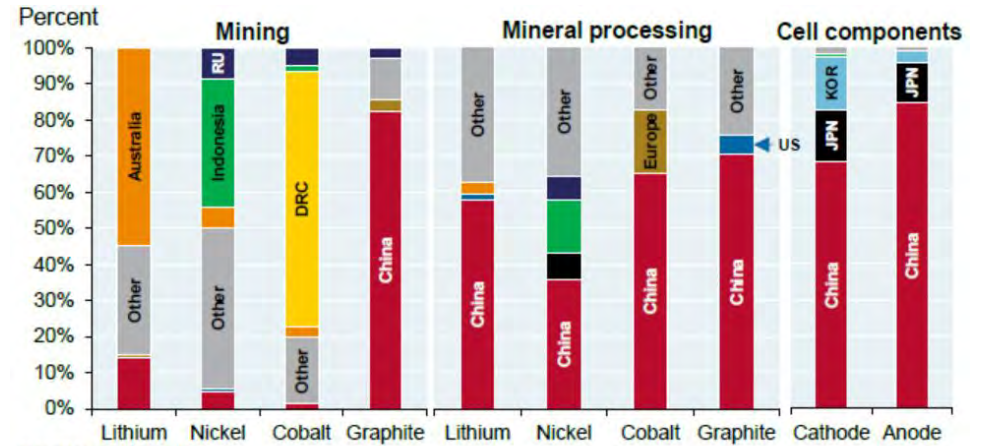


kilograms of minerals per megawatt of electricity generation capacity



Source: IEA, JPMAM. 2022.

## Battery supply chains: mining, processing and components



Source: IEA. 2022.

Cement is made from abundant limestone, clay and gypsum, heated to 2,700°F and ground into a powder. The issue with cement is not scarcity of the minerals but the energy required to utilize them.

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## Cyclical Outlook

October 2023

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## Post Peak: Five Themes

### Key Economic Themes



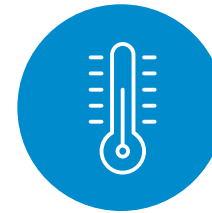
**Consumption  
driven  
resilience will  
fade**



**Growth and  
Inflation have  
peaked**



**During periods  
of elevated  
inflation, soft  
landings  
are rare**



**Recession  
risks higher  
than currently  
priced**



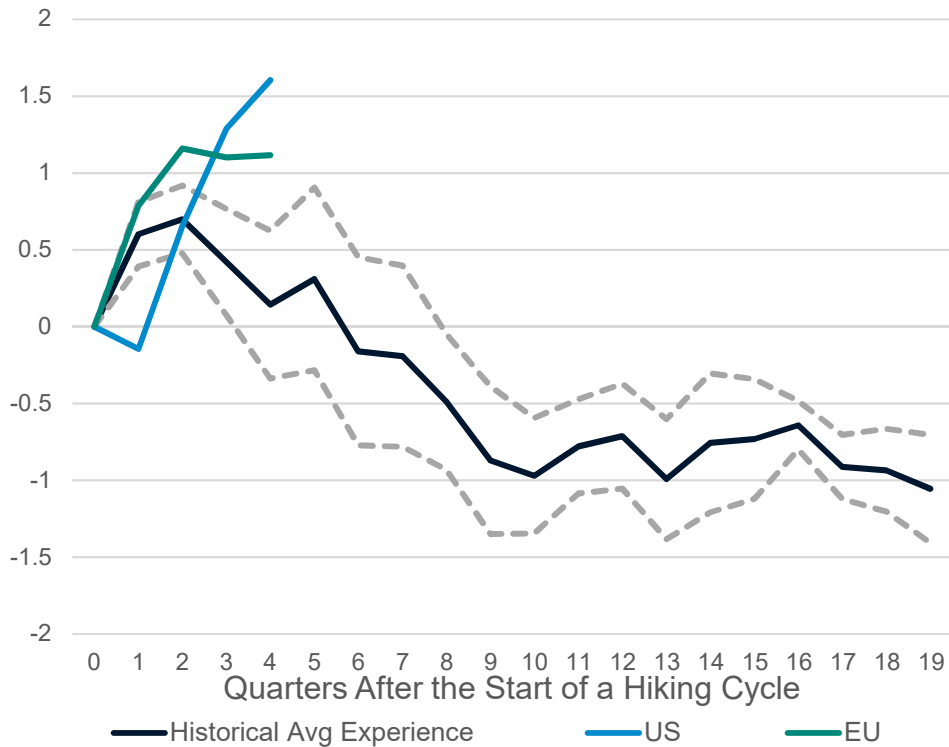
**Monetary  
policy paths  
set to diverge**

As of September 2023. Source: PIMCO  
Refer to Appendix for additional investment strategy, outlook and risk information.

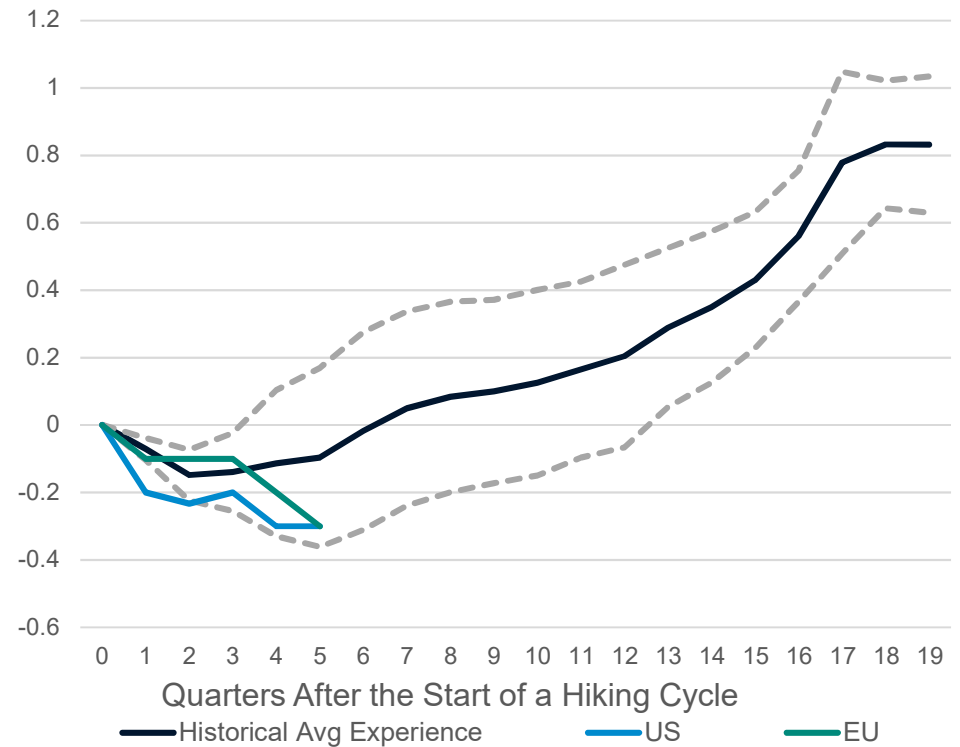
## Economic outlook: Waiting on recession

On average the start of a central bank’s rate hiking cycle precedes recession by 2 years, economy weakens 6- to 8- quarters out, on average.

### Output Gap, Past Rate Hiking Cycles vs Today



### Unemployment Rate, Past Rate Hiking Cycles vs Today

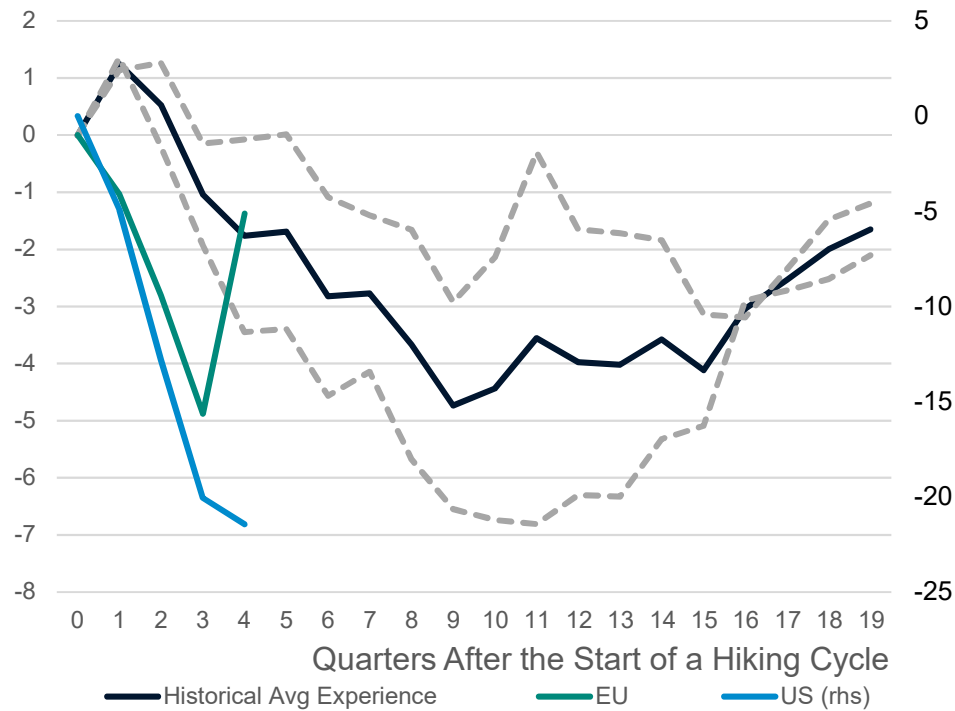


\*Sample includes rate hiking cycles of at least 50bps cumulatively over 1-year, 14 developed market countries, from 1960 to today. Methodology based on "Estimation and Inference of Impulse Responses by Local Projections," Oscar Jorda  
 Source: Haver, PIMCO Calculations, As of 30 September 2023

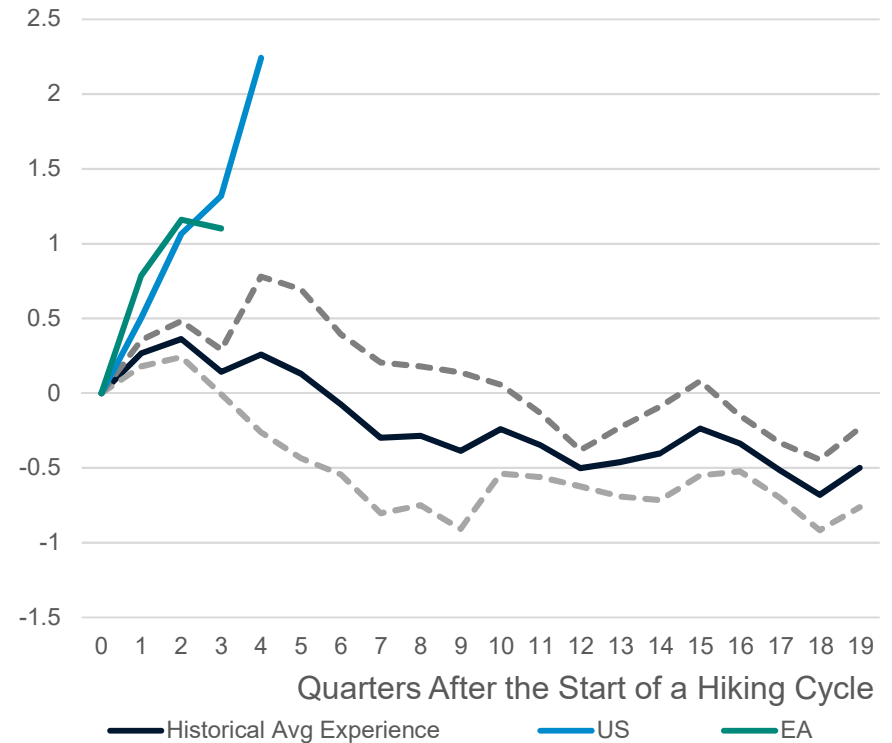
# Consumption is the obvious driver of recent economic resilience, more than offsetting drags from weaker residential investment

Historically, the more interest rate sensitive investment contracts sooner and faster. However, consumption also tends to get hit by higher rates, over time.

## Resi Investment\* Past Rate Hiking Cycles vs Today



## Consumption\* Past Rate Hiking Cycles vs Today



Sample includes rate hiking cycles of at least 50bps cumulatively over 1-year, 14 developed market countries, from 1970 to today. Methodology based on "Estimation and Inference of Impulse Responses by Local Projections," Oscar Jorda

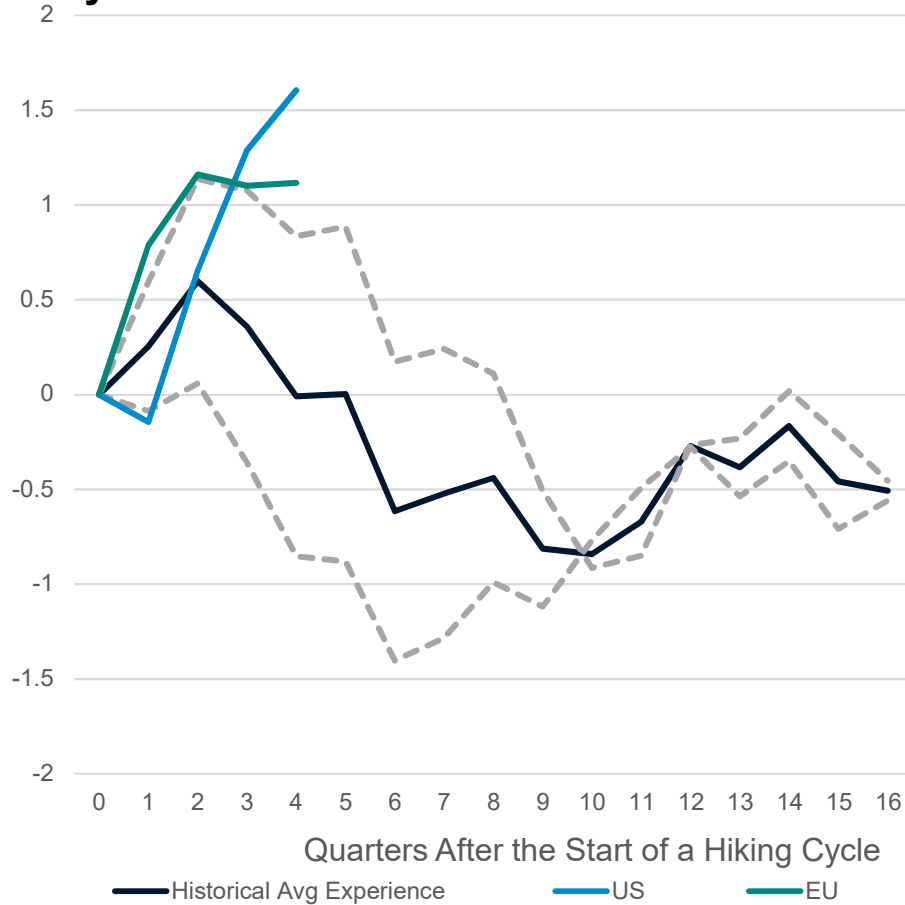
\* Lines on the chart represent deviations from the respective trend

Source: Haver, PIMCO Calculations, As of 30 September 2023

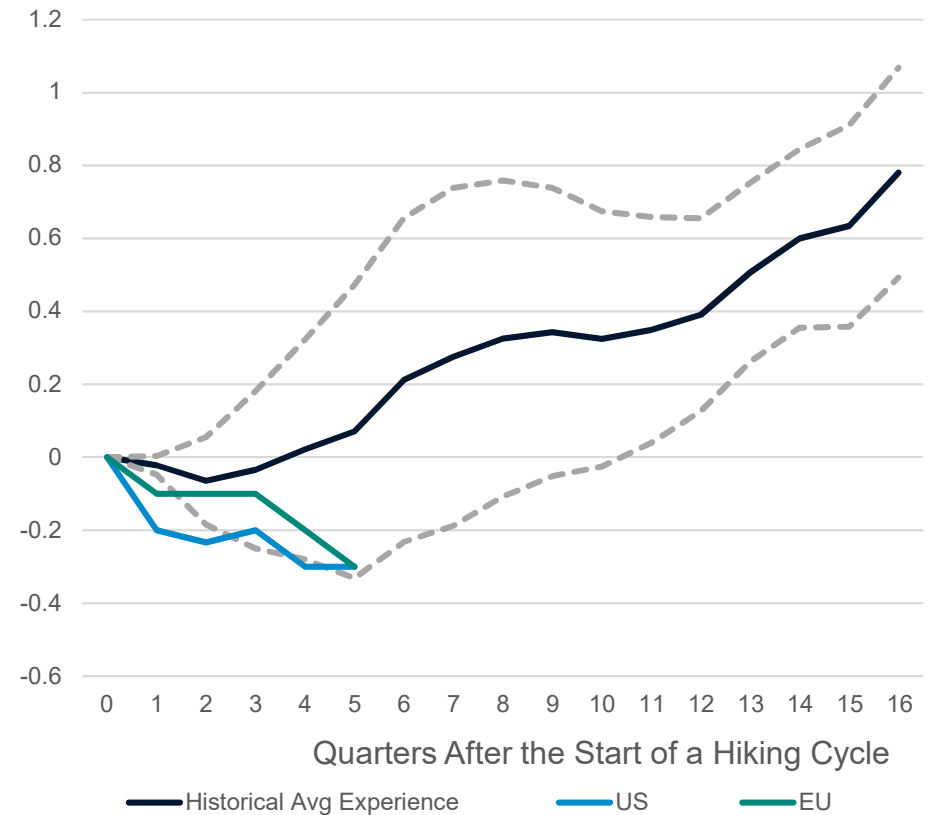
# During hiking cycles that are preceded by elevated inflation, economy has tended to weaken sooner, faster

*Inflationary hiking cycles tend to see the central bank hiking 4ppts (or more), while non-inflationary cycles are 2ppts (or less). Lags are 2- to 3qs shorter. That's not happening now...*

## Output Gap, High Inflation Hiking Cycles\* vs Today

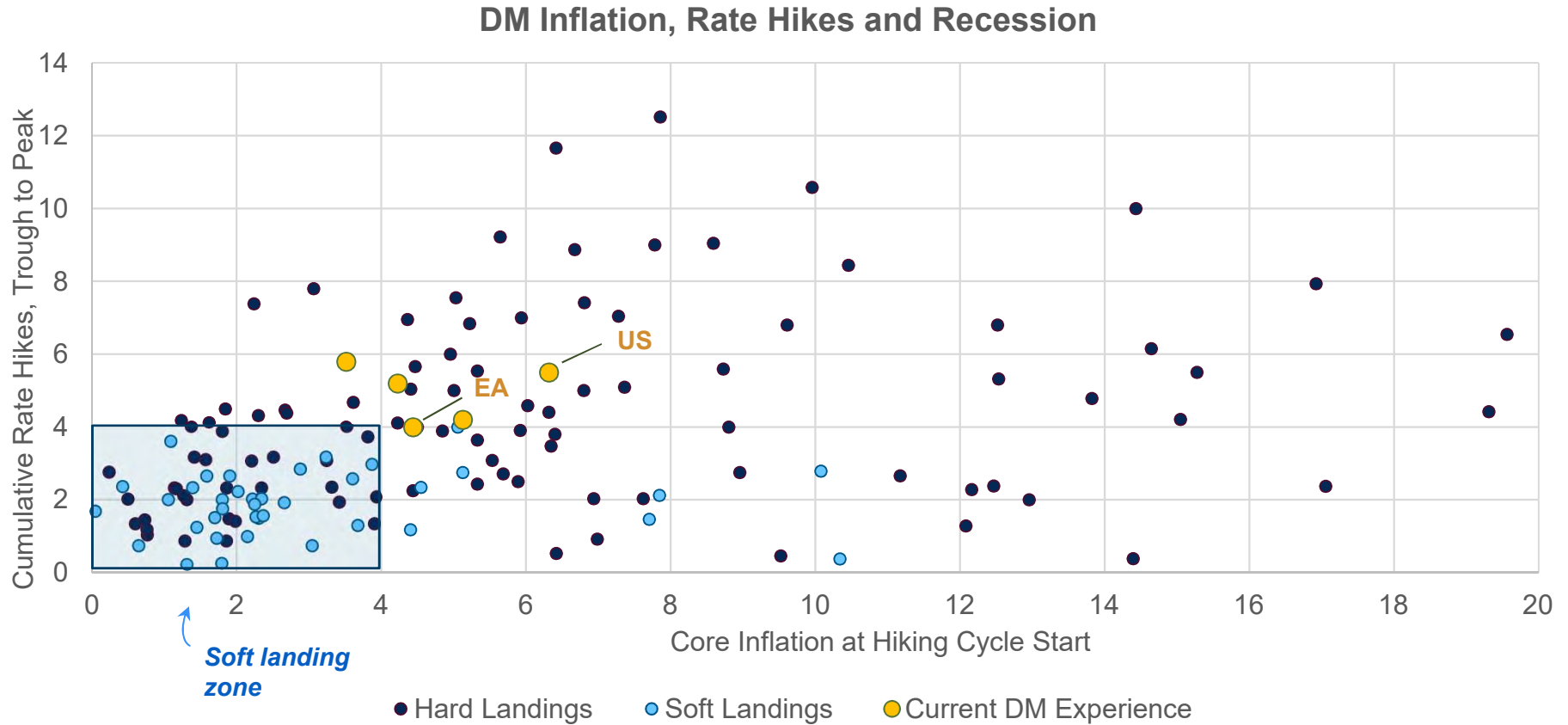


## Unemployment Rate Performance Hiking Cycles vs Today



\*High inflation hiking cycles are those where headline inflation is running at 4% or above when the central bank starts hiking. Methodology based on "Estimation and Inference of Impulse Responses by Local Projections," Oscar Jorda  
Source: Haver, PIMCO Calculations, As of 30 September 2023

# During periods of elevated inflation, soft landings are rare...

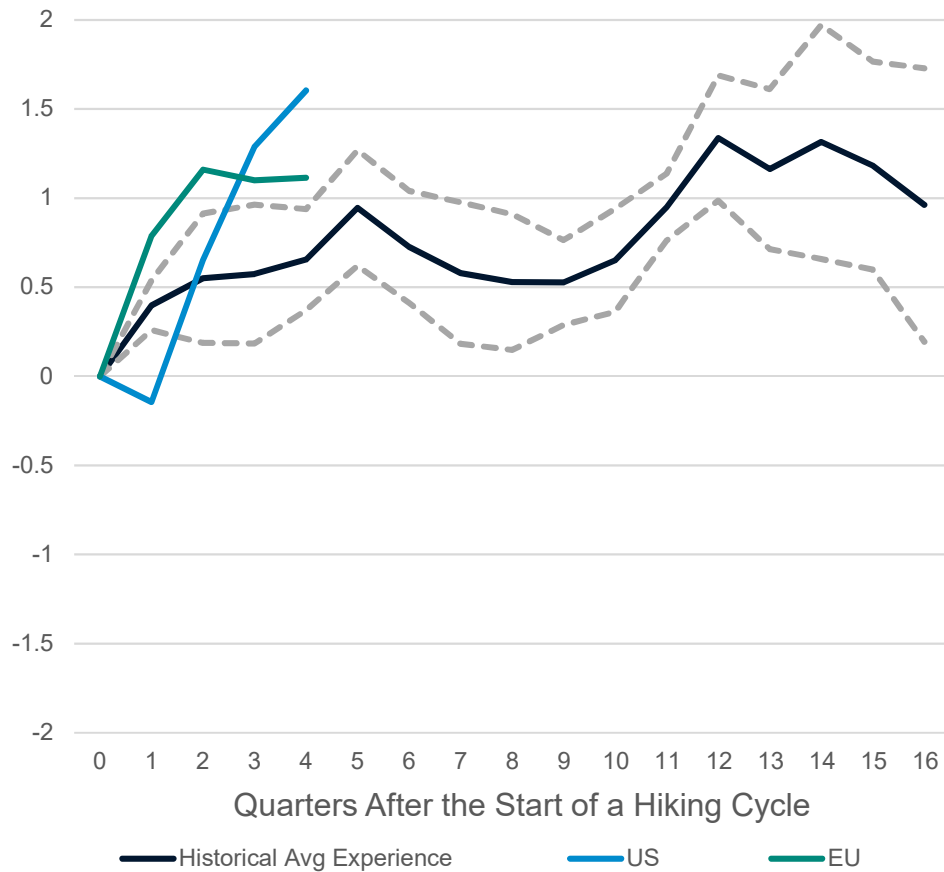


Hard landings are defined as having at least 2 quarters of sequential economic contraction, which occurs at some point within 4-years of the start of a rate hiking cycle. Soft landings are everything else.  
 Source: Haver, PIMCO Calculations, As of 30 September 2023

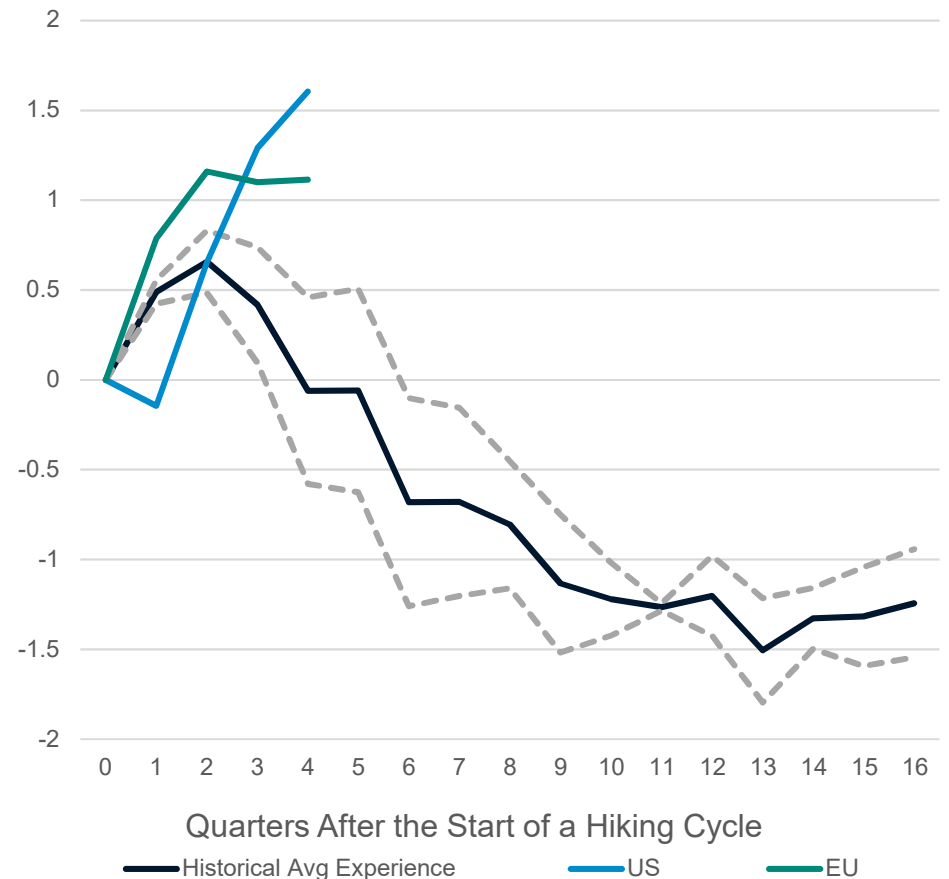


# ...But if you squint, current economic performance looks more like a soft landing

## Output Gap, Soft Landing\* Hiking Cycles vs Today



## Output Gap, Hard Landing\* Hiking Cycles vs Today



\*Hard landing is defined as the economy experiences recession (2 consecutive quarters of real GDP contraction) at some point during the 4-years after the start of a hiking cycle. Soft landings are all other cycles  
 Methodology based on "Estimation and Inference of Impulse Responses by Local Projections," Oscar Jorda  
 Source: Haver, PIMCO Calculations, As of 30 September 2023

## What does it take to get a soft-landing? History suggests 3 things...

Soft landings in our sample are as follows (dates below mark the start of the respective hiking cycles):

1961Q3	US
1962Q4	Belgium
1965Q1	Germany
1975Q3	Canada

*Global trade expansion,  
space race induced  
productivity*

1981Q3	UK
1982Q1	US
1983Q4	Belgium
1984Q2	Sweden
1984Q2	UK
1986Q4	France

*OPEC production  
acceleration to  
gain market  
share*

1992Q4	New Zealand
1994Q1	US
1994Q2	Canada
1994Q3	Australia
1994Q3	UK
1994Q4	Sweden
1995Q1	Canada
1995Q1	France
1995Q1	Spain
1996Q3	Netherlands
1996Q4	UK
1999Q4	Australia
1999Q4	Spain

*Internet and tech-  
lead productivity  
boom. China trade  
expansion*

2002Q2	Australia
2002Q2	New Zealand
2003Q4	UK
2004Q1	France
2004Q1	Spain
2004Q2	Belgium
2004Q2	Netherlands
2004Q2	Switzerland

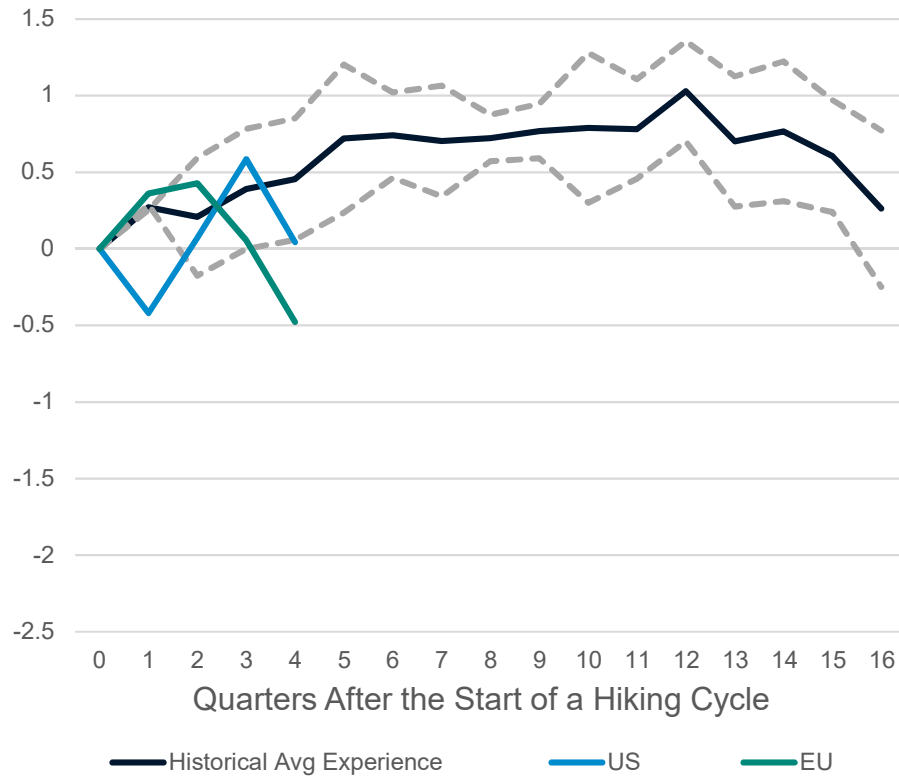
Source: PIMCO. As of 30 September 2023

# Soft Landings: (1) Some type of positive supply shock

...Productivity booms and global trade expansions (not shown) are a feature of historical soft landings

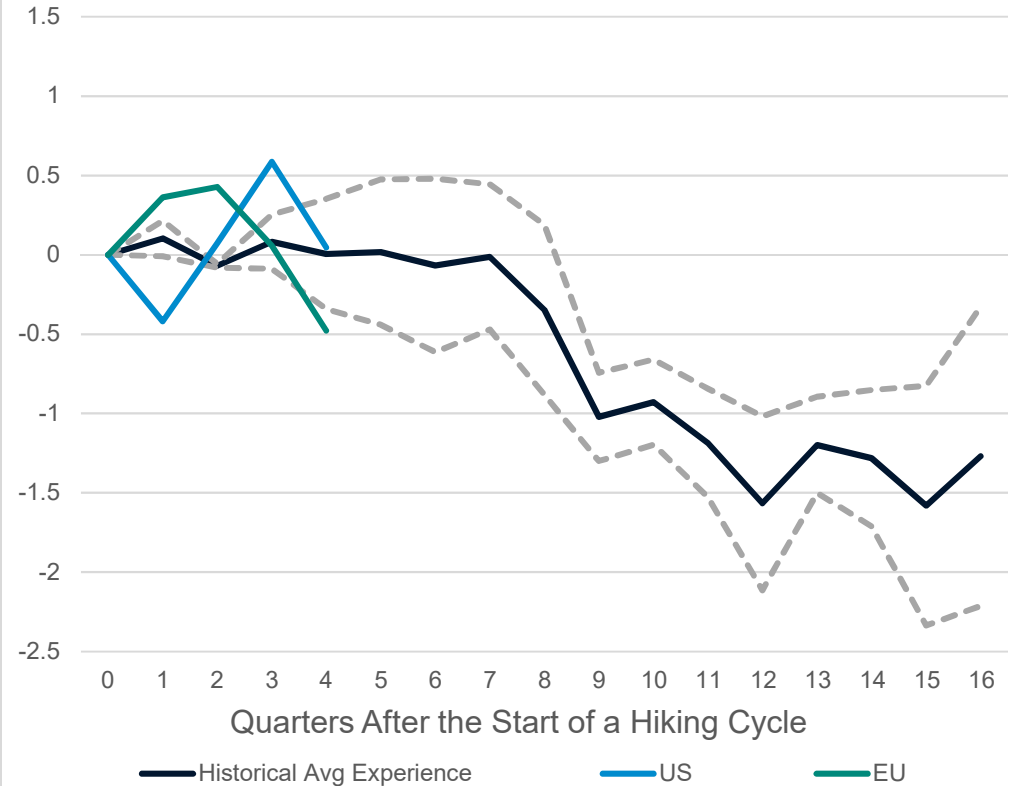
## Productivity\*, Past Hiking Cycles

### Soft Landing Sample



## Productivity\*, Past Hiking Cycles

### Hard Landing Sample

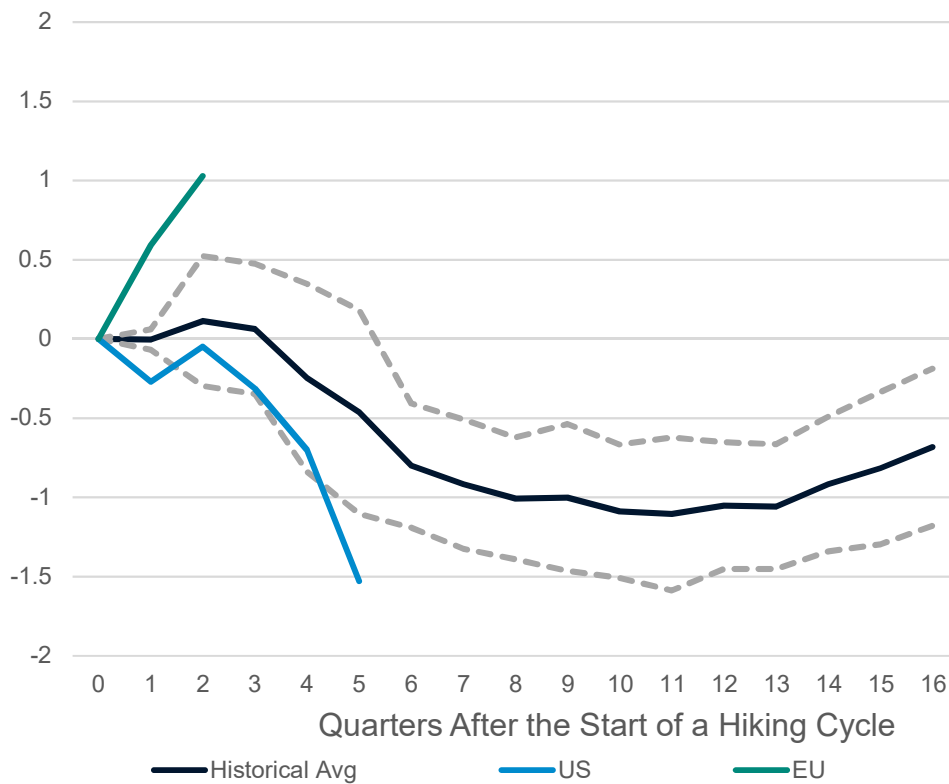


\*Lines on the chart represent deviations from the respective trend. Methodology based on "Estimation and Inference of Impulse Responses by Local Projections," Oscar Jorda  
 Source: Haver, PIMCO Calculations, As of 30 September 2023

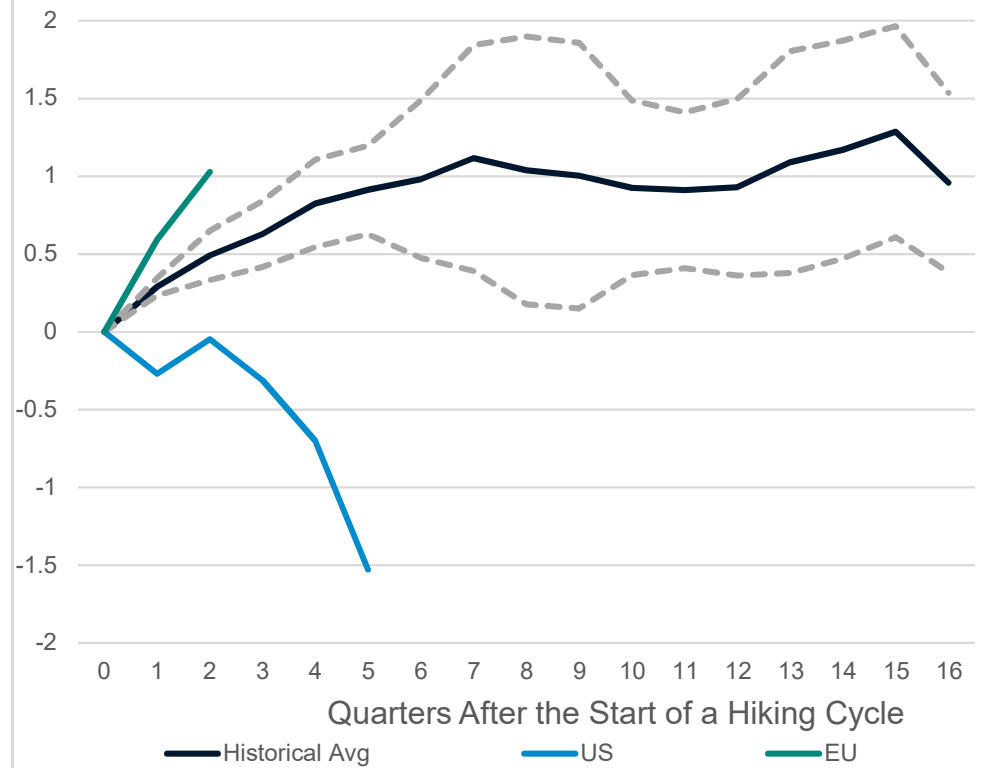
# Soft Landings: (2) Peak inflation occurs at or near the start of the hiking cycle...

*Hard landings characterized by sticky inflation*

## Core Inflation Past Hiking Cycles Soft Landing Sample



## Inflation, Past Hiking Cycles Hard Landing Sample

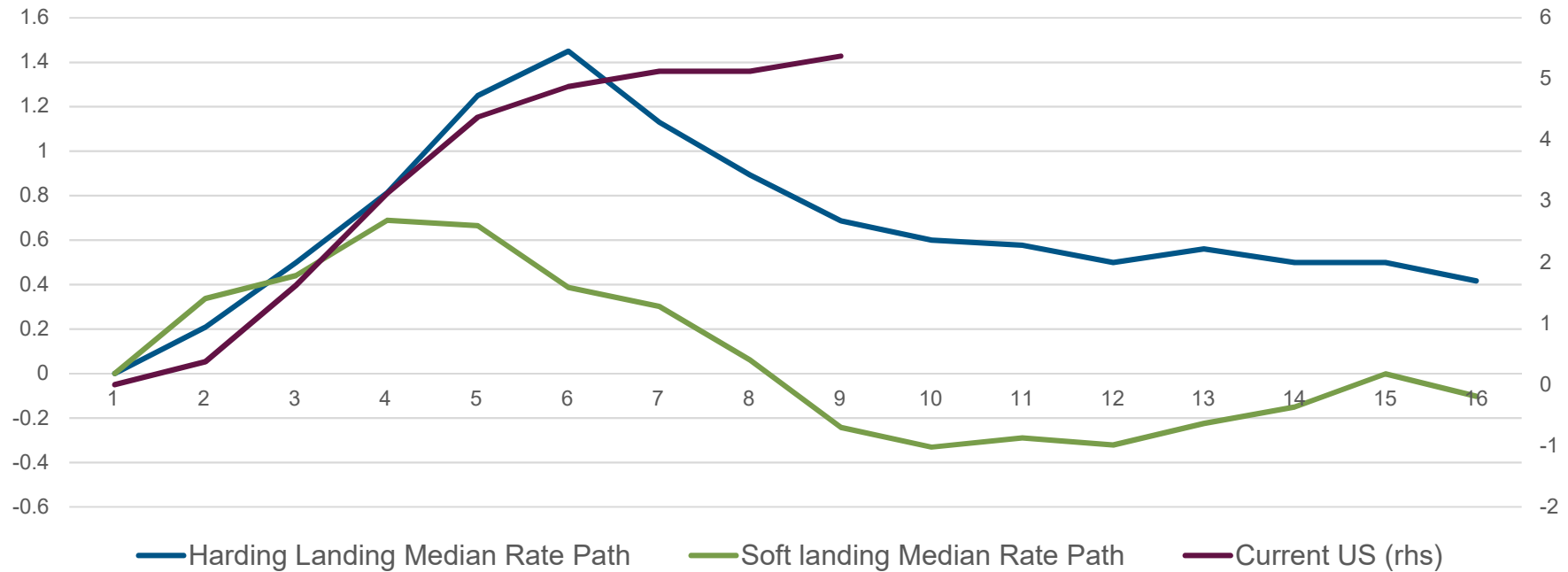


Methodology based on "Estimation and Inference of Impulse Responses by Local Projections," Oscar Jorda  
Source: Haver, PIMCO Calculations, As of 30 September 2023

# Soft Landings: ...Which (3) allows the central bank to cut sooner/faster

*Sooner, faster cuts help further support growth after inflation falls*

## Median Rate Path, Hard and Soft Landings



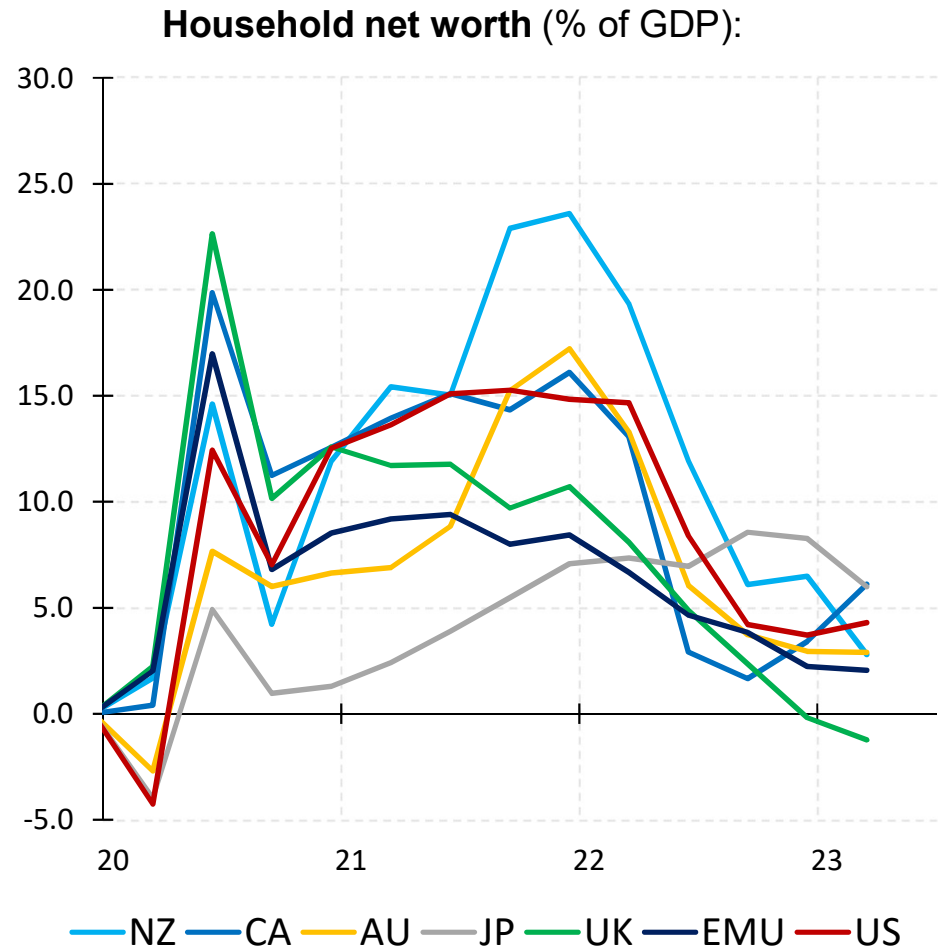
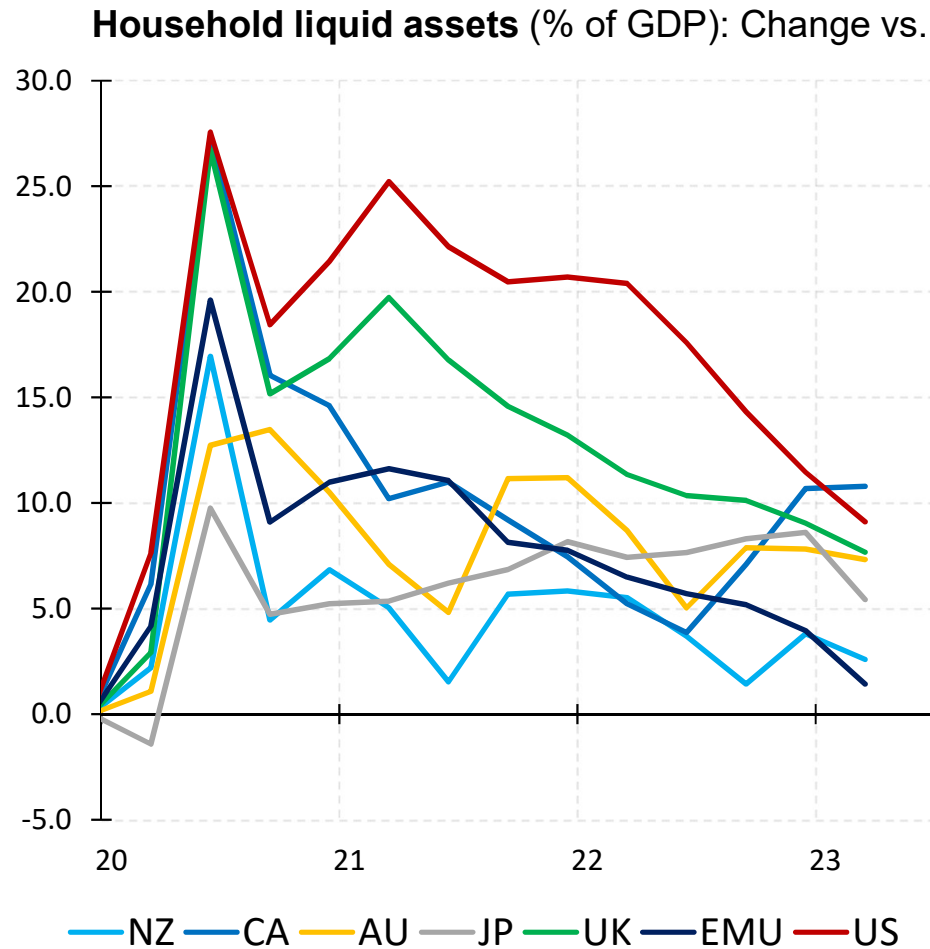
Source: PIMCO. As of 30 September 2023

# Is Monetary Policy Working?



## Excess savings have supported demand, and consumption ...

...However, those excess are being depleted in real terms by elevated inflation. Fiscal policy works through long and variable lags.

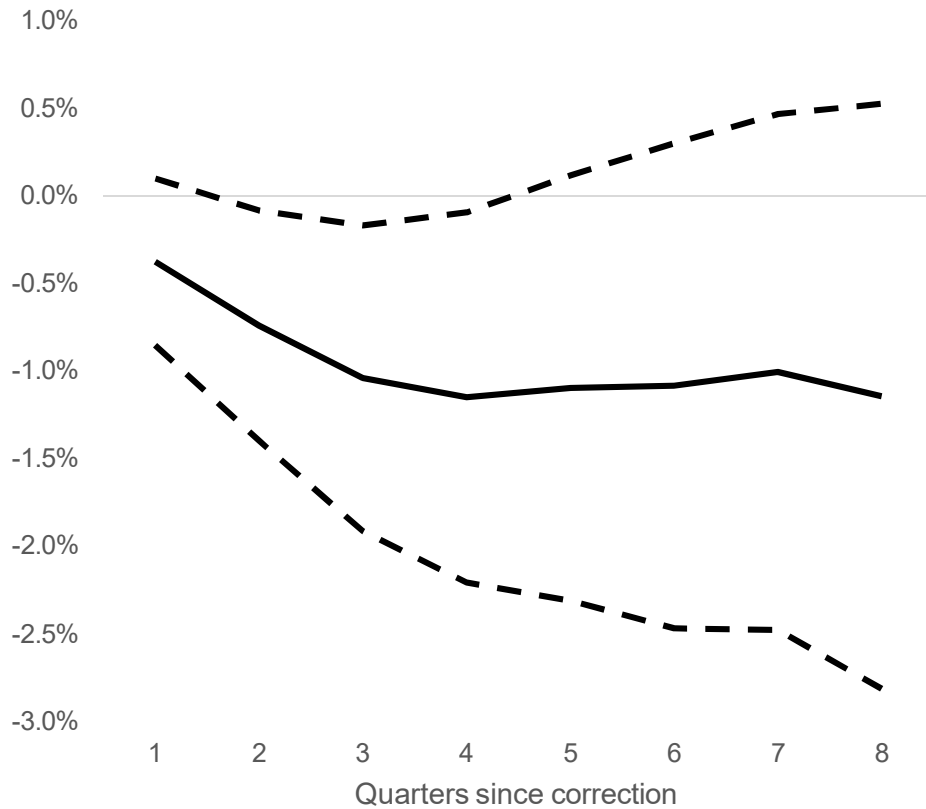


Source: OECD financial accounts, national accounts for GDP, PIMCO calculations. We define liquid assets as deposits, currency, and MMFs. As of 30 September 2023

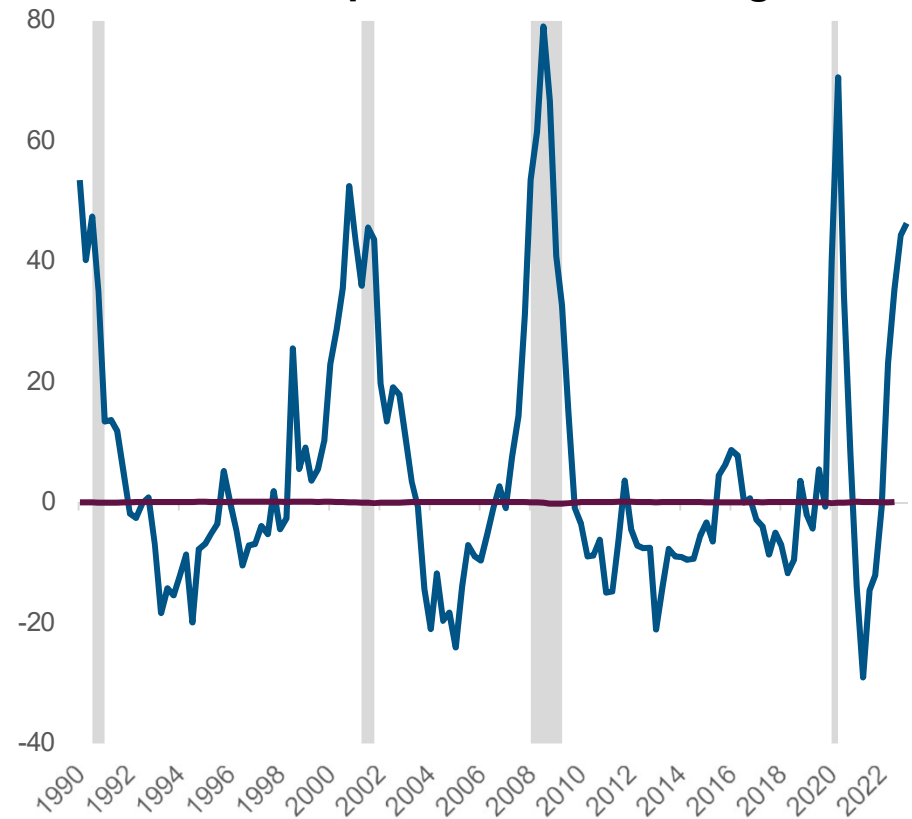
# Tighter credit conditions and U.S. regional bank stress, are likely to be an increasing drag overtime

Bank equity price shocks tend to precede periods of slower or contracting credit growth, which weighs on economic expansion.

### Estimated GDP impact of a >30% bank equity correction



### Senior Loan Officer Survey balance of opinion for C&I lending



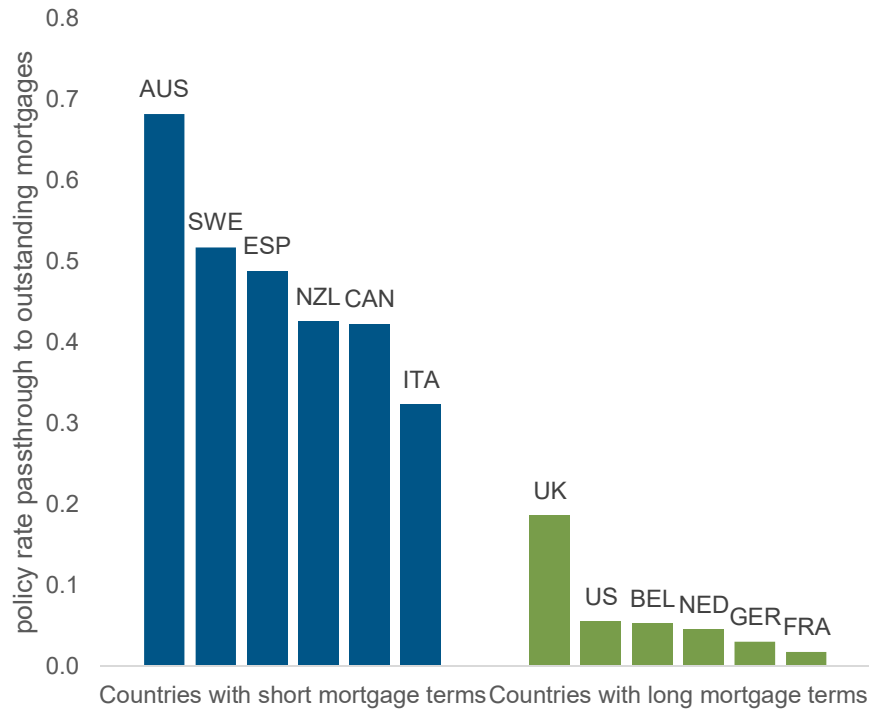
As of 30 June 2023; Source: Haver, PIMCO calculations, Baron, Verner, and Xiong (2021) "Banking Crises without Panics", *Quarterly Journal of Economics* 136, 51-113. GDP impact estimated relative to periods where bank equity returns are 0-15%



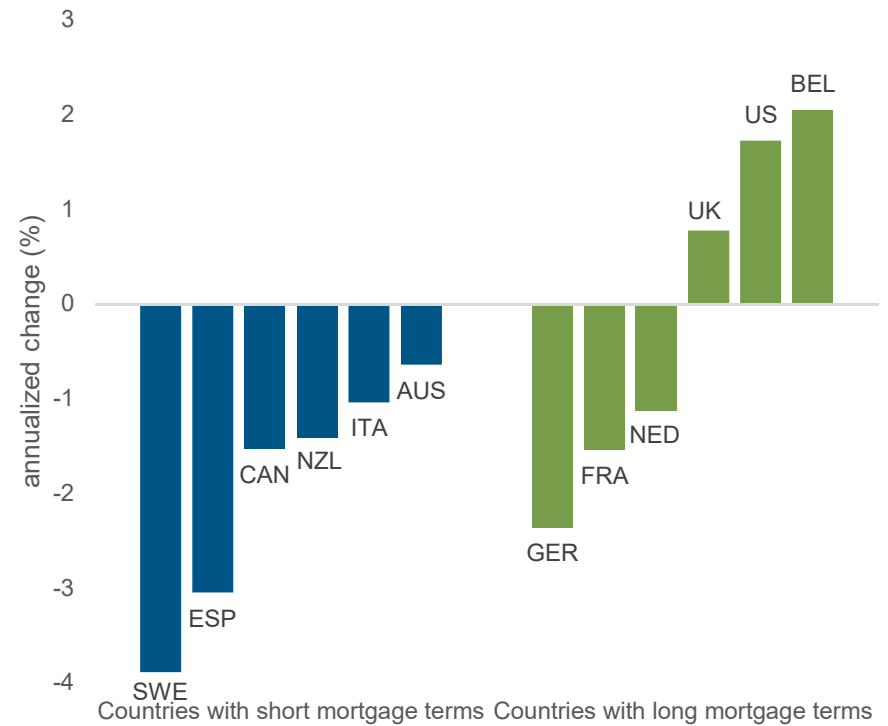
# Shorter-term mortgage markets appear associated with slower consumption growth

*Small open economies with primarily variable rate mortgage markets are slowing at a faster pace.*

## Policy rate pass-through to outstanding mortgage rates is varied across DM



## Per-capita consumption growth this cycle is weaker in countries with shorter mortgages



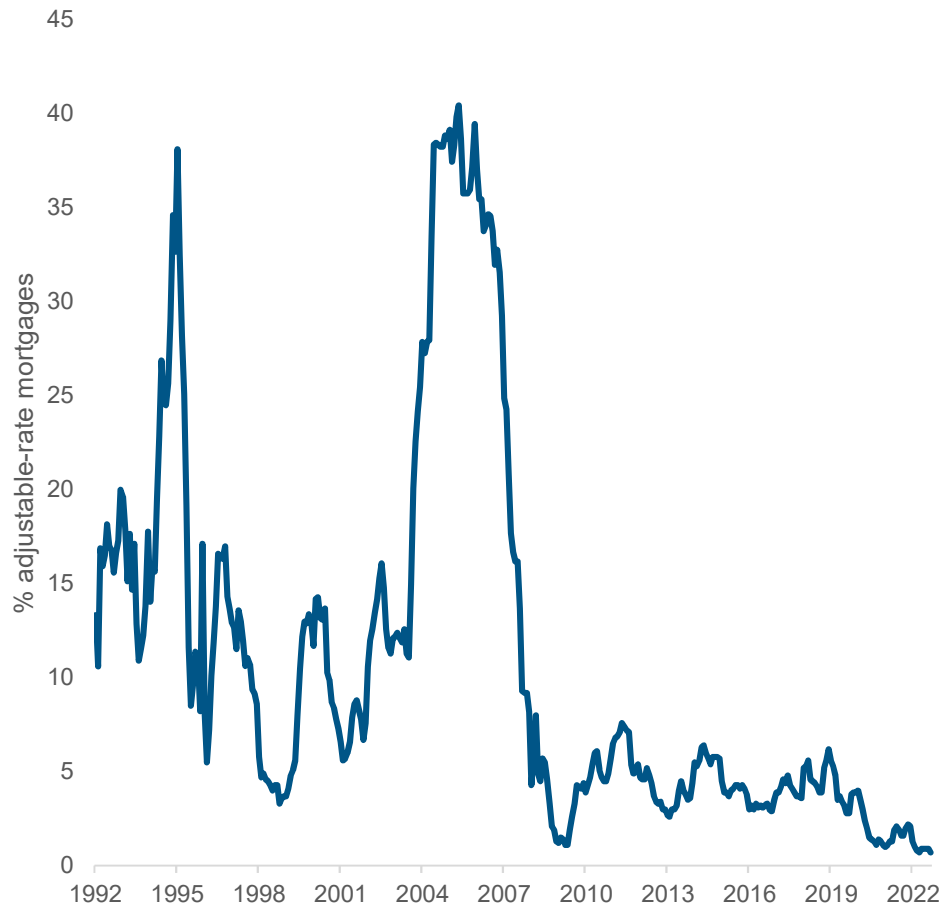
LHS; Source: Haver, PIMCO Calculations. Data through June 2023.

RHS; Source: Haver, PIMCO Calculations. Data through June 2023 Data through 2023Q2 except NZL. Per-capita consumption growth is annualized and is relative to the first quarter after the current hiking cycle began and COVID related lockdowns had ended.

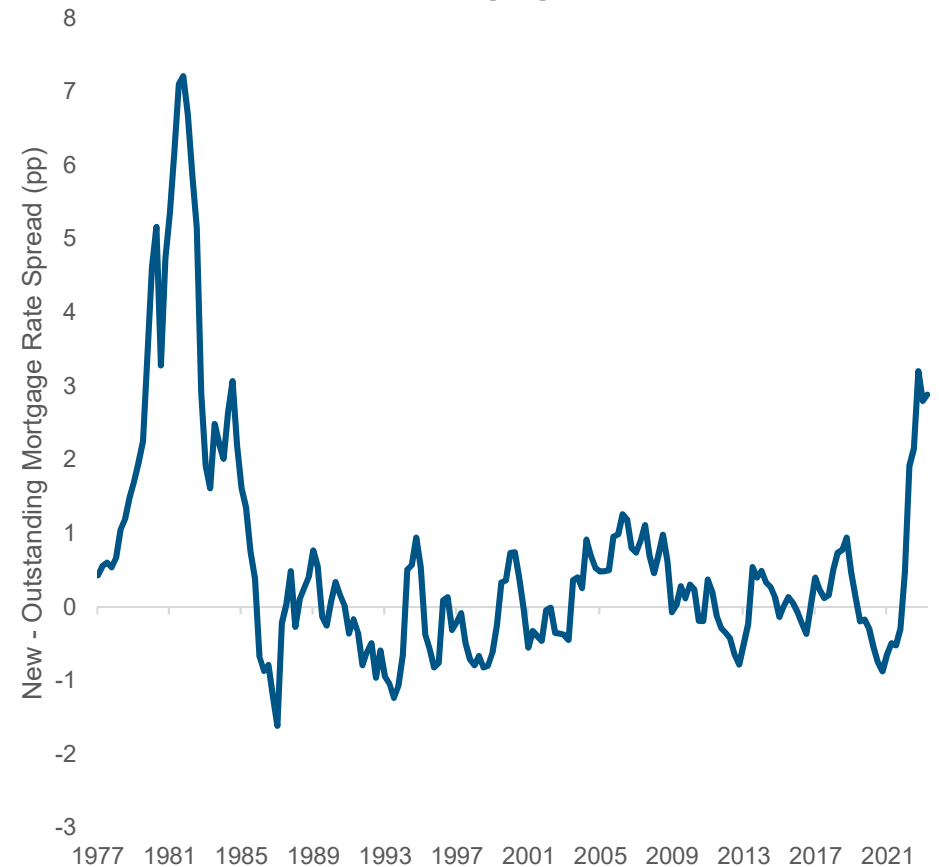
## How has the US mortgage market structure evolved?

*During the post-pandemic period of low rates, a large share of outstanding US fixed rate mortgages were re-financed. The spread between fixed mortgage interest rate and market rate highest since the 1980s.*

### New mortgages are now almost entirely fixed



### Outstanding mortgage rates are well below new mortgage rates

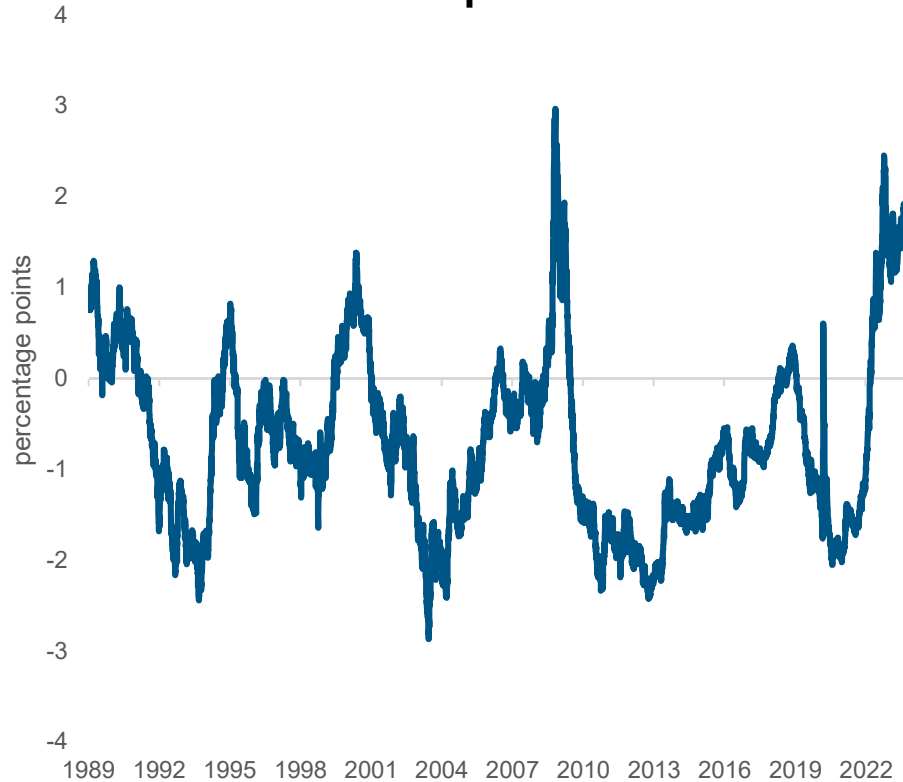


Source Haver, PIMCO Calculation. Data As of 30 September 2023

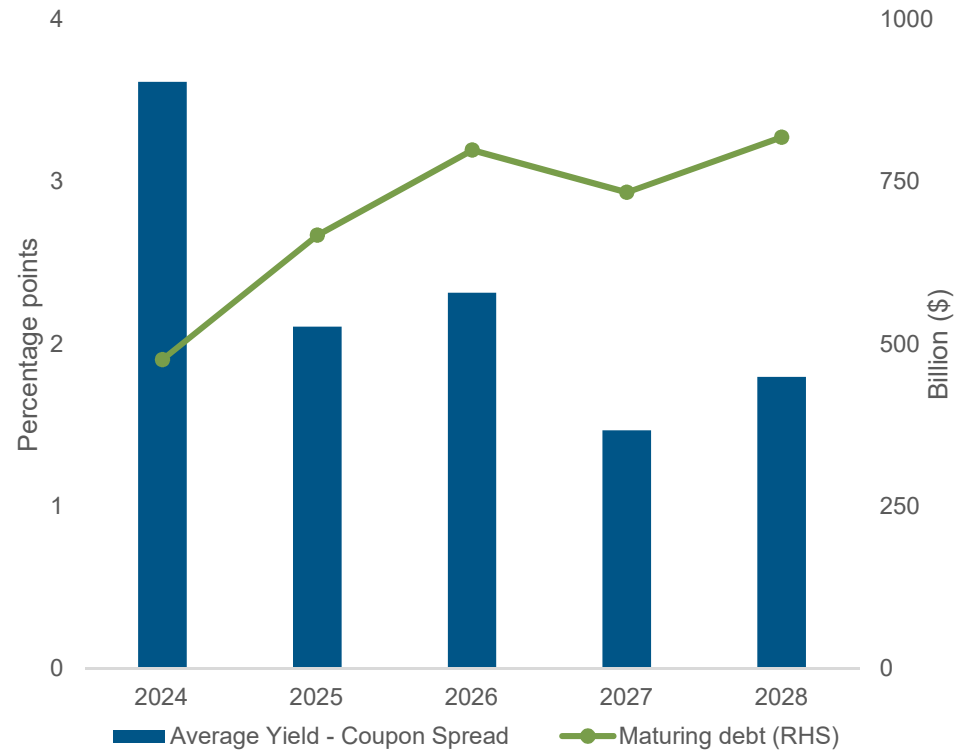
# US corporate bonds have also seen delayed pass-through of monetary policy

However, more is coming due in 2024 and 2025, which will ratchet up interest expense for the corporate sector.

### Yields are historically elevated relative to coupons



### Yield-Coupon spread is particularly high in near-term maturities



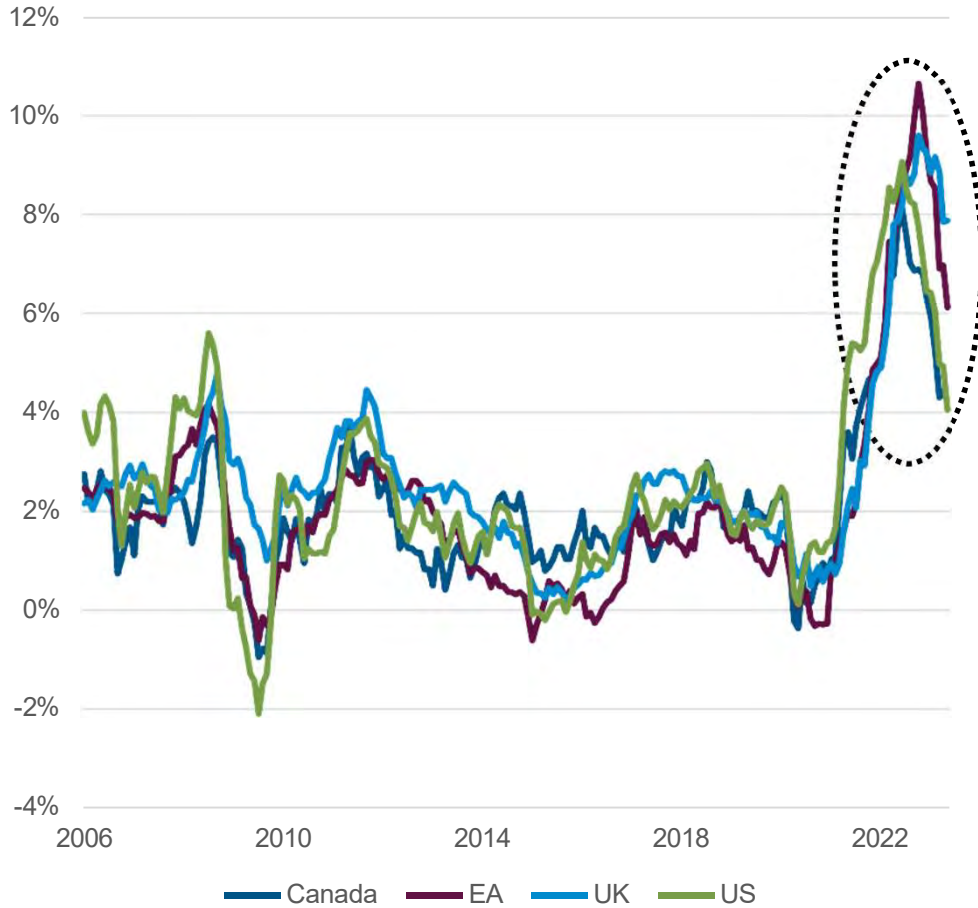
Source: Bloomberg, PIMCO Calculations  
30 September 2023

# Inflation, Policy Outlook

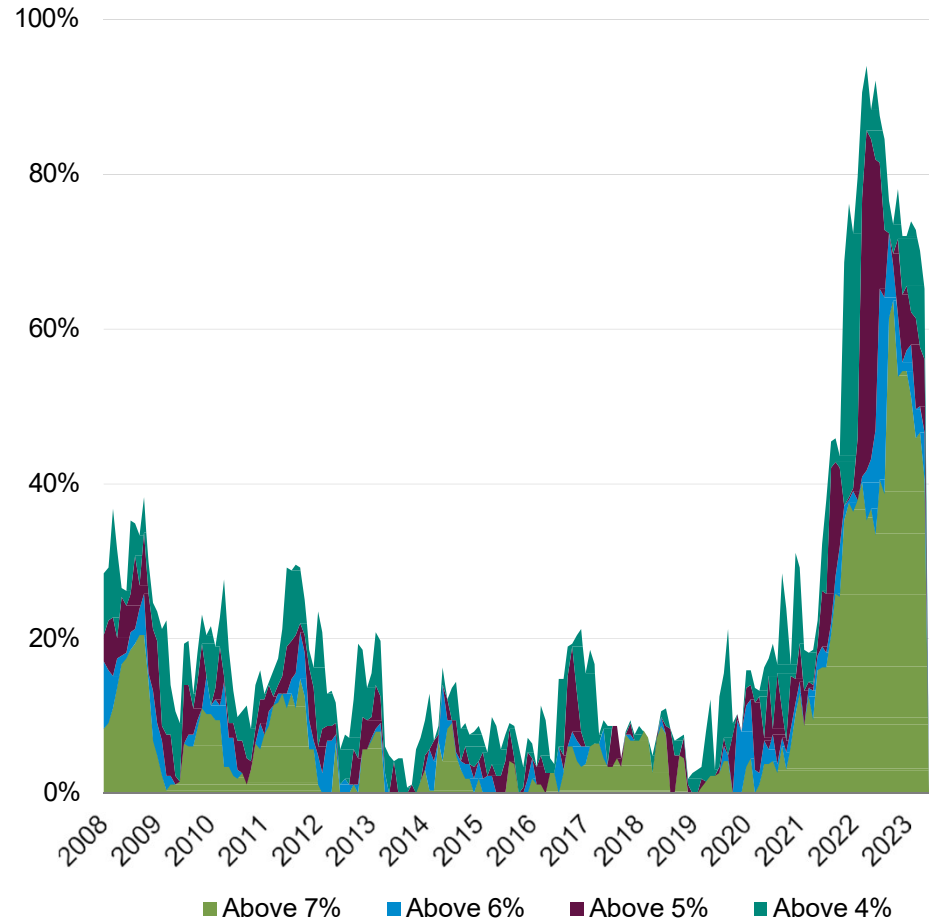


# Inflation: Headline disinflation is now well underway...

DM Headline Inflation

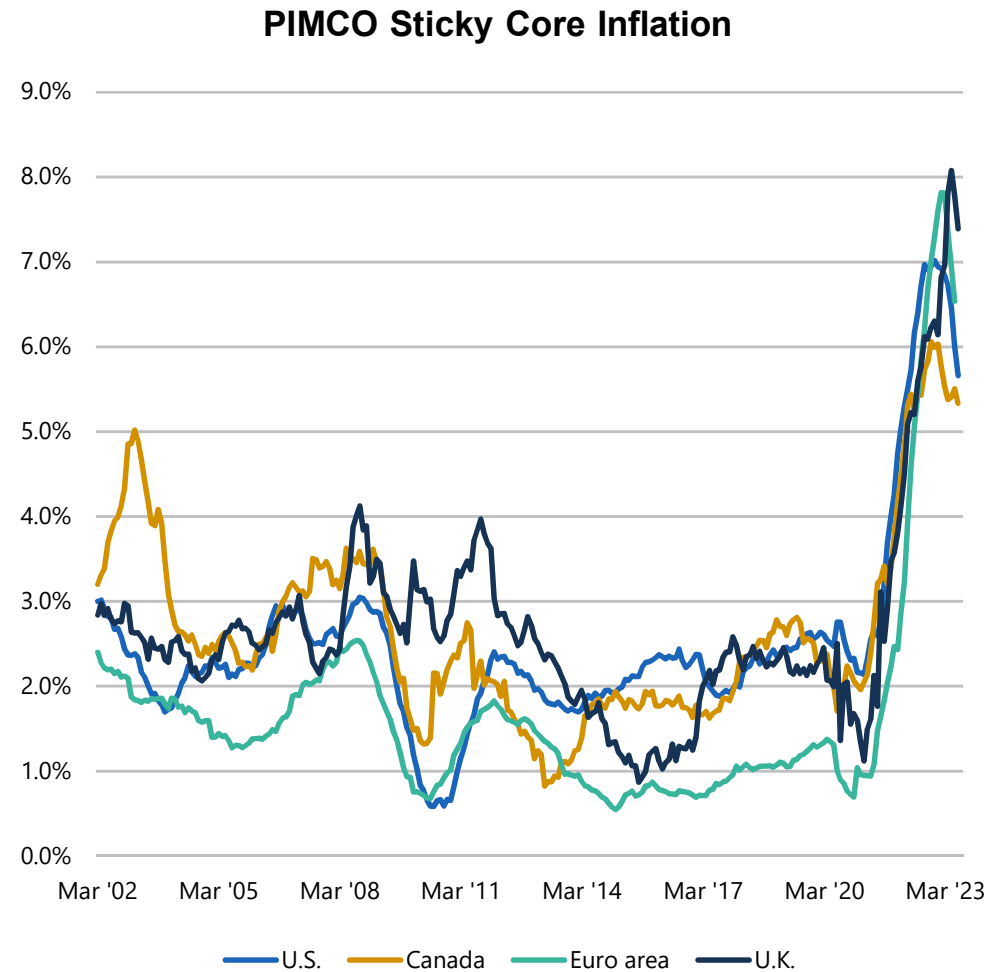
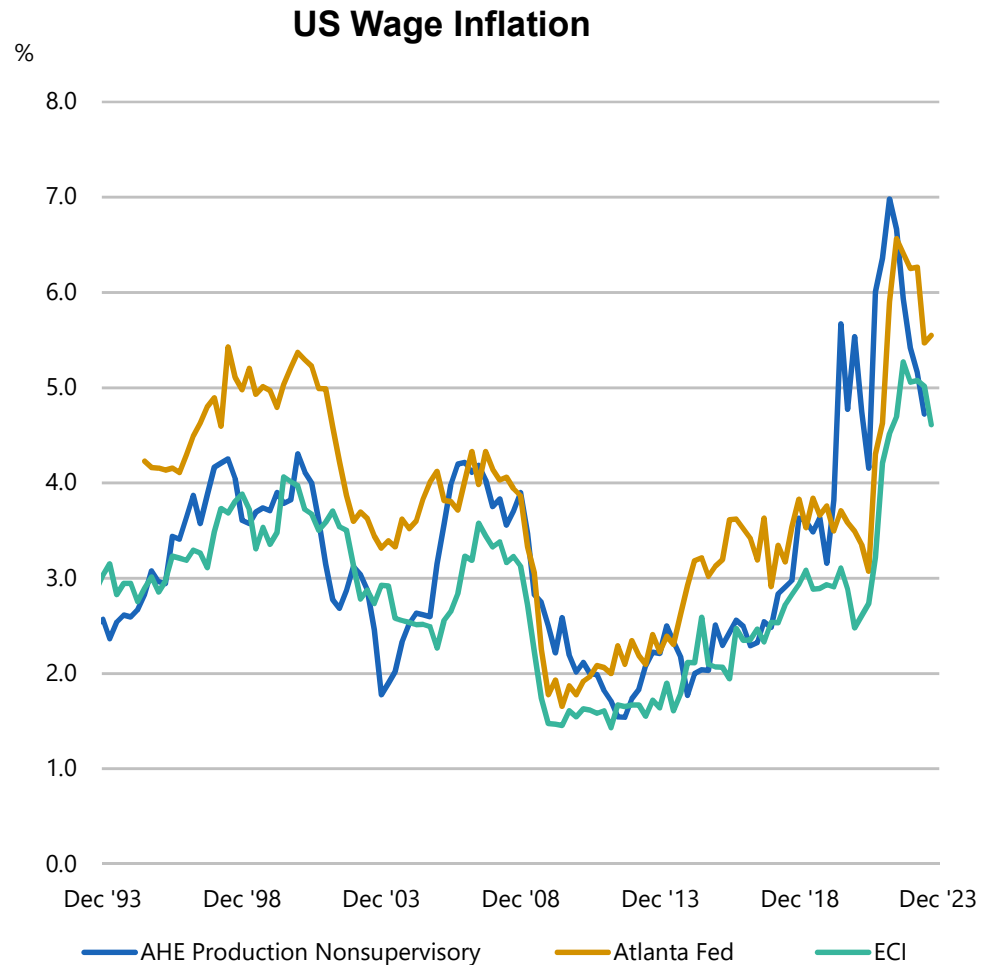


Percent of the US CPI Basket with Inflation Above...



As of 30 June 2023; Source: PIMCO, Haver  
Refer to Appendix for additional outlook and risk information.

# Inflation: ...but underlying inflation remains stubbornly above central bank targets...

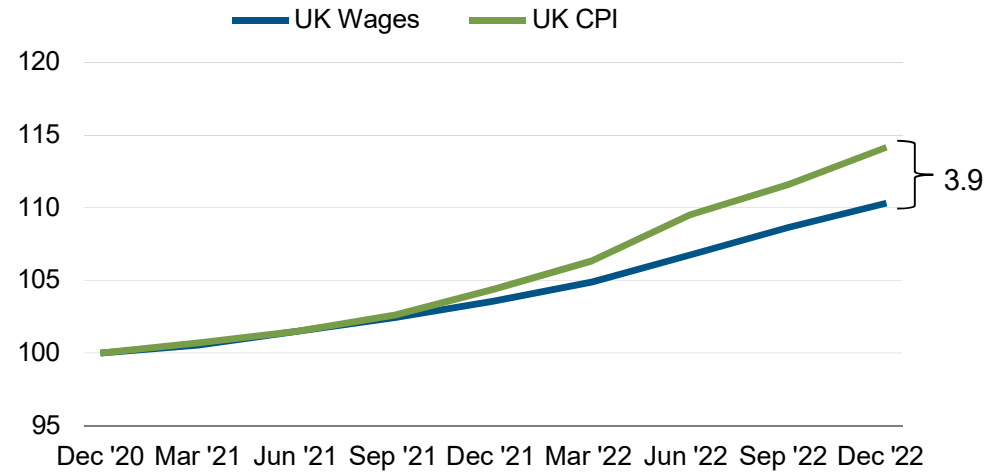
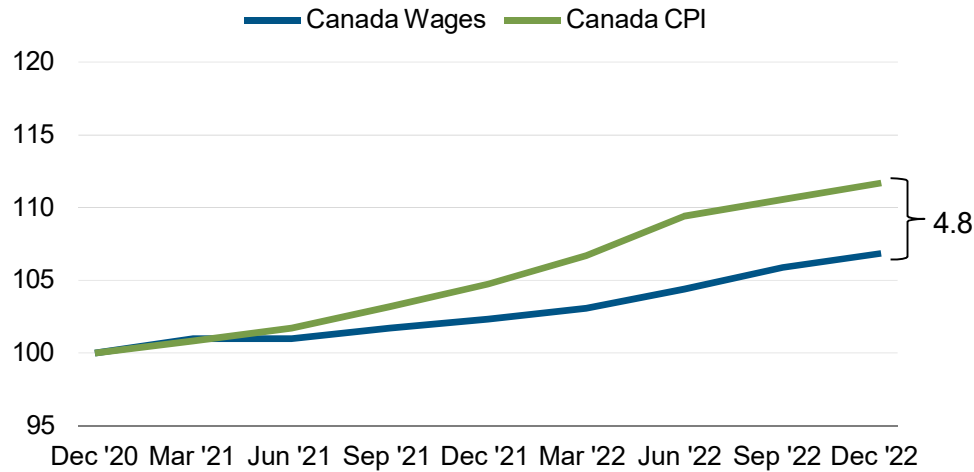
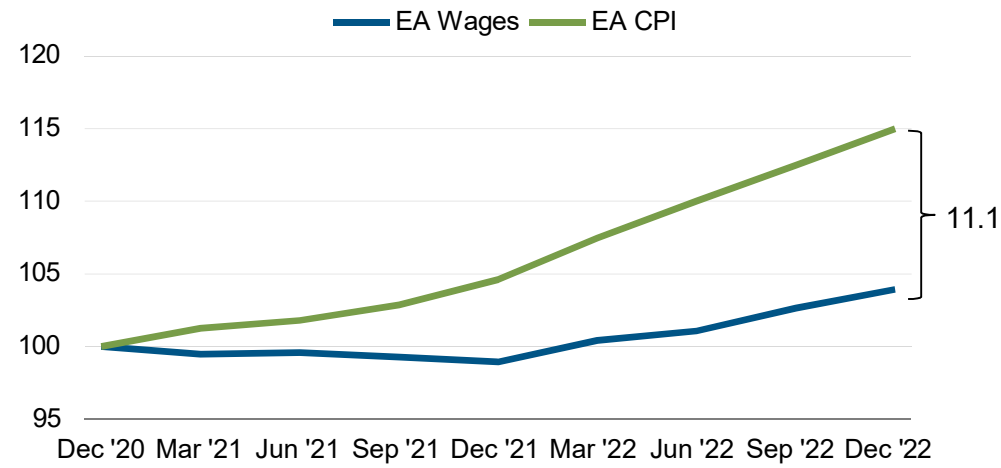
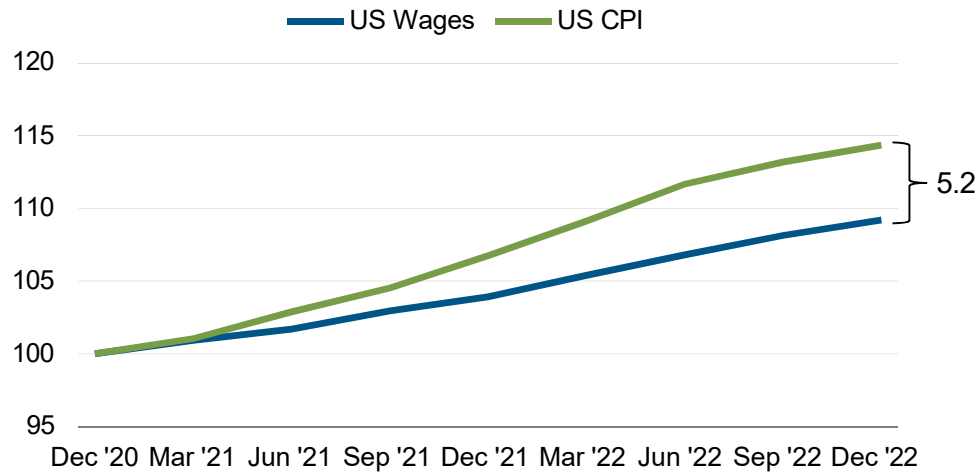


As of 31 July 2023; Source: Haver, PIMCO calculations.

"Sticky" price baskets are constructed using the least volatile categories across each country/ region from 2012 to 2019. Methodology is based on research by Michael F. Bryan and Brent Meyer, "Are some prices in the CPI more forward looking than others? We think so," (Federal Reserve Bank of Cleveland, 2010).

# Sticky Wages: ...As wages are still “catching up” to prices

## DM Wages vs. CPI: Index (December 2020 = 100)

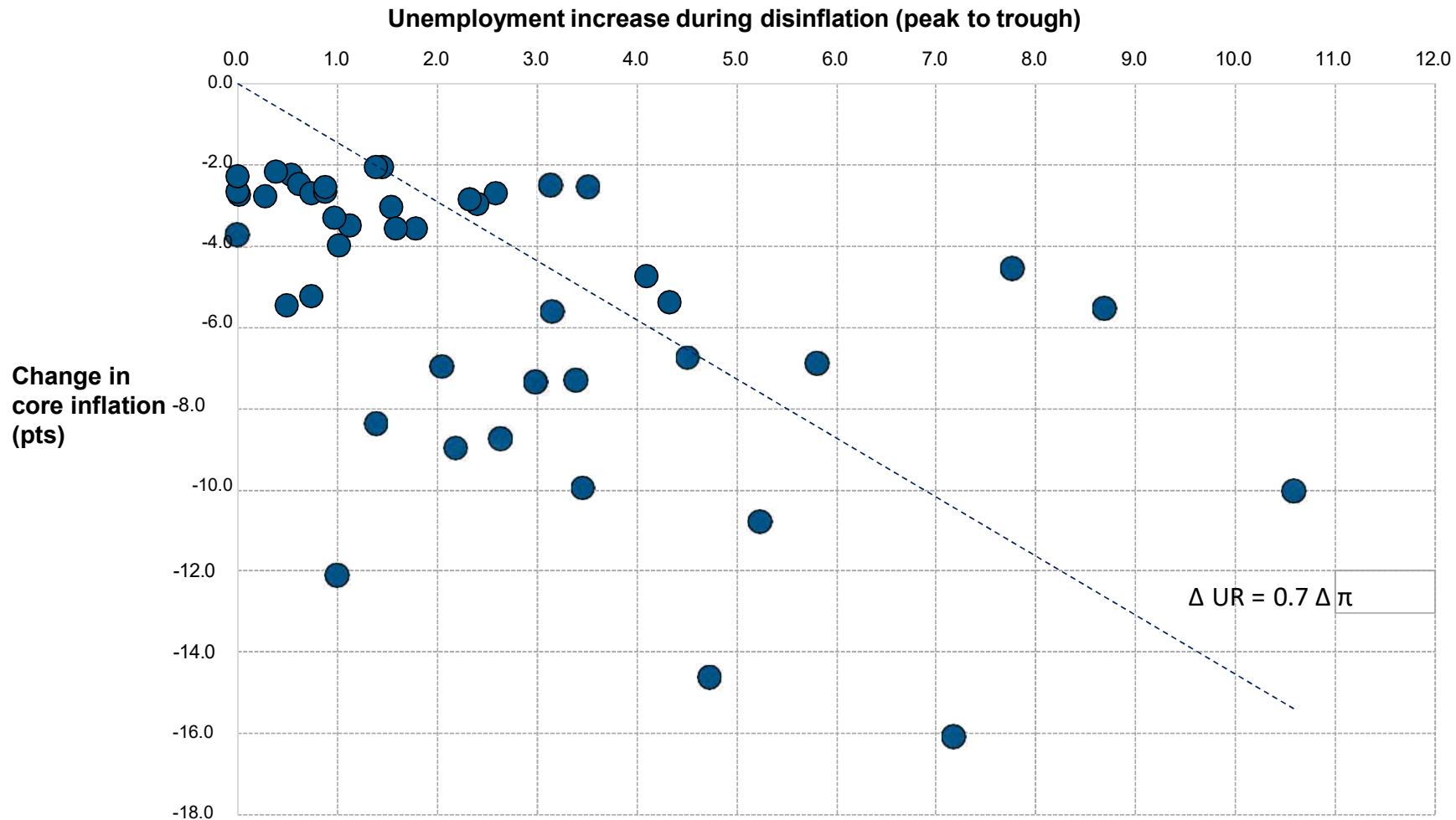


As of 31 March 2023; Source: Haver, PIMCO calculations.

US wages are from the Employment Cost Index (ECI). Euro area are Negotiated Wages. Canada are average hourly earnings (AHE). UK are Average Weekly Earnings (AWE).

# Unemployment Rate: Even shallow recessions are unlikely to be completely painless

History suggests a 1ppt reduction in inflation usually requires about 0.7ppt increase in unemployment



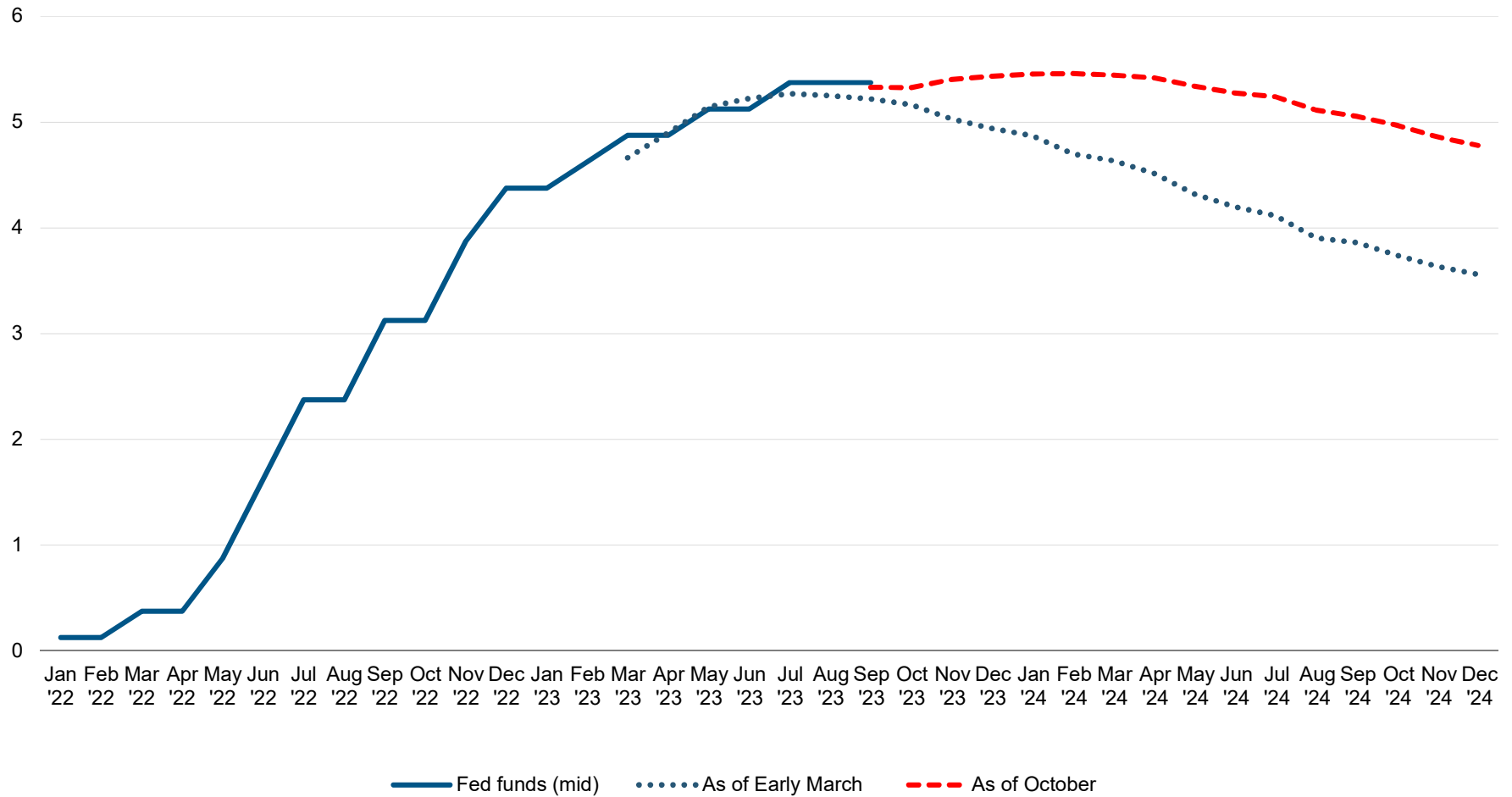
Data from 1960 to 2022; Source: Various stats offices, PIMCO calculations.

We define a sustained disinflationary period in which core inflation (QoQ, 9qcm) has fallen by more than 2pts to its trough. The chart plots all disinflationary periods in DM (AU, BE, CA, FR, GE, IT, JP, NE, NZ, SP, SE, SW, UK, US) since the 1960, where data is available (45 episodes).



# Central banks: Higher for Longer? Markets think so...

## Actual and Market Implied Future Fed Funds Rate Path



As of 15 August 2023; Source: Bloomberg  
 Refer to Appendix for additional forecast, outlook and risk information.

## 2023 Secular Outlook: The Aftershock Economy

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Risks to global growth appear skewed to the downside over the next five years

---



Fiscal and monetary policy interventions are unlikely to be repeated, leading to a period of heightened volatility

---



Central banks should maintain inflation targets, and neutral long-run real policy rates will likely remain low

---



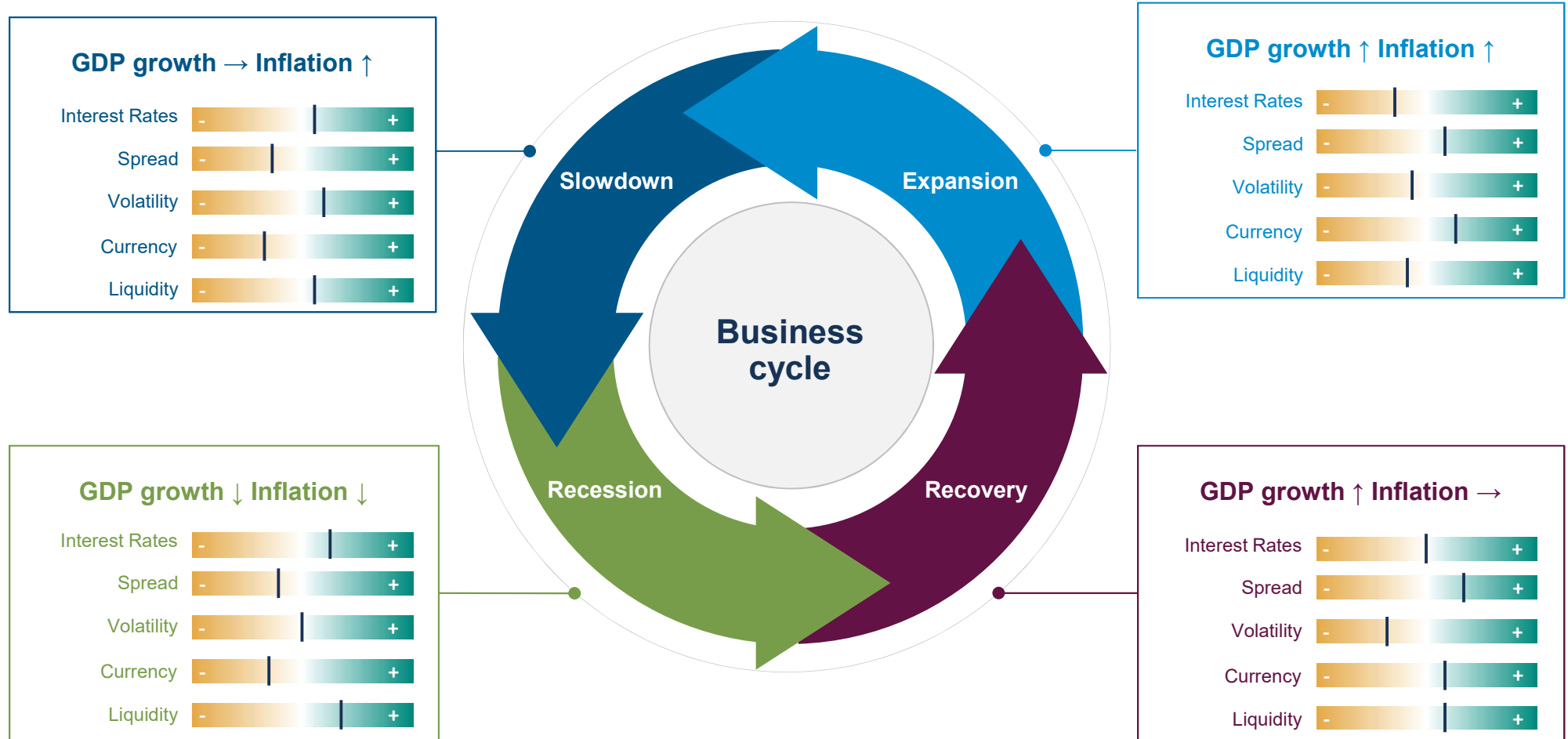
High-quality fixed income investments should play an important role for overall portfolio diversification

---



Investors may benefit from diversifying their private credit portfolios, but must remain patient across the cycle

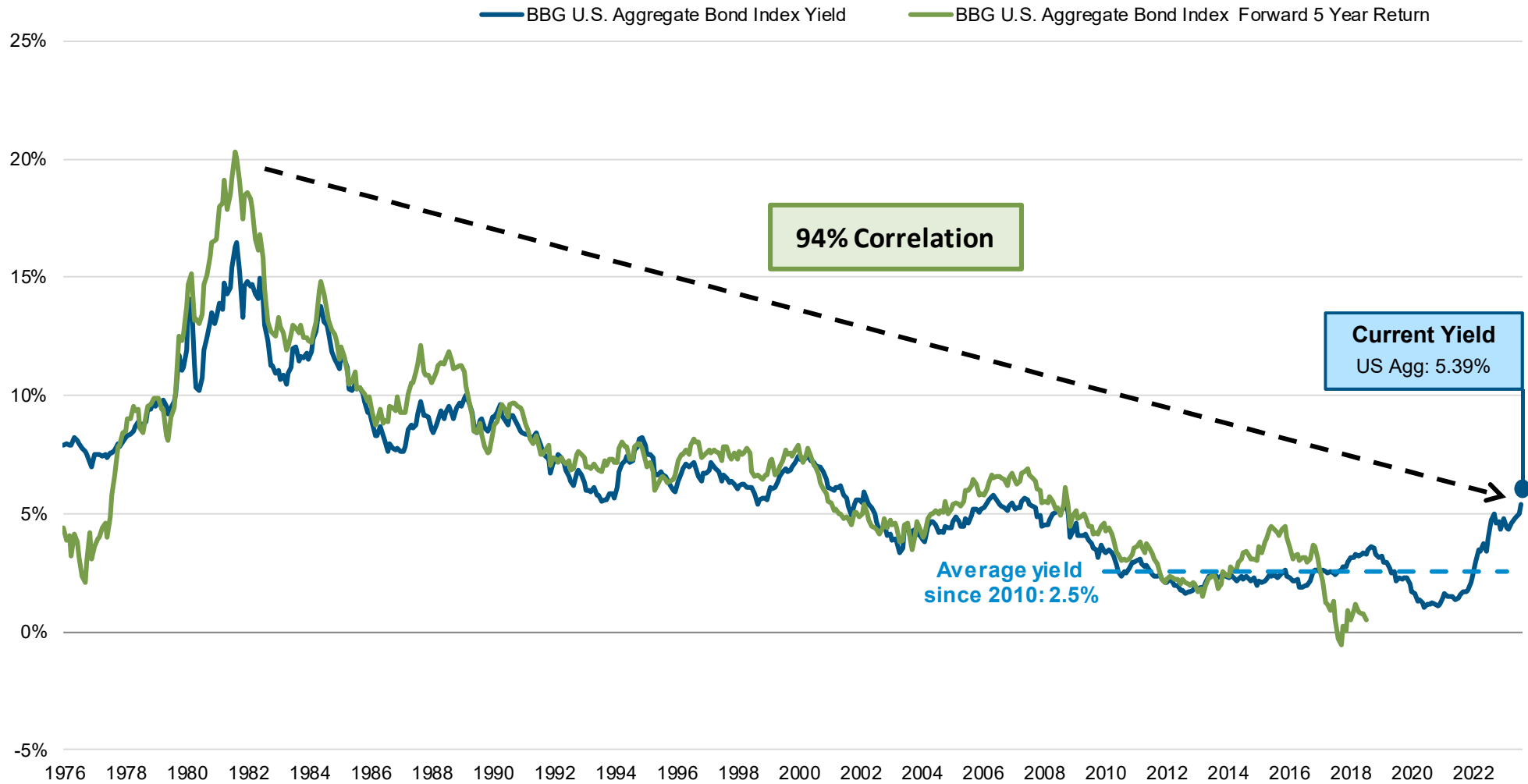
# Robust framework: Preparing portfolios when cycles diverge



Source: PIMCO. Scales based on relative performance across environments for each asset class  
**For illustrative purposes only.**  
 Refer to Appendix for additional investment strategy, outlook and risk information.

# Starting yields: Historically correlated with 5 year forward return

## Yield vs. 5 year forward return



As of 30 September 2023. Source: Bloomberg, PIMCO

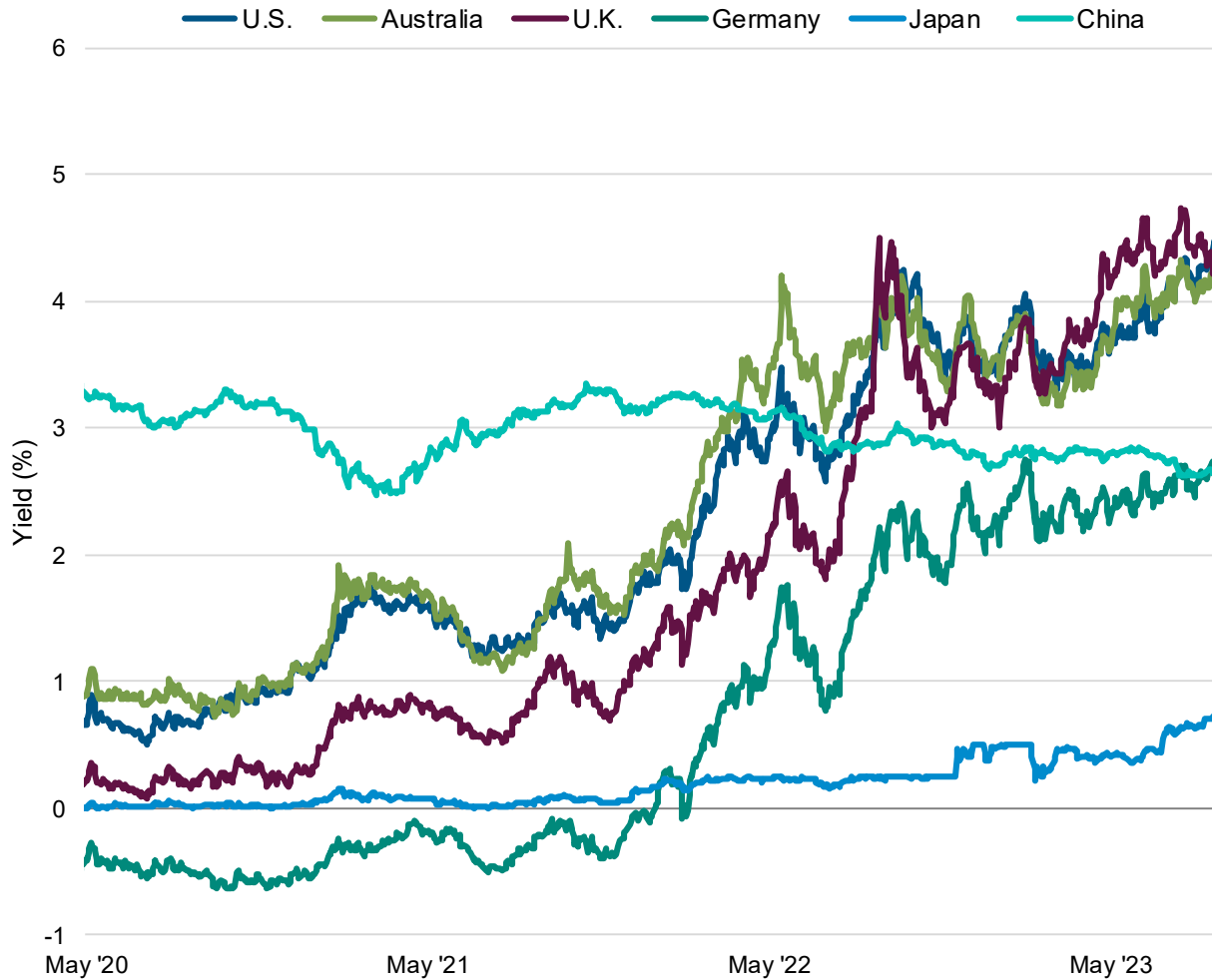
**Past performance is not a guarantee nor a reliable indicator of future performance.** Chart is provided for illustrative purposes only and is not indicative of the past or future performance of any PIMCO product.

Yield and return are for the Bloomberg U.S. Aggregate Bond Index and Bloomberg Global Aggregate Bond Index. It is not possible to invest directly in an unmanaged index.

Refer to Appendix for additional correlation, index, outlook and risk information.

# Government rates: Asymmetric cycles create relative value opportunities

10-year government bond yields (%)

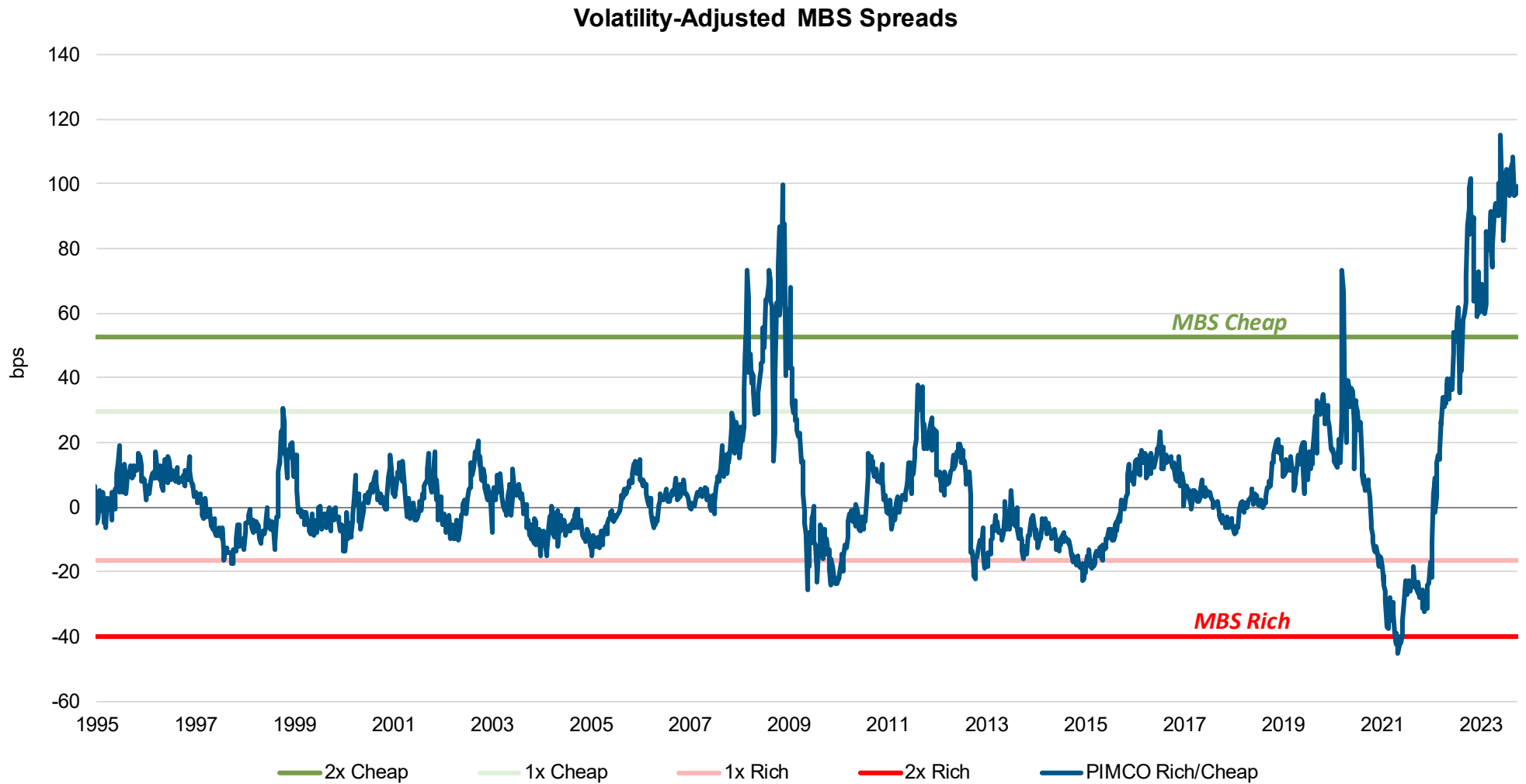


Change in central bank policy rates since May 2020

Fed	+525 bps
RBA	+385 bps
BoE	+515 bps
ECB	+450 bps
BoJ	+0 bps
PBoC	-40 bps

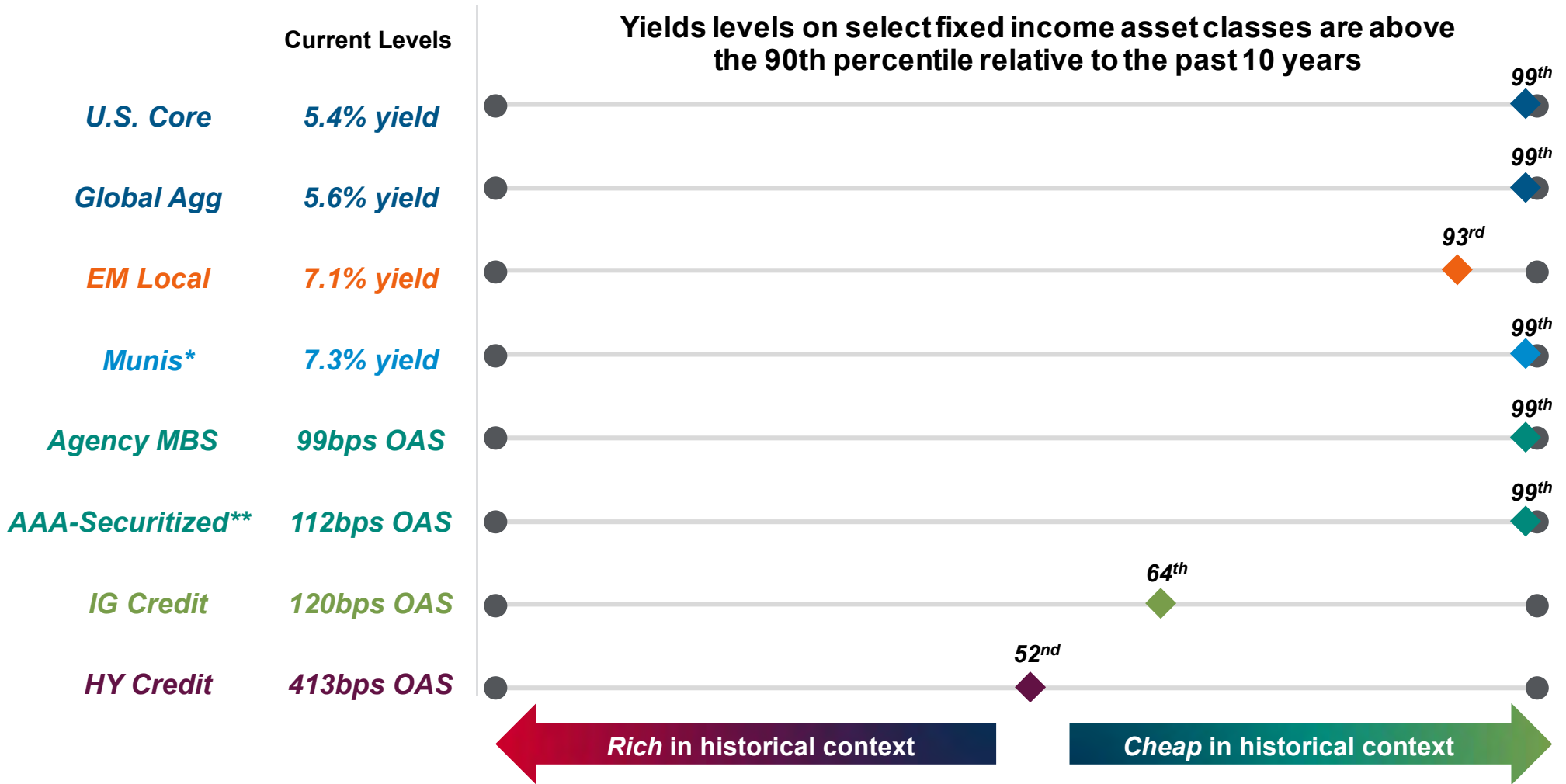
As of 30 September 2023. Source: PIMCO, Haver. Central Banks Policy Rates: Fed – Fed Funds Target Rate (upper bound); RBA - Cash Rate Daily Target; BoE – Bank of England Rate; ECB – Deposit Facility Announcement Rate; BoJ – Policy Balance Rate; PBoC – China Loan Prime Rate 1 Year  
 Refer to Appendix for additional outlook and risk information

# Agency MBS: Valuations are historically cheap



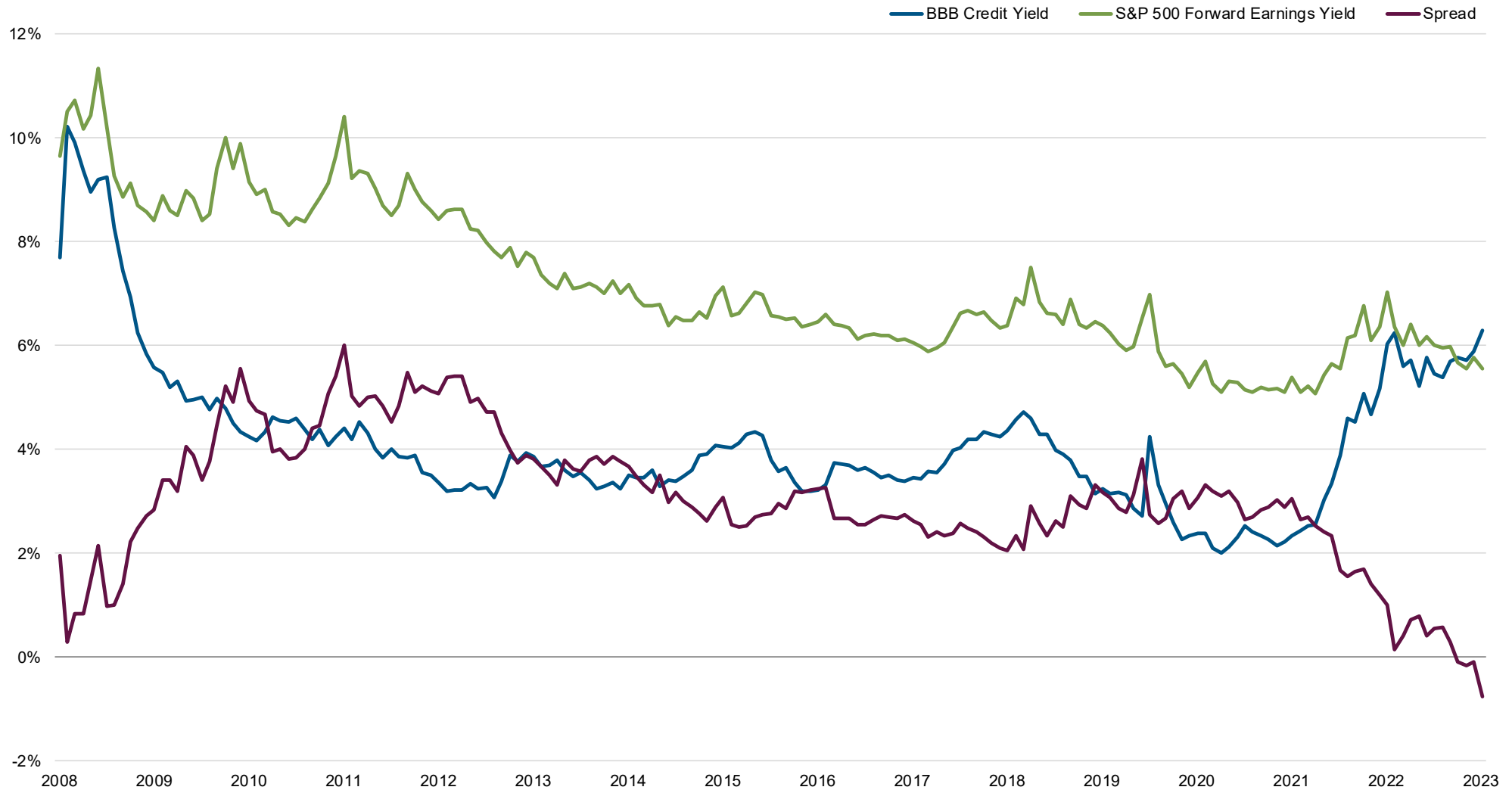
As of 30 September 2023. SOURCE: Bloomberg, PIMCO. "Rich" and "Cheap" defined as 1 standard deviation from average OAS. "2x Rich" and "2x Cheap" defined as 2 standard deviations from average OAS. The terms "cheap" and "rich" as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager's future expectations. There is no guarantee of future results or that a security's valuation will ensure a profit or protect against a loss. Refer to Appendix for additional index and risk information.

# The Fixed Income Opportunity: Attractive yields and diversification



As of 30 September 2023. SOURCE: Bloomberg, PIMCO. **Past performance is not a guarantee or a reliable indicator of future results.** Percentiles are calculated for the previous 10 years. Index proxies for asset classes displayed are as follows: Agency MBS: Bloomberg MBS Fixed Rate Index (incept: 1/30/76), Munis: Bloomberg Municipal Bond Index (incept: 1/30/80), U.S. Core: Bloomberg U.S. Aggregate (incept: 1/30/76), Global Agg: Bloomberg Global Aggregate USD Hedged (incept: 1/1/99), HY Credit: ICE BofA Developed Markets High Yield Constrained Index (incept: 12/31/97), EM: JPMorgan EMBI Global USD Hedged (incept: 12/31/93), IG Credit: Bloomberg Global Aggregate Credit Index (incept: 09/01/00). \* AAA-Securitized YTW computed as average of AAA CLOs, CMBS, and ABS from JPMorgan and Barclays. \*\* Municipal yields are the taxable equivalent yield, adjusted by the highest marginal tax rate (40.8%). Unadjusted IG Muni index yield is 4.33%, 211 bps higher than the most recent 10Y average. Tax equivalent yield is intended for U.S. domiciled investors and is the return that a taxable bond would need to equal the yield on a comparable federal tax-exempt municipal bond. The yield to worst is the yield resulting from the most adverse set of circumstances from the investor's point of view; the lowest of all possible yields. Refer to Appendix for additional index, outlook, and risk information.

## US equities: historically expensive relative to bonds relative to past 30 years



As of 30 September 2023. Source: PIMCO, Bloomberg

Forward earnings yield is calculated as the inverse of the P/E ratio for the S&P 500 using earnings estimates for the next 12 months. BBB credit yield is represented as the yield to worst for the Bloomberg U.S. Aggregate: Baa Index. Refer to Appendix for additional credit quality, index, outlook, and risk information.



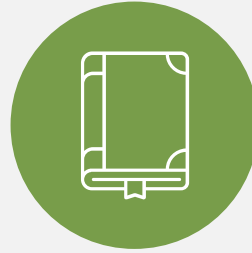
# What Macro means to PIMCO

Macro goes beyond a rate call...it's about how risk factors and positions interact with each other overtime



## Use a cyclical and secular framework to:

- Evaluate business cycle dynamics
- Understand monetary and fiscal policy implications
- Consider geopolitical forces
- Integrate idiosyncratic risks



## Leverage insights from:

- Global Advisory Board and external experts
- Global team of PIMCO regional committees and sector specialists
- Quantitative scenario analysis



## Form key investment views:

- Growth and Inflation
- Regional and Sector-specific outlook
- Asset class correlations
- Risk factor positioning
- Liquidity impact
- Tail Risks

For illustrative purposes only. Source: PIMCO.  
Refer to appendix for additional investment strategy and risk information.



# Client Questions

# Appendix

**Past performance is not a guarantee or a reliable indicator of future results.**

## FORECAST

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. There is no guarantee that results will be achieved.

## INDEX

It is not possible to invest directly in an unmanaged index.

## INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

## OUTLOOK

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

## RISK

**All investments** contain risk and may lose value. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, call risk, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed.

## YIELD TO MATURITY

Yield to Maturity (YTM) is the estimated total return of a bond if held to maturity. YTM accounts for the present value of a bond's future coupon payments. PIMCO calculates a Fund's Estimated YTM by averaging the YTM of each security held in the Fund on a market-weighted basis. PIMCO pulls each security's YTM from PIMCO's Portfolio Analytics database. In general, the calculation will incorporate the yield based on the notional value of all derivative instruments held by a Fund. The measure does not reflect the deduction of fees and expenses and is not necessarily indicative of the Fund's actual performance. A portfolio's actual yield or distribution rate may be significantly lower than its estimated YTM in practice. Also, estimated YTM is not intended to indicate that a portfolio will actually hold any or all of its portfolio securities to maturity in practice, and various securities may be sold or otherwise disposed of prior to maturity. Estimated YTM is not a projection or prediction of the actual yield or return that a portfolio may achieve or any other future performance results. There can be no assurance that a portfolio will achieve any particular level of yield or return and actual results may vary significantly from estimated YTM

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CMR2023-1003-3146331



## **Functional Asset Class Review:**

**Stabilized Growth Public Liquid Credit,  
Principal Protection & Inflation Sensitive**

**October 2023**



# Fiscal Year 2024

## Functional Asset Class Review Schedule

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



# 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.



# SURS Policy Targets

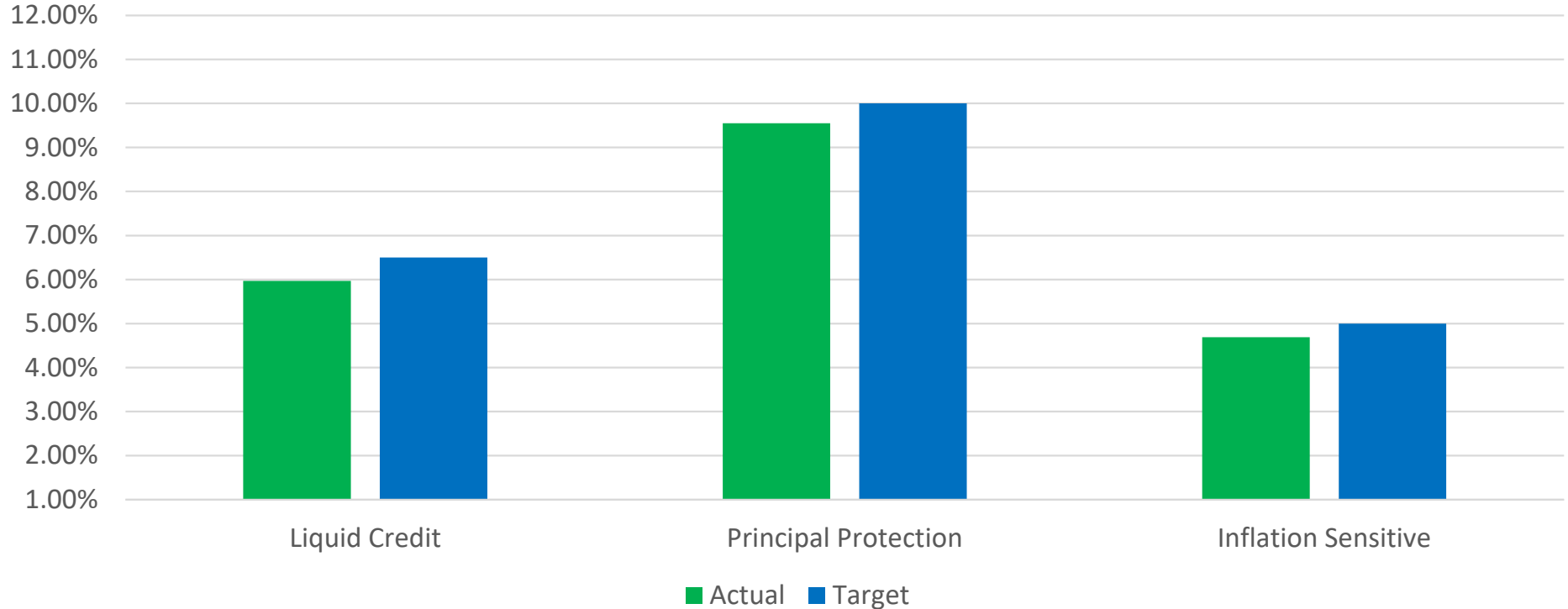
Classes/Strategies	Current Strategic Policy Target %	Long-Term Strategic Policy Target %
<b>Broad Growth</b>	<b>68%</b>	<b>68%</b>
Traditional Growth	36%	35%
Public Equity	36%	35%
Stabilized Growth	17%	17%
Core Real Assets	8%	8%
Liquid Credit	6.5%	4%
Private Credit	2.5%	5%
Non-Traditional Growth	15%	16%
Private Equity	11%	11%
Non-Core Real Assets	4%	5%
Inflation Sensitive	<b>5%</b>	<b>5%</b>
TIPS	5%	5%
<b>Principal Protection</b>	<b>10%</b>	<b>10%</b>
<b>Crisis Risk Offset</b>	<b>17%</b>	<b>17%</b>
Long Duration	2%	2%
Long Volatility	1.7%	1.7%
Tail Risk	0.3%	0.3%
Trend Following	10%	10%
Alt. Risk Premia	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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





# Liquid Credit, Principal Protection & Inflation Sensitive Actual vs. Target Allocation



**Actual allocations inline with their target allocations**

Data as of June 30, 2023



# 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



# Market Review



# Market Review

- The Fed continued to pursue tighter monetary policy as it tries to manage inflation:
  - The Fed's goals are maximum employment, stable prices, and moderate long-term interest rates
  - Eleven rate hikes in 2022 and 2023
  - Fed Funds Rate hit 22 year high in July 2023 (5.25% to 5.50%)
  - Fed Funds Rate all time high was 20.0% in March 1980
- U.S. Consumer Price Index has peaked, but remains high:
  - 4.7% in 2021
  - 8.0% in 2022
  - 4.0% in 2023 (Projected)
  - Fed's target for inflation is 2%
- U.S. unemployment remains low:
  - 3.9% in 2021
  - 3.5% in 2022
  - 3.6% in 2023 (Projected)
- Bond yields are up:
  - 2 Year Treasury 5.03% (10/5/23) vs. 4.15% (10/5/22)
  - 10 Year Treasury 4.72% (10/5/23) vs. 3.76% (10/5/22)
  - Highest levels since 2007



# Principal Protection



# Accomplishments & Initiatives

- **Fiscal Year 2023 Accomplishments:**
  - **Implemented the interim asset allocation changes approved at the April 2023 meeting:**
    - **2% Increase to Principal Protection**
- **Fiscal Year 2024 Initiatives:**
  - **Monitor managers and make any necessary recommendations for changes.**



# Principal Protection

*The role of the Principal Protection asset class is to provide an anchor to the portfolio by exhibiting low volatility with minimal or zero exposure to the equity risk. Designed to provide consistent, stable returns during most market environments and preserve principal during periods where growth investments are experiencing significant drawdowns.*

Source of Liquidity



# Policy Benchmark

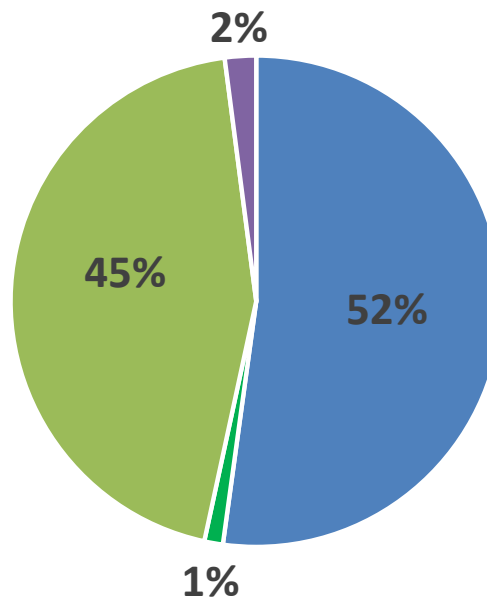
- **Benchmark Name: Bloomberg Barclays Intermediate Agg. Ex Credit**
- **Benchmark Description:**
  - Shorter maturity (bonds with up to 10 years to maturity)
  - Higher credit quality (excludes credit-oriented bonds)
  - Less volatility
  - Less interest rate sensitivity
  - Comparable yield/income
- **The Index includes:**
  - Mortgage Backed Securities
  - Treasuries
  - Securitized Mortgage Backed Securities
  - Government Related Securities





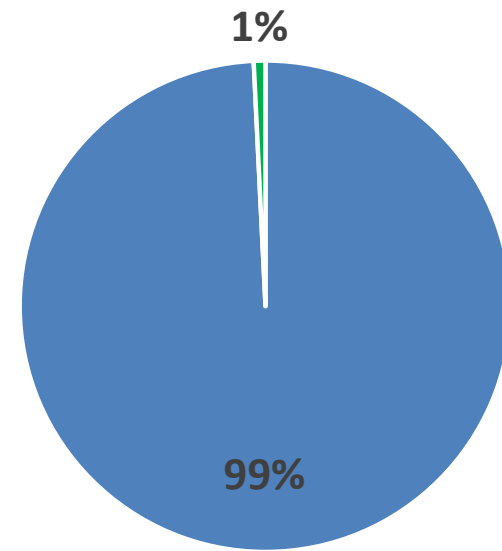
# Policy Benchmark

### Sector Breakout



■ Treasuries ■ Agency ■ MBS ■ ABS/CMBS

### Credit Quality



■ AAA ■ Other

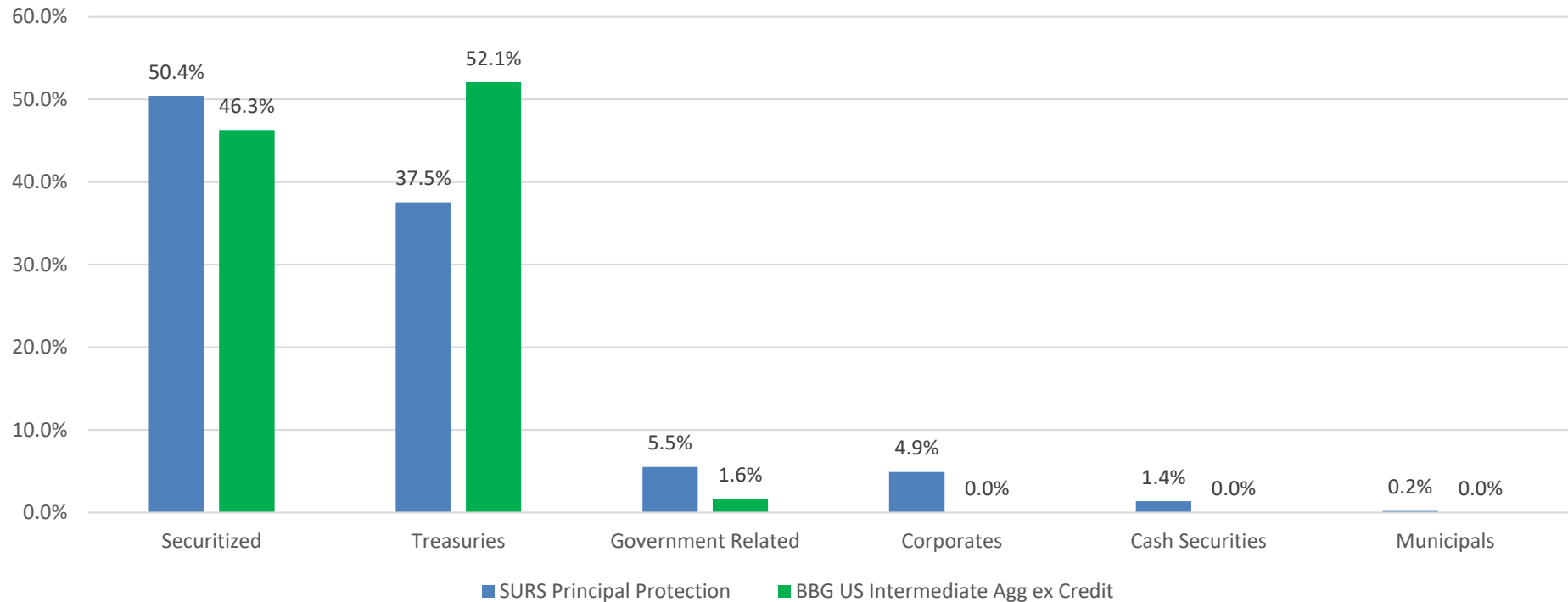
Characteristics	
Maturity (Years)	5.7
Yield to Maturity	4.7%
Weighted Average Coupon	2.5%
Weighted Average Duration (Years)	4.7

**High Quality – Primarily Treasury and Mortgage Securities – Maturities Less Than 10 Years**



# Aladdin Risk System Information

## Principal Protection Allocation by Sector



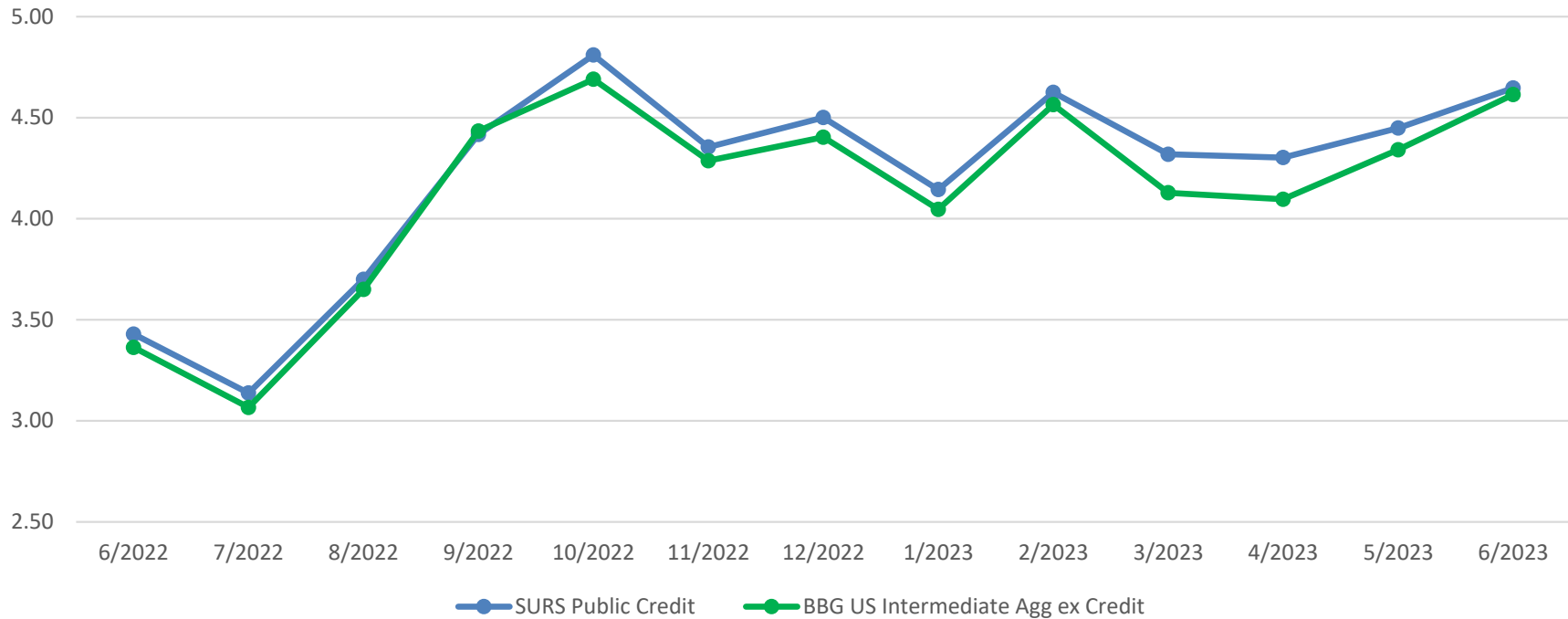
**Asset class sector weights show modest active positioning relative to the blended benchmark**

Source: BlackRock Aladdin  
Data as of June 30, 2023



# Aladdin Risk System Information

**Principal Protection**  
Yield to Maturity vs Benchmark

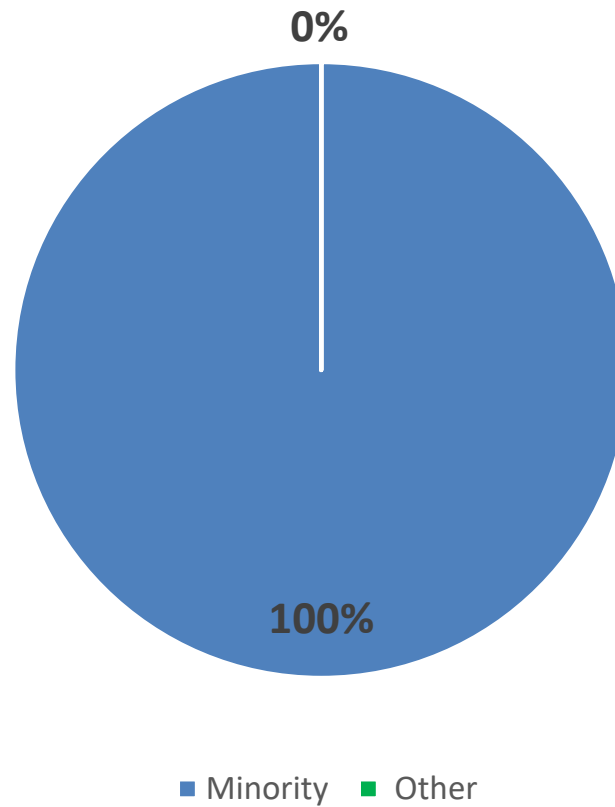


**Yield to maturity in line with the blended benchmark**

Source: BlackRock Aladdin  
Data as of June 30, 2023



# Minority Firm Exposure



**Managers: Garcia, LM, Pugh, Ramirez**

**100% Managed by Minority Owned Firms**

Data as of June 30, 2023



# Performance Summary

	1 Year (Net)	3 Year (Net)	5 Year (Net)
<b>Principal Protection</b>	-0.82%	-2.66%	N/A
<b>Policy Benchmark</b>	-1.23%	-3.22%	N/A
<b>Excess Return</b>	<b>+0.41%</b>	<b>+0.56%</b>	<b>N/A</b>

Performance is reported net of fees. The Principal Protection guidelines were implemented September 2019.

**Fees for the asset class are approximately 12 basis points per year**

Data as of June 30, 2023



# Public Liquid Credit



# Accomplishments & Initiatives

- **Fiscal Year 2023 Accomplishments:**
  - **Implemented the interim asset allocation changes approved at the April 2023 meeting:**
    - **2% Increase to Liquid Credit**
- **Fiscal Year 2024 Initiatives:**
  - **Monitor managers and make any necessary recommendations for changes.**



# Stabilized Growth

*The role of the Stabilized Growth asset class is to provide growth through strategies that are exposed to market beta, exhibiting expected returns similar to Traditional Growth but with lower volatility.*

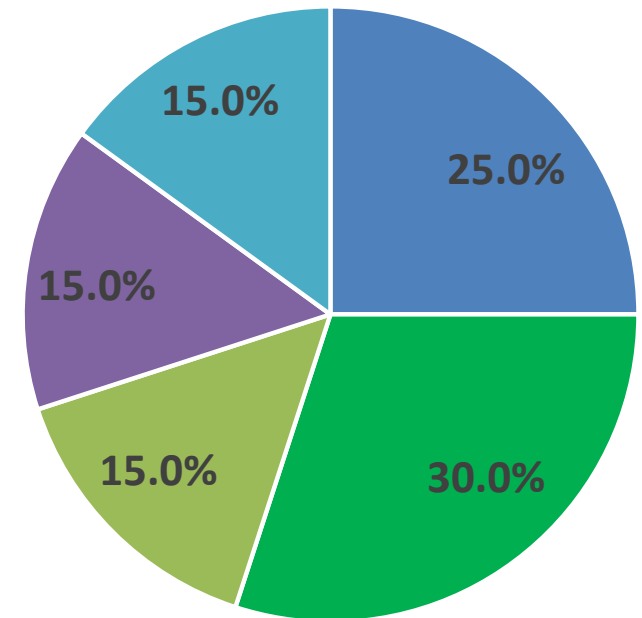
Growth with Lower Volatility





# 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**



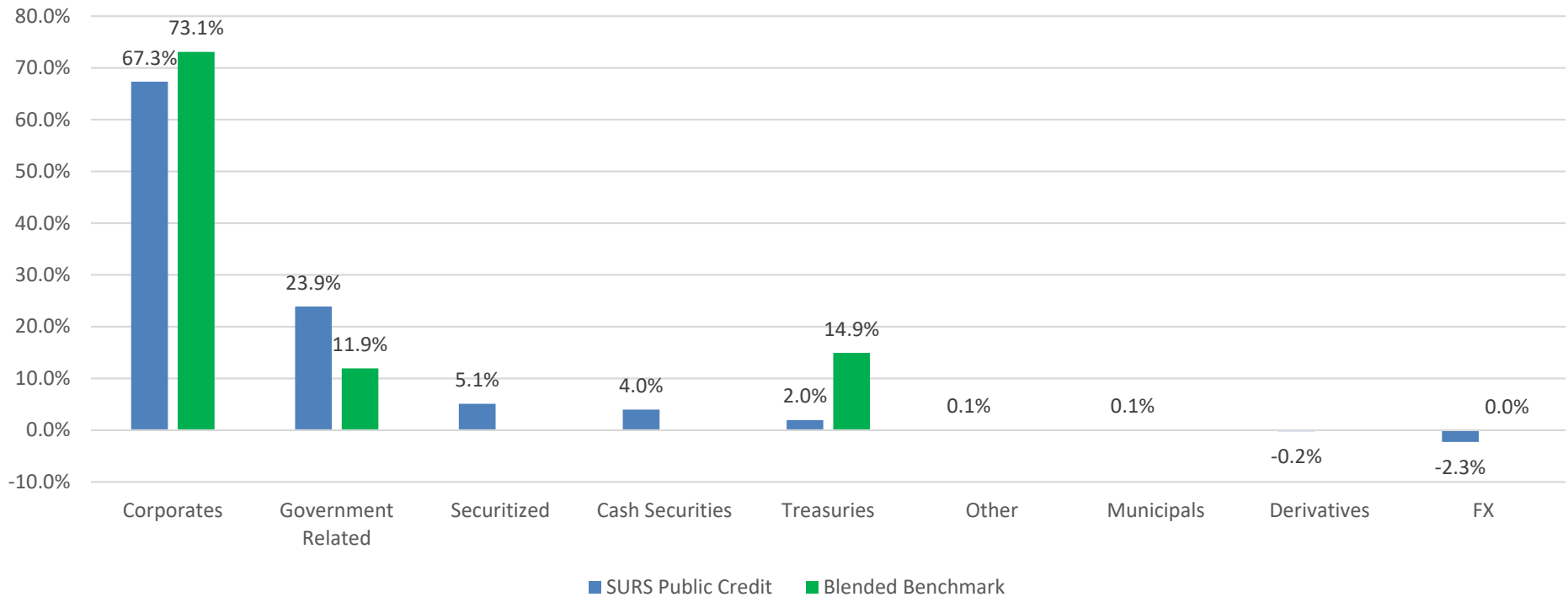
- BB Global Agg Corporate Index
- ICE BoA Global HY Index
- JPM EMBI Global Diversified
- JPM CEMBI Broad Diversified
- S&P US LSTA Global Leveraged Loan

The Policy Benchmark was updated 4/1/22



# Aladdin Risk System Information

## Public Credit Fixed Income Allocation by Sector



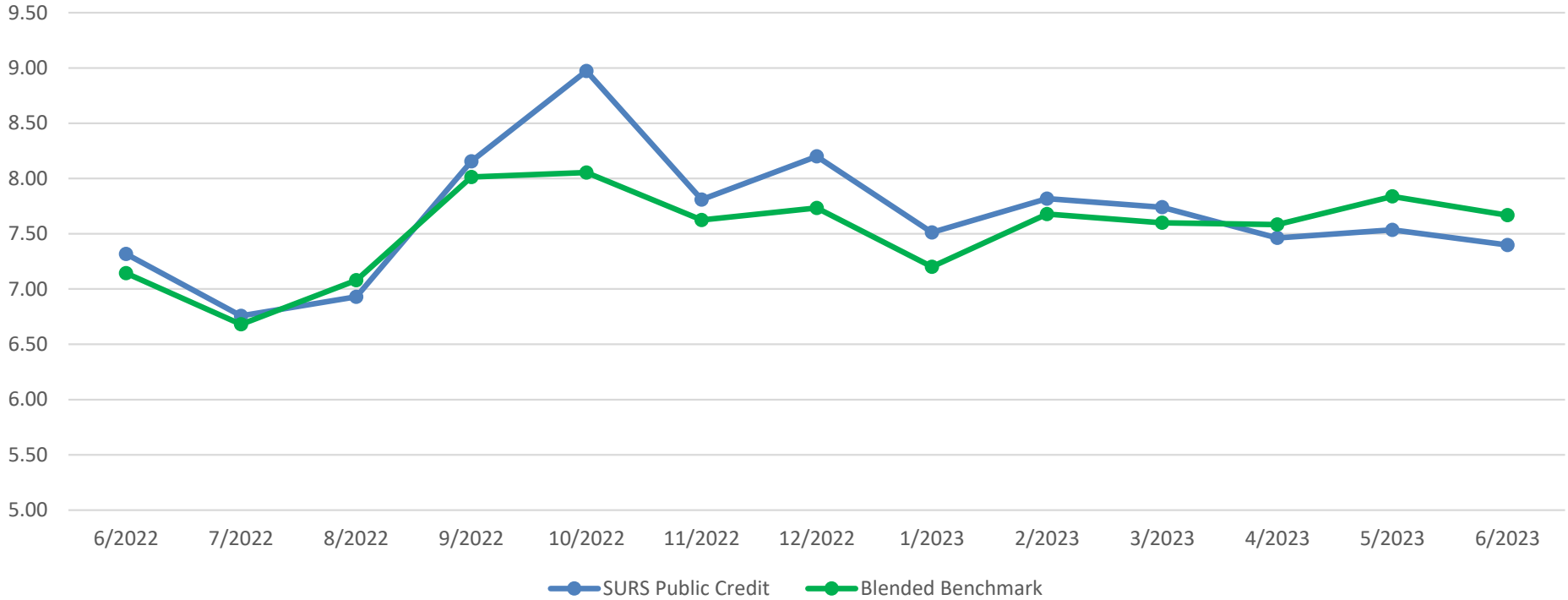
**Asset class sector weights show modest active positioning relative to the blended benchmark**

Source: BlackRock Aladdin  
Data as of June 30, 2023



# Aladdin Risk System Information

**Public Credit Fixed Income**  
Yield to Maturity vs Benchmark



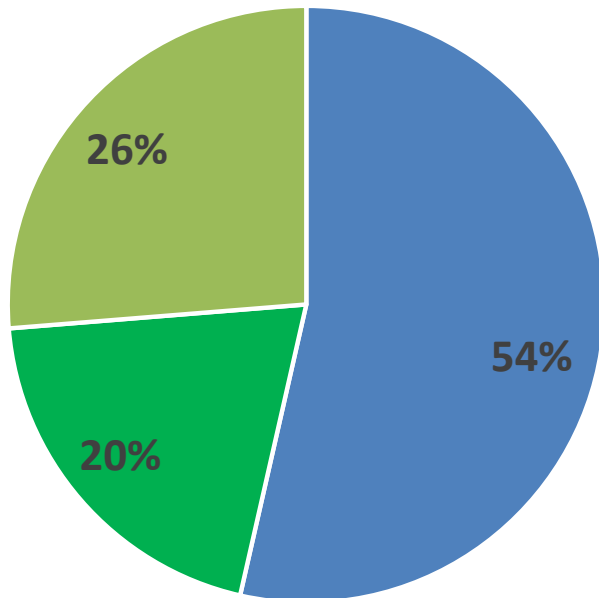
**Yield to maturity slightly lower than the blended benchmark**

Source: BlackRock Aladdin  
Data as of June 30, 2023



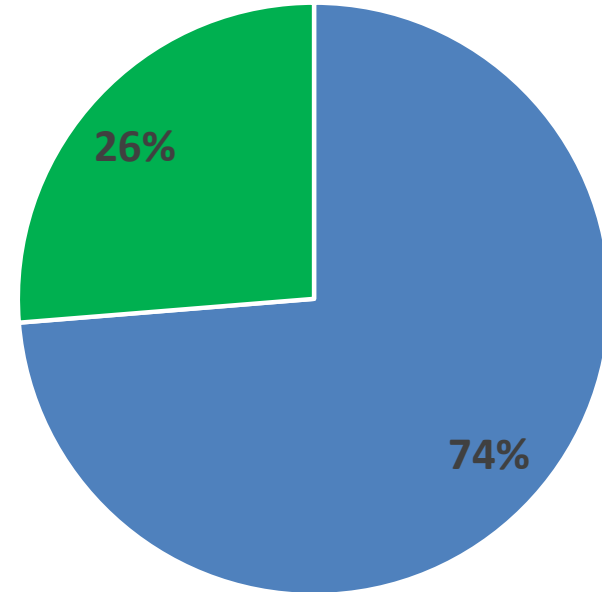
# Manager Allocation

## Manager Allocation



■ Neuberger ■ PIMCO ■ Bivium

## Portfolio Type

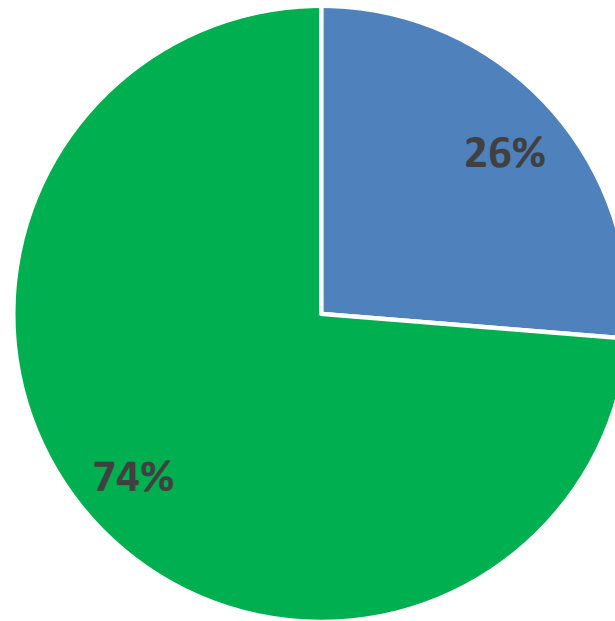


■ Multi Sector Credit ■ Manager of Managers

Data as of June 30, 2023



# Minority Firm Exposure



■ Minority ■ Other

**Minority Managers: Bivium**

**26% Managed by Minority Owned Firms**

Data as of June 30, 2023



# Performance Summary

	1 Year (Net)	3 Year (Net)	5 Year (Net)
<b>Public Credit</b>	7.20%	0.84%	N/A
<b>Policy Benchmark</b>	6.55%	0.03%	N/A
<b>Excess Return</b>	<b>+0.65%</b>	<b>+0.81%</b>	<b>N/A</b>

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

**Fees for the asset class are approximately 37 basis points per year**

Data as of June 30, 2023



# Inflation Sensitive



# Accomplishments & Initiatives

- **Fiscal Year 2023 Accomplishments:**
  - **No changes to the asset class over the past year.**
- **Fiscal Year 2024 Initiatives:**
  - **Monitor managers and make any necessary recommendations for changes.**





# Inflation Sensitive

*The role of the Inflation Sensitive asset class is to help protect the portfolio during periods of high inflation.*

**Inflation Protection**



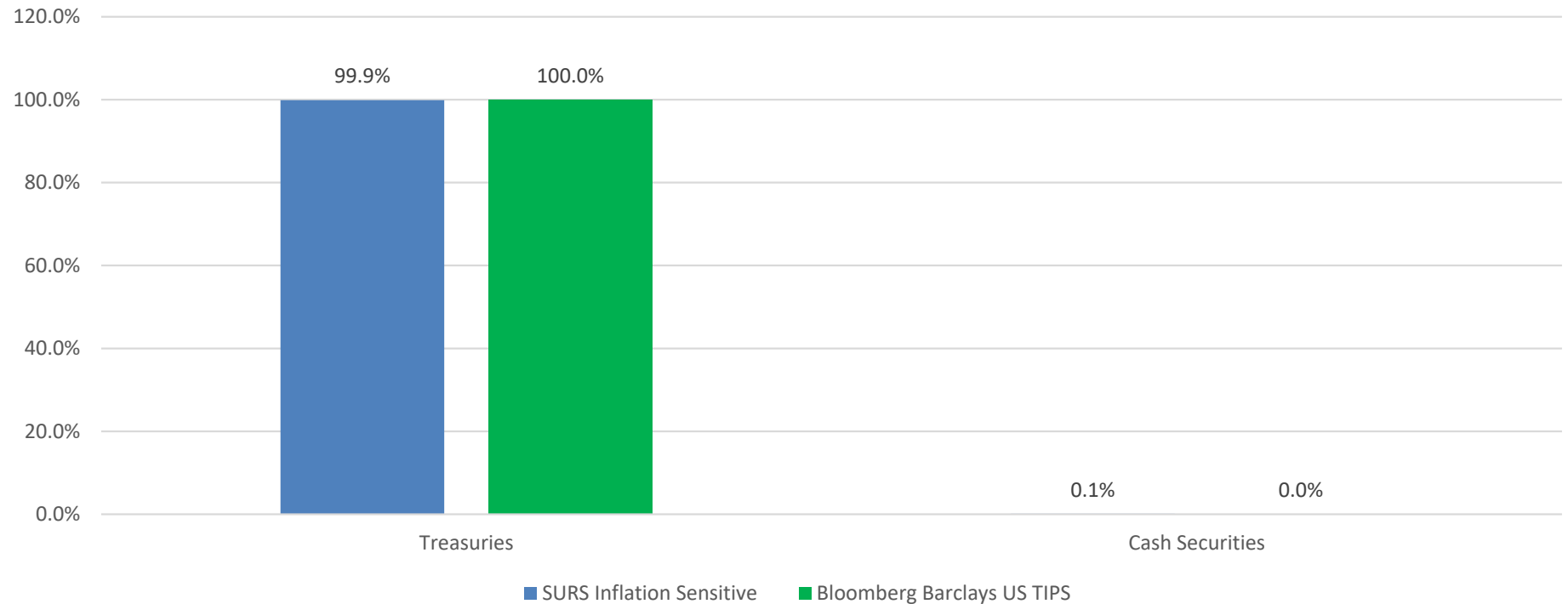
# Policy Benchmark

- **Benchmark Name: Bloomberg US TIPS Index**
- **Benchmark Description:**
  - **The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value**
- **The Index Includes:**
  - **U.S. Treasury Inflation-Protected Securities**



# Aladdin Risk System Information

## Inflation Sensitive Allocation by Sector



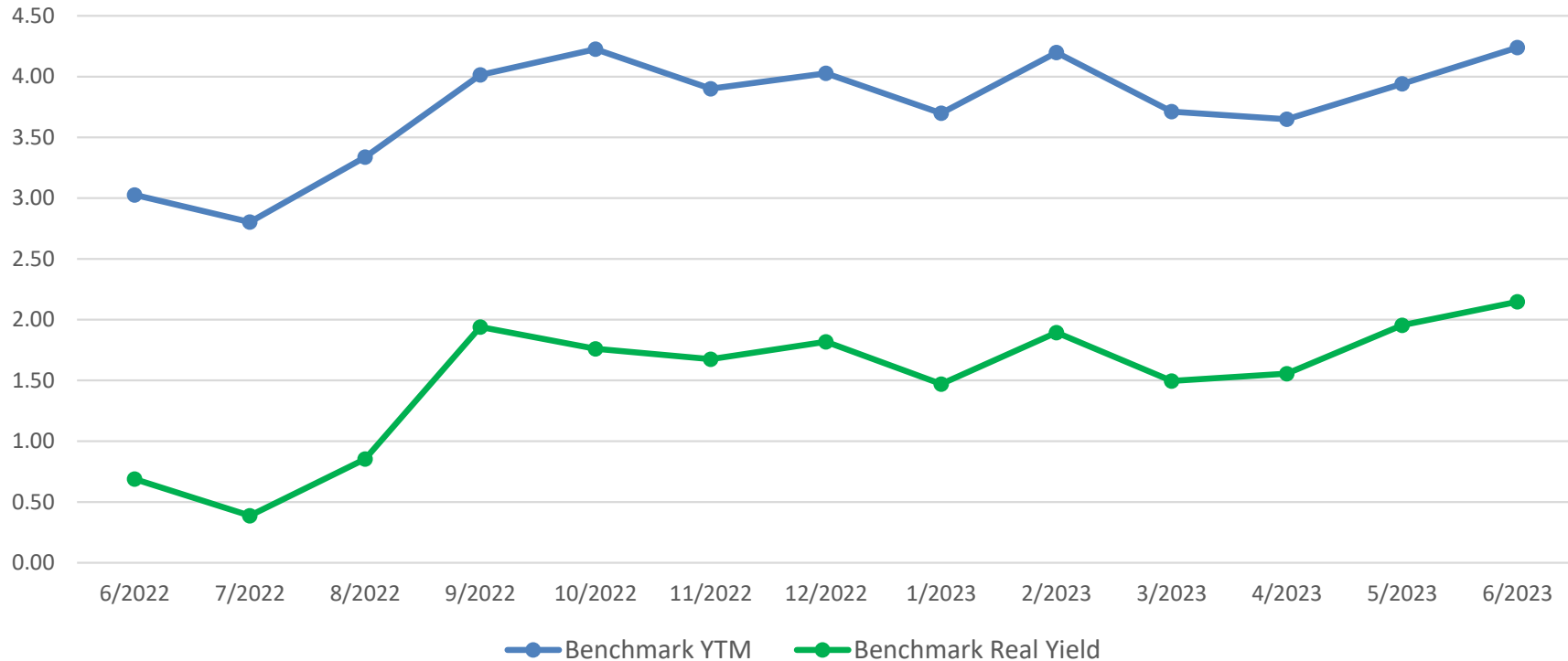
**Asset class sector weights consistent with that of the benchmark**

Source: BlackRock Aladdin  
Data as of June 30, 2023



# Aladdin Risk System Information

Inflation Sensitive Benchmark  
Yield to Maturity vs Real Yield

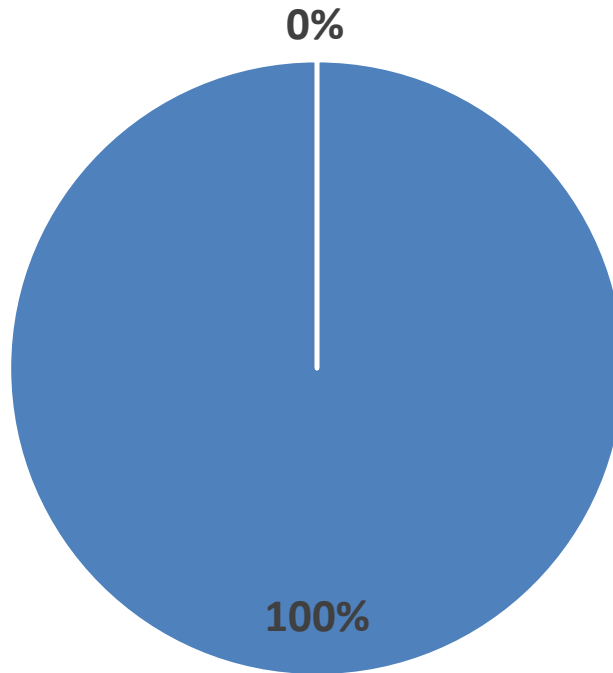


**Over the past 12 months both YTM and real yields have both improved for the asset class, with real yields rising above 2%**

Source: BlackRock Aladdin  
Data as of June 30, 2023



# Minority Firm Exposure



■ Minority ■ Other

**Managers: RhumbLine**

**100% Managed by Minority Owned Firms**

Data as of June 30, 2023



# Performance Summary

	1 Year (Net)	3 Year (Net)	5 Year (Net)
<b>Inflation Protection</b>	-1.39%	-0.09%	2.44%
<b>Policy Benchmark</b>	-1.40%	-0.12%	2.49%
<b>Excess Return</b>	<b>+0.01%</b>	<b>+0.03%</b>	<b>-0.05</b>

Performance is reported net of fees. The TIPS portfolio is passively managed and was funded in May 2017.

**Fees for the asset class are less than one basis point per year**

Data as of June 30, 2023



# Market Outlook



# Market Outlook

- Recession
  - Likely
  - How Severe?
  
- Inflation
  - Moderating
  
- Unemployment
  - Likely to Increase
  
- Rates
  - Higher for Longer
  
- Volatility
  - Remains