

REQUEST FOR PROPOSAL

General Consultant Defined Benefit Sample ID: RFP-##-##

Issued July 5, 2022

Responses due via email

by 4:30 pm CT on August 31, 2022

Please include RFP ID on all correspondence

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I. Introduction

The State Universities Retirement System (SURS, or the System) is soliciting proposals from investment consulting firms to provide general consulting services to SURS investment staff and SURS Board of Trustees for the Defined Benefit plan. This is a non-discretionary mandate with SURS retaining discretion over all manager/fund selection decisions. Private equity, private credit and real assets are not covered in this RFP as SURS has specialty consultants in those classes. SURS also has a separate consultant for the Defined Contribution plan.

Respondents to this RFP are encouraged to describe ways in which they believe their firm's capabilities are unique and add compelling value. This search seeks to identify potential full-service general retainer investment consultants. The consultant will report to the SURS Board of Trustees and will also be required to work with and provide assistance to the SURS investment staff. It is anticipated that SURS will enter into a five (5) year contract with the consultant, in accordance with the provisions of Section 113.14 of the Illinois Pension Code (40 ILCS 5/1-113.14).

All forms/required documents needed for submitting a request for proposal (RFP) are available on the SURS website at www.surs.org.

A proposer's preparation and submittal of a proposal or subsequent participation in presentations or contract negotiations creates no obligation on the System to award a contract or to pay any associated costs. All proposals and related materials will be retained by the System and will be subject to disclosure as required in accordance with the Illinois Freedom of Information Act.

II. Description of SURS

SURS is the administrator of a cost-sharing, multiple-employer, public employee retirement system that provides retirement, survivor, disability and death benefits to employees of Illinois state universities, community colleges, and certain other affiliated organizations and agencies. SURS was created in 1941, by an act of the Illinois General Assembly, and is governed by the Illinois Pension Code (40 ILCS 5/15-101 et seq.). SURS provides benefit services to over 240,000 members who work for 61 employers. SURS is responsible for investing assets of more than \$25 billion in a diversified portfolio of U.S. and foreign stocks, bonds, real estate and alternative investments. SURS also administers two defined contribution plans, the Retirement Savings Plan, with assets of approximately \$3.7 billion and the Deferred Compensation Plan (launched in 2021), with assets of approximately \$7 million.

An elected and appointed, eleven-person board of trustees governs SURS. Five members of the board are appointed by the governor of the state of Illinois (one of whom is the chairperson of the Illinois Board of Higher Education). The remaining six members of the board are elected by participating members (four individuals) and annuitants (two individuals). The governor designates the chairperson of SURS from among the eleven trustees. Trustees serve six-year terms. SURS is funded by participant payroll deductions and annual employer contributions provided by the state of Illinois. By statute, SURS is defined as a "body politic and corporate" created by Article 15 of the Illinois Pension Code.

SURS primary offices are located in Champaign, Illinois at 1901 Fox Drive and 1801 Fox Drive.

A copy of SURS' most recent comprehensive annual financial report is available for review, or to download, at <u>www.surs.org</u>.

The Illinois Governmental Ethics Act, 40 ILCS 420, provides guidelines for ethical practices concerning state and local pension plans. Proposers should be familiar with the provisions of this Act.

Section 1-109.1(6) of the Illinois Pension Code (40 ILCS 5/1-109.1(6)) encourages Illinois public pension systems like SURS to utilize businesses owned by "minorities," "women," and "persons with disabilities" for all contracts and services, as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act ("BEMWPD",30 ILCS 575). Additionally, Section 1-109.1(10) of the Illinois Pension Code (40 ILCS 5/1-109.1(10)) sets an aspirational goal of not less than 20 percent of contracts awarded to such businesses for "information technology services," "accounting services," "insurance brokers," "architectural and engineering services," and "legal services" as defined by the BEMWPD. Accordingly, businesses that meet these definitions are strongly encouraged to submit responses to this RFP.

A section of the Illinois Procurement Code concerning prohibitions of political contributions for vendors, 30 ILCS 500/50-37, may or may not apply to SURS service providers. However, each service provider should be familiar with the provisions of this section and comply with this section if the service provider deems it appropriate.

SURS is subject to its own procurement statutes and rules, which include, without limitation, rules and regulations set forth in the Illinois Administrative Code adopted by the Joint Committee on Administrative Rules, III. Adm. Code Title 80. Part 1600.130, the SURS General Procurement Policy and the SURS Investment Procurement Policy. Proposers should be familiar with those procurement requirements as well. The selected proposer will be paid by SURS directly.

Additional legal requirements that vendors should be familiar with are contained in the Addendum to Contract under Appendix D.

Defined Benefit Plan Investment Program:

As of March 31, 2022, the Defined Benefit plan trust totaled \$25 billion with a strategic target functional asset allocation as follows:

<u>Functional Class</u> Traditional Growth - Public equities Non-Traditional Growth Private Equity Non-Core Real Assets Principal Protection	<u>Target</u> 38.0% 10.5% 2.5% 8.0%	
Stabilized Growth Options Strategies	2.5%	
Liquid Credit Private Credit Core Real Assets	9.0% 1.0% 4.5%	
Inflation Sensitive Crisis Risk Offset	5.0%	
Long Duration Trend Following ARP	4.0% 10.0% 5.0%	

The Defined Benefit plan is structured with both active and passive managers and is 100% externally managed. Please see Appendix G – SURS Investment Plan FY 2022 for additional information. SURS recently completed a search for long volatility/tail risk strategies and expects to have managers funded during the third quarter.

SURS Staffing

The SURS investment team currently consists of 10 members. These include:

- Chief Investment Officer
- Deputy Chief Investment Officer
- Three Senior Investment Officers individually responsible for Private Equities, Public and Private Fixed Income, and Real Assets
- Three Investment Officers
- One Investment Analyst
- One Compliance Analyst

Broader System resources are also utilized, including accounting and internal/external legal counsel. Additionally, Northern Trust serves as the System's master custodian, providing various management and administrative services.

III. Scope of Work

The State Universities Retirement System is looking for qualified firms to provide full-service general consultancy. The proposer must be able to provide all of the services listed below unless otherwise indicated:

Portfolio Construction and Asset Allocation

- 1. Assist SURS to construct investment portfolio that is "best in class" for US public pension system with a funding ratio of less than 50% and net cash outflow of -2 to -4%
- 2. Perform comprehensive asset/liability studies and provide corresponding recommendations
- 3. Recommend asset allocation: modeling, recommendations and implementation
- 4. Conduct In-depth analysis of any asset class or sub-asset class recommended for addition to the policy portfolio to support tactical or strategic decisions
- 5. Develop a benchmark(s) against which asset allocation/policy portfolio can be evaluated
- 6. Construct attribution analysis for asset classes and forecast variables
- 7. Establish empirically based benchmarks for each asset class and sub-asset class
- 8. Identify asset classes or sub-asset classes that warrant active management and provide supporting analysis
- 9. Provide recommendations for manager structure within each asset class and sub-asset class

Implementation

- 1. The General Consultant will be a partner with the SURS investment team and a resource for the SURS board
- 2. Assist with drafting RFPs for asset managers, custodians, securities lending agent, transition managers, etc.
- 3. Identify and screen candidates and recommend top choices, with pros and cons
- 4. Support staff in the selection, retention and ongoing monitoring of asset managers, custodians, securities lending agent, transition managers, etc
- 5. Help oversee and refine institutional hedging and overlay programs (i.e., rebalancing, tail risk hedging, etc.)
- 6. Support SURS in achieving and evaluating Minority Women Disadvantaged Business Enterprises (MWDBE) system goals
- 7. Provide assistance in contract review and negotiation, including on-going manager guidelines revisions and partnership actions

- 8. Provide policy portfolio, asset class, sub-asset class and manager performance reviews vs. agreed upon benchmarks/metrics and make recommendations for changes consistent with SURS Investment Policy.
 - a. Such portfolio review shall consist of a concise, transparent and relevant executive summary consisting of no more than 10 pages in PowerPoint or similar format
 - b. Such portfolio review shall be presented with cooperation and collaboration of SURS staff
- 9. Provide quarterly performance reporting, including appropriate reporting to evaluate each alternative asset class
- 10. Develop/refine 'risk' dashboard and related metrics
- 11. Perform liquidity management studies and recommend changes, as appropriate
- 12. Examine cash flow forecasts and pacing analyses provided by specialty consultants
- 13. Review Investment Policy and suggest revisions
- 14. Review Investment Beliefs and suggest revisions
- 15. Provide staff support as required/agreed
- 16. Provide capital market research, asset class/new product education for board and staff and provide general board education as requested/agreed
- 17. Work with staff to provide a forward-looking calendar of deliverables to the board
- 18. Attend seven regular investment committee meetings to review performance and make recommendations (attendance of in-person vs virtual is determined at the discretion of the board)
- 19. Attend other staff and/or board meetings upon request
- 20. Provide assistance on special projects upon request, and
- 21. Provide other services as required by SURS

IV. Minimum Qualifications

Failure to satisfy each of the minimum qualifications will result in the immediate rejection of the proposal. The proposal must address each of the qualifications substantiating how the proposer satisfies each of the minimum qualifications. The responses must contain sufficient information as prescribed to assure SURS of its accuracy. Failure to provide complete information will result in rejection of the proposal. The proposer must certify in writing on the Statement of Minimum Qualifications (Appendix A) that it meets all of the minimum qualifications, and such Statement of Minimum Qualifications must be signed by an individual who is authorized to bind the proposer contractually.

- 1. The proposer's key professionals and/or organization must not have material conflicts of interest with the SURS Board, its custodian, or its investment managers.
- 2. The proposer must be willing to enter into a most favored nation clause certifying that the fees, costs, or pricing charged to SURS do not exceed the fees, costs, or pricing charged by the proposer to any of its clients for the same or similar level of services.
- 3. Proposing firm must be an investment consulting firm registered as an investment adviser under the Investment Advisers Act of 1940. The firm will promptly advise SURS if it, at any time, is not so registered. The firm must submit its full Form ADV (Parts I and II).
- 4. Proposing firm must agree to serve as a "fiduciary" to the Fund within the meaning of Illinois legislation and to act in accordance with all requirements and standards of conduct applicable to fiduciaries.
- 5. Proposer and its proposed team must have all authorizations, permits, licenses and certifications required by federal and state laws and regulations to perform the services

specified in this RFP at the time proposer submits a response to the RFP. Proposer's audited financial statements must be made available for review.

- 6. Proposer will comply with all legislation, applicable state fiduciary, ethics, and diversity laws, including any additional disclosure requirements.
- 7. As of June 30, 2022, and for at least the five (5) most recent continuous years, the firm must have a verifiable operating history with at least three (3) institutional fund clients with similar size, complexity and asset mix to SURS. Qualified Women, Minority, or Disabled Owned Businesses are exempt from this requirement and will be evaluated for further consideration at SURS' discretion.
- As of June 30, 2022, the primary contact dedicated to the SURS contract must have at least five (5) years of experience in providing consulting services to institutional fund clients. Qualified Women-, Minority-, or Disabled-Owned Businesses are exempt from this requirement and will be evaluated for further consideration at SURS' discretion.

SURS retains the sole right to decide whether any proposer is qualified to bid, including determining whether any proposer's qualifications are sufficiently comparable to satisfy the above minimum qualifications.

V. Legislative Considerations

Sections 5/1-110.6, 5/1-110.15, 5/1-110.16 of the Illinois Pension Code (40 ILCS 5/1) generally requires SURS to divest from direct holdings in the following types of "restricted companies":

- 1. Certain companies that boycott Israel by engaging in actions that are politically motivated and are intended to penalize, inflict economic harm on, or otherwise limit commercial relations with the State of Israel or companies based in the State of Israel or in territories controlled by the State of Israel;
- Certain companies that have business operations that involve contracts with or provision of supplies or services to the Government of Iran, companies which the Government of Iran has any direct or indirect equity share, consortiums or projects commissioned by the Government of Iran, or companies involved in consortiums or projects commissioned by the Government of Iran; and
- 3. The government of Sudan and any of its agencies, companies under control of Sudan, companies established or organized in Sudan, companies identified or prosecuted by the Office of Foreign Assets in the U.S. Treasury Department as sponsoring terrorist activities in Sudan, or any publicly traded company whose principal place of business is in or conducts business in Sudan.

In addition, absent a determination by SURS that shareholder activism would be more impactful than divestment (and, if such a determination is made but such engagement efforts are unsuccessful), Section 1-110.16 of the Illinois Pension Code (40 ILCS 5/1) generally requires SURS to divest from direct holdings in the following types of "restricted companies":

- Expatriated entities, as defined in Section 1-15.120 of the Illinois Procurement Code (30 ILCS 500/) (*i.e.*, a foreign incorporated entity which is treated as an inverted domestic corporation under subsection (b) of Section 835 of the Homeland Security Act of 2002, 6 U.S.C. 395(b), or any subsidiary of such an entity); and
- 2. For-profit companies that contract with the federal government to shelter migrant children under the federal Unaccompanied Alien Children Program or a substantially similar federal program.

Index funds, mutual funds (or funds in which the System owns shares or interests together with other investors), and private market funds (which include private equity funds, private equity funds of funds, venture capital funds, hedge funds, hedge fund of funds, real estate funds, or other

investment vehicles that are not publicly traded) are not subject to the divestment provisions. However, the Illinois Investment Policy Board will request that a private market fund manager consider removing restricted companies from the fund or create a similar actively managed fund having indirect holdings devoid of the companies. If such a fund is created, SURS is required to replace all applicable investments with investments in the similar fund in an expedited timeframe consistent with prudent investing standards.

The Illinois Governmental Ethics Act, 40 ILCS 420, provides guidelines for ethical practices concerning state and local pension plans. Respondent providers should be familiar with the provisions of this Act. The Act also encourages the Board to increase the racial, ethnic, and gender diversity of its fiduciaries, to the greatest extent feasible within the bounds of financial and fiduciary prudence. In furtherance of this Act, SURS will use its best efforts to increase the racial, ethnic, and gender diversity of its vendors/investment managers.

Sections of the Illinois Procurement Code¹ concerning prohibitions of political contributions for vendors, 30 ILCS 500/50-37, may or may not apply to SURS investment managers or other service providers. However, each investment manager or service provider should be familiar with the provisions of this section and comply with this section if the investment manager or service provider deems it appropriate.

Provisions of Illinois law (40 ILCS 5/1-109.1) encourage certain public retirement funds and investments boards to increase:

- The utilization of emerging investment managers, with goals for specific asset classes for emerging managers that are MWDBE;
- The racial, ethnic and gender diversity of its fiduciaries, including its consultants and senior staff;
- The utilization of business owned by minorities, females, and persons with disabilities for all contracts and services;
- The utilization of minority broker-dealers; and
- The utilization of minority investment funds

Illinois law further establishes the following aspirational goals for certain public retirement systems, pension funds, and investment boards:

- The utilization of emerging investment managers for not less than 20 percent of the total funds under management;
- That not less than 20 percent of investment advisors are minorities, females, and persons with disabilities; and
- The utilization of businesses owned by minorities, females, and persons with disabilities for not less than 20 percent of contracts awarded for information technology services, accounting services, insurance brokers, architectural and engineering services, and legal services.

For these reasons, the SURS Board of Trustees encourages individuals who are minorities, females, and persons with a disability, as well as firms owned by minorities, females, and persons with a disability, to respond to this RFP.

¹ Note: While SURS is not subject to the Illinois Procurement Code generally (30 ILCS 500/1-15.100), each proposer should comply with any applicable sections of the Illinois Procurement Code.

VI. Proposal Content

At a minimum, the proposal must include the following information to be considered for the engagement. For ease of review, each requirement should be addressed separately. *All communications regarding this RFP must include the RFP ID shown on the title page.*

Indexed Table of Contents

The proposal package must include an indexed table of contents to facilitate the review process.

Cover Letter

A cover letter, which will be considered an integral part of the proposal package, in the form of a standard business letter, must be signed by an individual authorized to bind the proposer contractually. This cover letter must indicate the signer is so authorized and must indicate the signer's title or position. An unsigned proposal will be rejected. The cover letter must also include:

- a. A statement that the proposal meets all requirements of this RFP, and that the offer tendered by the proposal will remain in full force and effect until and may be accepted by SURS at any time prior to 180 days beyond the deadline for submittal.
- b. A disclosure of any current business relationship or any current negotiations for prospective business with SURS, or with any member of the SURS Board of Trustees or SURS staff, or any party currently rendering services to SURS.
- c. A statement that the proposer acknowledges that all documents submitted in response to this RFP may be subject to disclosure under the Illinois Freedom of Information Act and/or the Illinois Open Meetings Act.

Statement of Minimum Qualifications

Proposers must complete and return the Statement of Minimum Qualifications certification in the form contained in Appendix A.

Reference Checks

Reference checks will be conducted for each finalist.

Company Organization and Diversity Disclosure

The Questionnaire (Appendix B), Diversity Disclosure (Appendix E), Compensation and Economic Opportunity Disclosures (Appendix F), and Sustainability Disclosure (Appendix H) of this RFP must be completed and returned as part of the proposal.

Fee Proposal

Proposers must submit a fixed-cost proposal in the format prescribed in the Fee Proposal (Appendix C). Any deviation from the prescribed format which in the opinion of SURS is material may result in the rejection of the proposal. The proposed fee shall include all costs and expenses for providing the services as described in this RFP. Once finalists are selected, fees may be subject to a "best and final" offer process to be determined at the discretion of the System.

The Fee Proposal must expressly state that the proposed fees are guaranteed for the term of any resulting contract.

<u>Contract</u>

This request for proposal is neither a contract nor meant to serve as a contract. It is anticipated that one or two of the proposals submitted in response to this RFP may be selected as the basis for negotiation of a contract with the proposer. Such a contract is presently contemplated to contain, at a minimum, the terms of the proposal submitted, as finally negotiated and approved by the

System. SURS reserves the right to negotiate additions, deletions or modifications to the terms of proposals submitted. The terms contained in Appendix D, Addendum to Contract, must be agreed to and accepted by the candidate or organization selected to perform the work contemplated by this RFP, unless exceptions are noted as part of the proposer's response. Any questions or exceptions to the terms and conditions must be outlined as part of the proposer's response. However, SURS is not required to accept the proposer's exceptions. Any exceptions noted in the proposer's response will be addressed and discussed during the review process, but no changes will be made to the terms and conditions stated herein, unless the proposer and SURS both agree to include said changes in the final contract awarded under this RFP.

As part of this RFP process, including but not necessarily as a precursor to its acceptance of any best and final offer, SURS may require any proposers deemed reasonably susceptible to award to engage in discussions of specific contract language. Such discussions may be extensive, and may require the proposer to be represented by personnel with authority to agree to contractual language. SURS may request or require that proposers who engage in such discussions include the contract language that results from such discussions as part of a best and final offer, such that SURS' award to such a proposer will lead directly to contract execution on the agreed terms, without further discussion or negotiation. The specifics of the terms and conditions agreed to as a result of such discussions may be a factor in SURS' award decision.

VII. Submission of Proposals

All proposals must be received no later than the deadline stated in the Anticipated Timeline and Contact Information section. Submissions must be made via email to the identified contact person by the stated deadline. *Only email submissions will be accepted.*

The proposals become the property of SURS upon submission. All costs for developing proposals and attending presentations and/or interviews are entirely the responsibility of the proposer and shall not be chargeable to SURS.

Only one proposal from an individual, firm, partnership, corporation, or combination thereof, will be considered for this assignment.

VIII. Evaluation Process

Pre-Evaluation Review

All proposals will be reviewed to determine if they contain all the required submittals specified in this RFP. Those not submitting all required information in the prescribed format may be rejected.

Proposal Evaluation

All proposals received by the SURS representative on or before the deadline listed above will be reviewed to determine whether they meet the minimum requirements of this RFP.

All proposals received by deadline and that pass the pre-evaluation review will undergo an evaluation process conducted by SURS staff. They will be reviewed to determine whether they meet the requirements of this RFP. SURS will consider the following factors in the evaluation process, ranked in no specific order, and will render a decision based on the perceived best fit and best value for the engagement. Fees will be one of the determining factors in this decision but will not be the primary determinative. Proposals will be evaluated based on criteria including:

- Corporate organization, general experience, and stability
- Resources
- Experience
- Service Team
- Thought Leadership
- Commitment to Diversity
- Independence
- Fees

Proposals that contain false or misleading statements or that provide references which do not support an attribute or condition claimed by the proposer will be rejected. Issuance of the request for proposal creates no obligation to award a contract or to pay any costs incurred in the preparation of a proposal. Nothing in this RFP or any resulting contract shall preclude SURS from procuring services similar to those described herein from other sources.

During the evaluation process, proposers may be requested to provide additional information and/or clarify contents of their proposal. Other than information requested by SURS, no proposer will be allowed to alter the proposal or add new information after the filing date.

Once finalists are selected, proposals may be subject to a "best and final" offer process to be determined at the discretion of the System.

IX. Anticipated Timeline and Contact Information

<u>Schedule</u>	Dates
Quiet Period Begins	July 5, 2022
RFP Issued	July 5, 2022
Responder Questions Due	July 15, 2022, 4:30 p.m. CT
Responses to Questions	July 29, 2022, 4:30 p.m. CT
RFP Responses Due On or Before	August 31, 2022, 4:30 p.m. CT
Evaluations	September-October 2022
Interviews	November 2022
Selection by SURS	December 8, 2022

SURS may extend these deadlines at its discretion. Any such extensions will be posted to the SURS website.

SURS RFP Contact Information

Procurement Officer <u>Procurement Officer@surs.org</u> SURS 1901 Fox Drive Champaign, IL 61820-7333

X. Submission Process

Deadline

To be considered for selection, proposals *must be received via email in Adobe Acrobat format* at <u>Procurement_Officer@surs.org</u> no later than 4:30 p.m. CT, August 31, 2022. Please reference "RFP-##-## + General Consultant Defined Benefit RFP Response" with name of proposer in the subject line of your communications. An email confirmation will be sent confirming receipt of the proposal.

Withdrawal

A proposal may be withdrawn by written notification signed by the individual applicant or authorized agent of the firm, and received at <u>Procurement Officer@surs.org</u> no later than the submission deadline, currently designated as 4:30 p.m. CT, August 31, 2022. Please reference "RFP-20-23-01 + General Consultant Defined Benefit RFP Response" with name of proposer in the subject line of your communications. An email confirmation will be sent confirming withdrawal of the proposal. The proposal may be resubmitted with any modifications no later than the deadline. Modifications offered in any other manner will not be considered.

Questions

To clarify any issues in this RFP, SURS will respond only to questions that are presented in writing via email to <u>Procurement_Officer@surs.org</u>. All questions should be submitted to SURS by 4:30 p.m. CT, July 15, 2022. Please reference "RFP-20-23-01 + General Consultant Defined Benefit RFP

Response" with name of proposer in the subject line of your communications. These questions will be consolidated into a single Q&A document and responded to by SURS on or about July 29, 2022. The Q&A document will be posted on the SURS website at <u>www.surs.org/rfp-investment</u>. This document will include all questions received and SURS' answers to the same without indicating the source of the query.

XI. General Conditions

Freedom of Information Act Disclosure and Redacted RFP Response

Requirement

All materials submitted in response to the RFP become property of SURS. Proposals remain confidential during the selection process. However, upon completion of the selection process, all responses, including that of the individual, vendor or firm selected, will be a matter of public information and will be open to public inspection in accordance with the state of Illinois Freedom of Information Act (FOIA).

If, in response to this RFP, trade secrets or commercial or financial information are furnished under a claim that they are proprietary, privileged or confidential and that disclosure of the trade secrets or commercial or financial information would cause competitive harm to the person or business responding to this RFP, such claim must be clearly made, and such information must be clearly identified. (5 ILCS 140/7 and 7.5) **Responses to this RFP with every page marked as proprietary, privileged or confidential will not satisfy this requirement, and such markings will result in the entire proposal being deemed to be disclosable public information, without further discussion. Proposers are required to make a good faith attempt to properly identify only those portions of the response that are truly furnished under a claim that they are proprietary, privileged or confidential and that disclosure of the trade secrets or commercial or financial information would cause competitive harm to the person or business responding to this RFP.**

Redacted Version of RFP Response

In the event the proposer believes and claims that certain materials or information contained in the submitted response are exempt from public disclosure under the Illinois FOIA, the proposer is required to provide a redacted version of the response it believes will be suitable for release under the Illinois Freedom of Information Act. (5 ILCS 140/7 and 7.5) Proposers should assume that information suitable for release will include, but not be limited to, proposer's questions, proposals, appendices attached, proof of concepts, best and final offers, and any related communication with SURS staff in regard to the RFP.

Note: Pricing and fee structures are generally disclosable under FOIA.

A PROPOSER'S FAILURE TO PROVIDE A REDACTED VERSION OF THE RFP RESPONSE WILL RESULT IN SURS DISCLOSING THE PROPOSER'S ENTIRE RFP RESPONSE IF THE SAME IS REQUESTED UNDER THE ILLINOIS FREEDOM OF INFORMATION ACT AND NEITHER THE PROPOSER NOR ANY THIRD PARTIES SHALL HAVE ANY RECOURSE AGAINST SURS FOR ITS DISCLOSURE OF THE NON-REDACTED RFP RESPONSE.

However, any claim of privilege from disclosure is not definitive. SURS has the right and legal obligation to determine whether such information is exempt from disclosure under the Illinois Freedom of Information Act and no information will be considered or determined by SURS to be proprietary, privileged or confidential unless it is identified and separated as indicated herein. (5 ILCS 140/7 and 7.5)

Ordinary Course of Business Communications Allowed

Other than existing normal business matters unrelated to this RFP, proposers, potential proposers, or their representatives should not contact anyone at SURS (including SURS staff, members of the SURS advisory committees and members of the SURS board) other than the listed RFP contact, and in compliance with the Quiet Period Policy described below. In addition, proposers must not discuss this RFP with any employee of SURS, trustee of SURS, employee of SURS' custodian, managers, legal counsel, or other advisors or persons/entities having contracts or other affiliations with SURS, except in compliance with the Quiet Period Policy.

SURS Quiet Period Policy

Please note the following Quiet Period Policy establishing guidelines by which the SURS Board of Trustees and SURS staff will communicate with prospective vendors or service providers during a search process. The quiet period for this RFP began on the date the RFP was issued: July 5, 2022.

- 1. A quiet period will commence upon issuance of an RFP and end once a selection has been made by the board and the completion of successful contract negotiations with a respondent;
- 2. Initiation, continuation and conclusion of the quiet period shall be publicly communicated to prevent inadvertent violations;
- 3. 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;
- 4. 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;
- 5. All authority related to the search process shall be exercised solely by the Investment Committee or board as a whole or its designee(s), and not by individual board members;
- 6. 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;
- 7. The provisions of this policy shall apply throughout the quiet period and shall be communicated to respondents in conjunction with any search; and
- 8. A respondent may be disqualified from a search process for a violation of the quiet period or any portion of this policy.

<u>Rights Reserved</u>

SURS reserves the right to amend any segment of the RFP prior to the announcement of a selected vendor/contractor. In such an event, all proposers will be afforded the opportunity to revise their proposals to accommodate the RFP amendment.

SURS reserves the right to remove any or all services from consideration for this contract. At its discretion, SURS may issue a separate contract for any service or groups of services included in this RFP. SURS may negotiate additional provisions to the contract awarded pursuant to this RFP.

SURS may request additional information from any or all proposers to assist in the evaluation of proposals, and SURS reserves the right to conduct background investigations of selected individuals or firms prior to awarding a contract under this RFP.

SURS does not bear any obligation to complete the RFP process or to select any individual(s) or firm(s). SURS also reserves the right without prejudice to reject any or all proposals submitted.

SURS will NOT reimburse any expenses incurred in responding to this RFP.

Equal Opportunity

SURS does not discriminate because of race, color, religion, creed, sex, sexual orientation, age, marital status, military status, certain unfavorable discharges from military service, political affiliation, citizenship, ancestry, national origin, physical or mental handicap or disability or any other characteristic protected by law. It is the System's intent to comply with all state, federal and local equal employment and opportunity laws and public policies.

Terms and Conditions

Following a review of submitted materials, if requested, selected individuals or organizations must be prepared to make a presentation or otherwise participate in an in-person interview in Champaign, IL or in Chicago, IL with SURS staff members and/or members of the SURS Board of Trustees at a date and location to be determined by SURS. SURS will not provide reimbursement for any costs incurred by the individuals or organizations associated with this presentation. Prior to the award of a contract pursuant to this RFP, selected individuals or firms must provide all requested documentation.

XII. Definitions Under Illinois Law

Link to Illinois Compiled Statutes: www.ilga.gov

Link to Section 1-113.21 Illinois Pension Code: http://www.ilga.gov/legislation/publicacts/98/PDF/098-1022.pdf

- "Contract" means all types of [state] agreements, regardless of what they may be called, for the procurement, use, or disposal of supplies, services, professional or artistic services, or construction or for leases of real property where the [state] is the lessee, or capital improvements, and including renewals, master contracts, contracts for financing through use of installment or lease-purchase arrangements, renegotiated contracts, amendments to contracts, and change orders.
- "Investment adviser," "investment advisor," or "investment manager" means, with respect to a pension fund or retirement system established under Illinois Code if the person:

(1) is a fiduciary appointed by the board of trustees of the pension fund or retirement system in accordance with Section 1-109.1;

(2) has the power to manage, acquire, or dispose of any asset of the retirement system or pension fund;

(3) has acknowledged in writing that he or she is a fiduciary with respect to the pension fund or retirement system; and

(4) is at least one of the following: (i) registered as an investment adviser under the federal Investment Advisers Act of 1940 (15 U.S.C. 80b-1, et seq.); (ii) registered as an investment adviser under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisers Act of 1940; or (iv) an insurance company authorized to transact business in this state.

- "Minority person" means a person who is a citizen or lawful permanent resident of the United States and who is a member of a minority.
- "Minority-owned business" means a business which is at least 51% owned by one or more minority persons, or in the case of a corporation, at least 51% of the stock in which is owned by one or more minority persons; and the management and daily business operations of which are controlled by one or more of the minority individuals who own it.

- "Female-owned business" means a business which is at least 51% owned by one or more females, or, in the case of a corporation, at least 51% of the stock in which is owned by one or more females; and the management and daily business operations of which are controlled by one or more of the females who own it.
- "Business owned by a person with a disability" means a business that is at least 51% owned by one or more persons with a disability and the management and daily business operations of which are controlled by one or more of the persons with disabilities who own it. A not-for-profit agency for persons with disabilities that is exempt from taxation under Section 501 of the Internal Revenue Code of 1986 is also considered a "business owned by a person with a disability."
- "Compensation" means any money, thing of value, or economic benefit conferred on, or received by, a consultant in return for services rendered, or to be rendered, by himself, herself, or another.
- "Economic opportunity" means any purchase, sale, lease, contract, option, or other transaction or arrangement involving property or services wherein a consultant may gain an economic benefit.

Appendix A: Statement of Minimum Qualifications

(Firm Name)______certifies that it meets the following minimum qualifications.

Please initial each as applicable.

- 1. _____ The proposer's key professionals and/or organization has no material conflicts with SURS or the SURS board.
- 2. The proposer must be willing to enter into a most favored nation clause certifying that the fees, costs, or pricing charged to SURS do not exceed the fees, costs, or pricing charged by the proposer to any of its clients for the same or similar level of services.
- 3. Proposing firm must be an investment consulting firm registered as an investment adviser under the Investment Advisers Act of 1940. The firm will promptly advise SURS if it, at any time, is not so registered. The firm must submit its full Form ADV (Parts I and II).
- 4. _____ Proposing firm must agree to serve as a "fiduciary" to SURS within the meaning of Illinois legislation and to act in accordance with all requirements and standards of conduct applicable to fiduciaries.
- 5. _____ Proposer and its proposed team must have all authorizations, permits, licenses and certifications required by federal and state laws and regulations to perform the services specified in this RFP at the time proposer submits a response to the RFP. Proposer's audited financial statements must be made available for review.
- 6. Proposer will comply with all legislation, applicable state fiduciary, ethics, and diversity laws, including any additional disclosure requirements.
- 7. _____ As of June 30, 2022, and for at least the five (5) most recent continuous years, the firm must have a verifiable operating history with at least three (3) institutional fund clients with similar size, complexity and asset mix to SURS. Qualified Women-, Minority-, or Disabled-Owned Businesses are exempt from this requirement and will be evaluated for further consideration at SURS' discretion.
- 8. As of June 30, 2022, the primary contact dedicated to the SURS contract must have at least five (5) years of experience in providing consulting services to institutional fund clients. Qualified Women-, Minority-, or Disabled-Owned Businesses are exempt from this requirement and will be evaluated for further consideration at SURS' discretion.

Signed:_____Date: _____

Title:

Appendix B: Questionnaire

The following questionnaire must be completed and included with your response to this RFP. Type your responses in the same order as the questionnaire, listing the question first followed by your answer.

Contact and Company Information:

Name of Individual / Organization:	
Mailing Address:	
City:S	State: Zip Code:Phone:_
Fax:	
Federal Employer Identification Number:	
Contact Person(s):	
Name:	Phone:
Title:	
Fax:	Email:
Website:	

General Information

- 1. Identify the location of the main office, and, if different, the office from which services would be provided to SURS. Does your firm have an office located in Illinois?
- 2. Provide a brief history of your firm and its operations. Include the year formed, ownership structure, and any ownership changes that occurred during the past five years. Also include any pending or planned organizational changes.
- 3. <u>Is your firm a certified MWDBE firm? If so, please provide a copy of the certification.</u>
- 4. List your firm's lines of business and the approximate contributions of each business to your organization's total revenue. If your firm is an affiliate or subsidiary of an organization, what percentage of the parent firm's total revenue does your subsidiary or affiliate generate?

- 5. Please provide details on the financial condition of your firm. The most recent annual report filed with the SEC is acceptable. Any recent material changes should be included.
- 6. What are your capabilities to take on a client of SURS size and complexity? Will you need to bring on any additional resources?
- 7. Provide a listing of all public fund clients. Include the size of the fund and the length of service to them.
- 8. Please complete the following table as of June 30, 2022.

	Number of Cli	ents in Each Cate	gory (By Client's	Total AUM)
Types of Clients	Under \$5B	\$5B-\$15B	\$15B-\$30B	Over \$30B
Public Pension Plans				
Corporate Pensions Plans				
Taft-Hartley Plans				
Foundations/Endowments				

- 9. Provide a listing of full-retainer clients lost or gained during the past five (5) years including information on the size and type of the client. Indicate if the primary and backup consultant that would be assigned to SURS was on the service team for either the clients gained or lost.
- 10. Do you outsource any parts of your investment consulting business? If so, please describe in detail which parts are performed externally and the reason for doing so. Please provide the name(s) of the providers, their office location, how long they have been in business, and the qualifications of the specific people who will be working on SURS account.
- 11. Does your firm have a Client Advisory Board or similar structure? Please describe.
- 12. Does your firm provide discretionary investment management services? If so, what percentage is discretionary and non-discretionary? How has this composition changed over the past five years?
- 13. Does your firm or any employees invest their own capital in investment opportunities that they recommend to clients? If so, please explain how potential conflicts that arise from this activity are mitigated.
- 14. Does your firm accept investment managers as clients? If so, for what products? Please disclose the investment management firms that are clients and the revenue received from these firms during the past five (5) years.
- 15. Do you have any policies or procedures to address conflicts of interest or to prevent payments or relationships from being considered when you provide advice to clients?

- 16. Is your firm, its parent or affiliate a broker/dealer?
- 17. Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?
- 18. Are you willing to hold periodic (perhaps weekly) calls with SURS to review investment opportunities, due diligence, projects, workflow, and/or scheduling?
- 19. Does your firm have experience with plans with serious funding challenges? Does your advice to these plans differ from advice provided to well-funded plans? If so, how?
- 20. Describe the levels of coverage for errors and omissions insurance and any other fiduciary or professional liability insurance the firm carries. List the insurance carriers supplying the coverage and supply certificates evidencing the coverage.
- 21. Has there been any litigation against the firm or its principals/owners/officers within the past five (5) years?
- 22. Has there been any SEC or other regulatory action against the firm or its principals/owners/officers within the past five (5) years?
- 23. Has the firm adopted the CFA Code of Ethics and Standards of Professional Conduct? If so, how is employee compliance monitored?
- 24. What are your firm's consulting specialties and strengths? What differentiates your firm from your competitors? What are your firm's limitations? Why should SURS hire your firm rather than your competitor(s)? Please list your top five (5) competitors.

Diversity, Equity and Inclusion

- 25. Does your firm have a Diversity, Equity and Inclusion (DEI) policy or initiative? If 'yes,' provide a copy of the policy. If 'no,' are you considering the development of such a policy or initiative?
- 26. Does your firm have a DEI Committee within the organization empowered to effect best DEI practices? If 'yes,' provide details of the committee and their accomplishments over the past three years.
- 27. Does your firm have policies or practices in place to ensure that equal pay is provided for equal performance in equivalent roles regardless of gender and minority categorization? If 'yes,' provide details of the policies/practices.

- 28. Does your firm have formal mentorship, sponsorship and/or employer affinity programs for minorities, women, and/or persons with a disability? If 'yes,' provide details of the program(s).
- 29. Does your firm define goals and measure diversity outcomes at all levels of the organization, across all departments, and is compensation tied to the achievement of these goals? If 'yes,' provide details.
- 30. Does your firm have procedures in place for the anonymous reporting and investigation of harassment, discrimination and/or workplace violence? If 'yes,' please provide details of the procedures and how they are communicated to employees. If not, are you considering the establishment and communication of such procedures?
- 31. What improvements has the firm made in the hiring of MWDBE in the past year?
- 32. When selecting service providers, does the firm consider DEI policies or practices in the review process?
- 33. Does your firm require a Code of Conduct from service providers? If 'no,' are you considering making this a requirement?
- 34. Does the firm utilize MWDBE investment banks for capital markets services, mergers and acquisitions services and/or other advisory services?
- 35. Does your firm have a Code of Conduct that covers harassment, discrimination and/or workplace violence? If 'yes,' provide a copy of the Code. If 'no,' are you considering the development and implementation of such a code?
- 36. Does your firm provide mandatory anti-harassment and non-discrimination training to all employees? If 'yes,' please provide details and timing of the training. If 'no,' are you considering implementing a training program?
- 37. Have there been any claims of sexual or general harassment, misconduct, or discrimination against any current or former firm employees (while employed by your firm) within the last five years? If applicable, how did the firm respond to any claims of sexual or general harassment, misconduct, or discriminations against any current or former employees (while employed by the firm) within the last five (5) years?
- 38. Does your firm work with organizations that promote the attraction and retention of women, minorities, and persons with a disability within the investment industry? If "yes,' provide a list of these organizations, as well as any additional programs you have embraced.
- 39. Has your firm undertaken any actions to combat racism and sexism in the investment management industry in the last year? If 'yes,' provide details.

Consultants and Staffing

- 40. Identify and provide biographies of the primary and backup consultants who would be assigned to this engagement. How many clients do these consultants currently serve? Who are the clients these consultants currently serve? Which of these consultants would attend the SURS investment committee meetings?
- 41. What is the turnover of professional staff (senior management and consulting personnel) over the last five (5) years?

Turnover	Senior Management	Consulting Personnel
2021		
2020		
2019		
2018		
2017		

- 42. Please list staff positions hired, resigned and terminated within the last five (5) years, including a description of each position and the reason for the hire, resignation and/or termination.
- 43. Describe the firm's compensation and incentive program for hiring and retaining key consultant personnel. How does the firm tie client performance and satisfaction to a consultant's compensation? Please include a description of your firm's equity and/or profit-sharing arrangement with staff at all levels of the organization.
- 44. What is your firm's succession plan for key members of the organization?
- 45. How many employees does your firm have? Please provide information on the number of employees in each specific functional area of your firm. (Please be sure to specify which are analysts, investment professionals, support staff, etc.). Please provide an organizational chart depicting each functional area.
- 46. Describe your philosophy regarding a consultant's relationship with a board or investment committee and investment staff.

Client Servicing Capabilities

- 47. What is the average client to consultant ratio? What is the maximum number of clients assigned to a consultant? Identify the different classification of employees within the firm and the totals for each classification.
- 48. How does your firm evaluate the quality of its consulting services? Describe any benchmarks the firm has developed to evaluate its performance and the performance of its primary/lead consultants.

- 49. What do you consider to be crucial issues regarding the development of an investment policy?
- 50. Describe a typical project plan that you would follow for completing an investment policy review including steps/phases of the project, anticipated timeframe for each step and the interaction with the client, your firm's various units, the client's actuary and other entities. Please provide a sample investment policy statement.
- 51. Describe the structure and organization of your firm's research department include the number and experience of analysts.
- 52. Provide a list of research topics published over the past year. Please include a sample published research report from the past year.

Performance Measurement and Portfolio Analytics

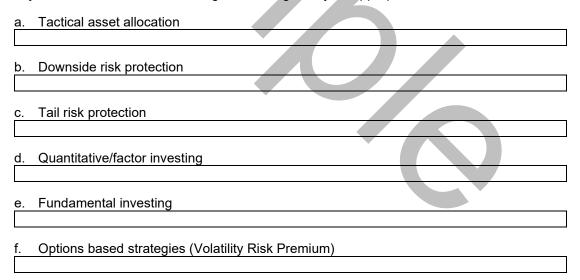
- Describe the content and format of your firm's quarterly performance reports for the total fund, asset classes, and individual investment managers. <u>Provide a sample report for one of your firm's clients that is structured similarly to SURS</u>).
- 54. Can these reports be customized to accommodate SURS information needs? Are there charges for these additional information requests? Within what time frames can these requested changes be implemented?
- 55. Describe the quality control procedures in place to assure accuracy of reports. How does your firm verify the accuracy of data received from the custodian and investment managers?
- 56. Describe your firm's performance attribution capabilities. Does your firm's quarterly reporting package contain attribution analysis at the total fund, asset class and investment manager level?
- 57. Are your performance reports and attribution analysis tools available online?

Asset Allocation Model/Issues

- 58. Describe your firm's capabilities and experience in providing asset allocation consulting services to a fund the size of SURS. How often does your firm recommend a formal review of asset allocation studies?
- 59. Describe your methodology for incorporating liabilities into asset/liability studies?
- 60. <u>Provide a biography of the individuals responsible for the asset-liability model.</u>
- 61. What are the limitations of your asset allocation models? What is done to adjust to these limitations?

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- 62. Describe your firm's capital markets model. Is the model proprietary, or does your firm rely on an outside vendor's model? If your firm relies on an outside vendor, indicate the name of the vendor, name of the model, etc.
- 63. What framework do you use for constructing your key capital markets assumptions? Does your firm develop standard inputs to the model for all clients? Can these inputs be customized based upon individual client views, needs or requirements?
- 64. Provide your firm's current inputs to the asset allocation model. Include at a minimum: expected returns, standard deviations and correlation coefficients for U.S. equities (large caps, small caps, total market), international equities (developed and emerging markets), global equities, U.S. bonds, U.S. TIPS, international bonds, emerging markets debt, Treasury bills, real estate, private equity, hedge funds (including systematic trend following and alternative risk premia), infrastructure, commodities and any other significant asset classes for which your firm has developed inputs.
- 65. How often do you revise your capital markets assumptions?
- 66. Please discuss recent recommendations and the rationale for each, to adjust a similarly situated client's asset allocation or portfolio structure within each of the equity and fixed income asset classes.
- 67. Describe your firm's view on rebalancing. Include discussion on targets, ranges, frequency, and implementation methods.
- 68. Describe you firm's views on the following. When might they be appropriate?



Manager/Portfolio Evaluations

69. Discuss the steps your firm would take to analyze SURS' current investment portfolio. Include discussion of the data requirements and a sample of a completed total portfolio evaluation.

- 70. Briefly describe any on-going due diligence process. What critical issues are examined in the due diligence process?
- 71. Describe your firm's criteria for recommending that an investment manager be placed on watch, removed from watch, or terminated. Describe your firm's process for transitioning or liquidating the assets of a terminated investment manager.
- 72. Provide one example of a written recommendation to hire, and one recommendation to terminate, a public market manager that you have made within the last 12 months. Include copies of supporting documentation you provided to your client. Describe the necessary conditions for the firm to recommend terminating an investment manager.
- 73. How often are on-site due diligence visits conducted with your client's managers? Please prepare a table showing how many on-site visits your firm conducted over the past 3 years by asset class. Are notes from manager meetings made available to clients?
- 74. Do you have a client portal? If so, describe the type of information is available on the portal?
- 75. For a list of managers/strategies utilized by SURS, please see Appendix G. Please provide a list of these managers and strategies with which your firm has direct experience.

Manager Searches

- 76. Describe in detail your manager database and search process.
- 77. Does your firm have a database of MWDBE firms? How many managers are in it?
- 78. Describe your firm's record in MWDBE managers. How many of these managers have you recommended in the last five years?
- 79. Illinois statute requires goals be established for the management of assets by MWDBE firms. The goals adopted by the SURS board are included in SURS Investment Policy, found at https://surs.org/wp-content/uploads/policy.pdf. How can your firm assist us in meeting these goals?
- 80. Please provide an example of a recently-completed investment manager due diligence report for a fixed income, public equity, alternative risk premia, and systematic trend following manager search.
- 81. Does your firm utilize an approved manager list? If so, how often is it updated and how do you ensure that all firms have an opportunity for inclusion? How many strategies are approved? How many strategies have been added/dropped in the past 3 years?

Passive Management/Securities Lending/Cash Management

- 82. Describe your firm's view of the role of passive management (by asset class) in your client's portfolio. Please describe the process used to determine whether passive management will be recommended?
- 83. Indicate the active/passive allocation in your typical public pension fund clients.
- 84. Describe your firm's view on securities lending. Do you typically recommend lending with the client's custodian or with a third-party lender? Describe your viewpoint on each method of implementation.
- 85. Briefly describe the capabilities associated with the evaluation and monitoring of securities lending programs. Briefly describe the capabilities associated with the evaluation and monitoring of short-term investment funds (STIF) or other cash management programs. Please provide a sample securities lending program review.
- 86. Do you believe a plan should have a permanent allocation to cash? Why or why not?

<u>Risk</u>

- 87. Explain the firm's views on risk management for a pension fund. What do you see as the key risks, and how do you recommend these risks be handled?
- 88. In terms of portfolio management, discuss the firm's view on risk budgeting or similar methods and describe any experience the firm has in assisting clients in establishing risk budgets or similar processes. Please provide a sample risk budgeting study.
- 89. Briefly describe the risks to which a public pension fund is exposed.
- 90. What strategies have you recommended to mitigate risks?
- 91. How does your firm monitor risk? List what measurements are used when evaluating risk. At what level are these risk measurements used: total portfolio, asset class, asset style, investment manager? Which measurements are most important in the analysis of risk?
- 92. Discuss your views on investment manager tracking error.
- 93. Describe any risk management capabilities and associated costs that are offered to clients.

Other Items

94. Describe your firm's capabilities in providing educational opportunities for trustees and staff. Provide a list of board-level education topics your firm has presented over the last 3 years, including one

sample educational presentation. Does your firm hold an annual investment conference for its clients? Is there a cost for clients to attend educational opportunities?

- 95. Discuss your firm's philosophy on transition management. Do you recommend clients maintain a pool of approved transition managers? Have you assisted with a search for qualified transition managers?
- 96. Briefly describe how a new client would transition to your firm. How long is the process from start to finish? Do you backload transaction and/or investment performance data? What problems have you encountered in transitioning a new client to your firm from their previous consultant? Please provide at least one reference (name, fund name, address, phone, and email) of a recent client of yours whom we can contact regarding the transition process.
- 97. Describe your approach to addressing Environmental, Social, and Governance issues for client investment programs.
- 98. Has your firm adopted the Principles for Responsible Investment (PRI)? If so, when? If adopted, please include a discussion of any actions taken as a result of the adoption of PRI.
- 99. Disclose any relationship you have or have had with any SURS board member, consultant, or employee. If there are no conflicts of interest, please state, "There are no conflicts of interest to report."
- 100. Briefly describe your philosophy relating to the consultant's relationship with board members, staff, investment managers, and brokers.
- 101. Is your firm in compliance with the provisions of SEC Rule 206 (4)-5 as it would apply to SURS?
- 102. Does your firm have a business continuation and disaster recovery plan? Is the plan ever tested? Please describe the key features of the plan.
- 103. Describe efforts taken to protect computer systems from cyber threats. How do you keep client data safe?
- 104. Does your firm have a SOC 1 or 2 report or similar IT general controls report? If so, please attach.
- 105. Where will SURS data be stored? Please discuss data backups and disaster recovery locations as part of your answer.
- 106. Do you perform system vulnerability tests, and can the results be made available to SURS?
- 107. Please provide a sample contract for Investment Consulting Services.

References

- 108. Please provide a list of clients that have converted to your organization in the past 12 months, including the dates of conversion.
- 109. Please list clients that have departed your organization in the past 12 months, including dates of leaving.
- 110. Please list five references for clients with similar structure and size to SURS, and that utilize the services being requested in this RFP. At least three of these references should be serviced by the same client service team you are proposing for this mandate. For how long has each been a client of your organization?

Appendix C: Fee Proposal

SURS will be evaluating fee proposals for full retainer services as well as project-based services. The fees quoted in this proposal must be in force for the entire five-year contract period.

Please refer to the Scope of Work for specific services requested.

FIRM NAME:													
TELEPHONE:													
	Year 1	Year 2	Year 3	Year 4	Year 5	Total for							
						Contract Period							
1. Annual Retainer	\$	\$	\$	\$	\$	\$							
2. Project Based Services													
a.	\$	\$	\$	\$	\$								
b.	\$	\$	\$	\$	\$								
с.	\$	\$	\$	\$	\$								
d.	\$	\$	\$	\$	\$								
3. Other Items	\$	\$	\$	\$	\$								

	Details
I. Annual Retainer	
2. Project Based Services	
a.	
b.	
C	
d.	
3. Other Items	

Appendix D: Addendum to Contract

ADDENDUM TO CONTRACT

In consideration of SURS entering into such contract, the vendor/contractor also agrees to the following:

- 1) If the contractor is an individual, he or she certifies that he or she is not in default on an educational loan as provided in Section 3 of the Educational Loan Default Act, 5 ILCS 385/3.
- 2) The contractor certifies that it is not barred from being awarded a contract or subcontract because of a conviction or admission of guilt for bribery or for bribing an officer or employee of the state of Illinois or any other state in that officer or employee's official capacity as provided in Section 50-5 of the Illinois Procurement Code, 30 ILCS 500/50-5 and further certifies that it is in compliance with Section 50-37 of the Illinois Procurement Code, 30 ILCS 500/50-37.
- 3) The contractor certifies that it will provide a drug free workplace by engaging in the conduct prescribed in Section 3 of the Drug Free Workplace Act, 30 ILCS 580/3.
- 4) The contractor certifies that it is not barred from contracting with SURS because of a violation of either Section 33E-3 (bid-rigging) or 33E-4 (bid rotating) of Article 33E of the Criminal Code of 1961, 720 ILCS 5/33E.
- 5) The contractor certifies that neither it nor any substantially owned affiliated company is participating or shall participate in an international boycott in violation of the provisions of the

U.S. Export Administration Act of 1979 or the regulations of the U.S. Department of Commerce promulgated under that Act.

6) The contractor certifies that no fees, commissions, or payments of any type have been or will be paid to any third party in connection with the contract to which this is an addendum, except as disclosed in the contract or an exhibit thereto as provided in 30 ILCS 500/50-25 and in 40 ILCS 5/1-

145. The contractor shall promptly notify SURS if it ever has reason to believe that this certification is no longer accurate.

- To the extent Illinois law is applicable to contractor, pursuant to 775 ILCS 5/2-105, contractor agrees to:
 - a) Refrain from unlawful discrimination and discrimination based on citizenship status in employment and undertake affirmative action to assure equality of employment opportunity and eliminate the effects of past discrimination;
 - b) Comply with the procedures and requirements of the Illinois Department of Human Rights' regulations concerning equal employment opportunities and affirmative action;
 - c) Provide such information, with respect to its employees and applications for employment, and assistance as the Illinois Department of Human Rights may reasonably request; and
 - d) Have written sexual harassment policies that shall include, at a minimum, the following information:
 - i) The illegality of sexual harassment;

- ii) The definition of sexual harassment under state law;
- iii) A description of sexual harassment, utilizing examples;
 - iv) Contractor's internal complaint process including penalties;
 - v) The legal recourse, investigative and complaint process available through the Illinois Department of Human Rights and the Illinois Human Rights Commission;
- vi) Directions on how to contact the Illinois Department of Human Rights and the Illinois Human Rights Commission; and
- vii) Protection against retaliation as provided by Section 6-101 of the Illinois Human Rights Act. A copy of the policies shall be provided to the Illinois Department of Human Rights upon request.
- 8) To the extent it applies to the contractor and this contract, the contractor agrees to comply with the Illinois Prevailing Wage Act, 820 ILCS 130/1, *et seq*.
- 9) Contractor shall maintain, for a minimum of five (5) years after the completion of the contract, adequate books, records, and supporting documents to verify the amounts, recipients, and uses of all disbursements of funds passing in conjunction with the contract. Contractor shall further make all such books, records, and supporting documents related to the contract available for review and audit by the internal auditor of SURS and by the Illinois Auditor General and shall cooperate fully with any audit conducted by the internal auditor of SURS and the Illinois Auditor General full access to all relevant materials.
- 10) Contractor agrees to notify the SURS Ethics Officer if it solicits or intends to solicit for employment any of the employees of SURS during the term of the contract.
- 11) Contractor understands that SURS and this contract are subject to the provisions of the Illinois Open Meetings Act (5 ILCS 120/1, *et seq*) and the Illinois Freedom of Information Act (5 ILCS 140/1, *et seq*).
- 12) If Contractor is a vendor that receives access of any kind to the SURS network or to any component of the SURS computer systems to perform work contemplated under the Agreement to which this Addendum is attached, Contractor agrees that its employees and/or pre-approved subcontractors who will be performing work for SURS will complete designated cybersecurity training required by SURS before any such work shall commence.
- 13) Counterparts. This Agreement and Addendum may be executed in counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same agreement. The counterparts of this Agreement and Addendum may be executed and delivered by facsimile or other electronic signature by any of the parties to any other party and the receiving party may rely on the receipt of such document so executed and delivered by facsimile or other electronic means as if the original had been received.

Under penalties of perjury, the contractor certifies that ______is is correct Federal Taxpayer Identification Number.

Contractor is doing business as a(n) (please circle applicable entity):

•

•

Individual

- Sole Proprietorship
- Corporation
- Real Estate Agent
- Governmental Entity

Not-for-Profit Corporation

Other: _____

- Trust or Estate

- Partnership
- Medical and Health Care Services Provider Corporation
- Tax Exempt Organization (IRC 501(a) only)

Appendix E: Diversity Disclosure

Name of Asset Management I	Firm:					
Contact Person's Name:				Contact's Phone #:	Data As Of:	
rm Employment Reporting						
		11 1	1 1			

R·S

Total Number of Employees:	Number of employees who are United States Citizens or Permant Residents:	

I. The number of employees of the firm who are <u>United States Citizens or Permanent Residents</u> and identify as:

• American Indian or Alaska Native, Asian, Black or African-American, Native Hawaiian or Other Pacific Islander, White, Hispanic or Latino, Two or More Races, No Response

• A woman,

• A person with a disability

Note: Choose only one option from columns A-H per person, with the exception of column I which can be chosen in addition to A-H, as appropriate.

Please provide **numeric responses**

		Women									Men							
					women				-									
			Ra	ice			Ethnicity					Ra	ice			Ethnicity		
	А	В	С	D	Е	F	G	Н	Ι	А	В	С	D	Е	F	G	Н	Ι
	American Indian or Alaska Native	Asian	Black or African American	Native Hawaiian or Other Pacific Islander	White	Two or More Races	Hispanic or Latino	No Response	Person with a Disability	American Indian or Alaska Native	Asian	Black or African American	Native Hawaiian or Other Pacific Islander	White	Two or More Races	Hispanic or Latino	No Response	Person with a Disability
Senior Staff (as defined by your firm)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment Professionals (excluding Senior Staff)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Professionals: Operations and Compliance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Professionals: Sales, Marketing, and Client Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administrative Support: Office, Clerical	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Professionals	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total # Employees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total % Employees	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Service Provider Reporting



II. 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 Minority-, Women-, Persons with Disabilities-owned Business Enterprises (MWDBE) firms:

Service Provider Reporting					
Twelve Month Period Endir Majority of equity owned by	ng: Number of contracts	Fund expenses to date			
Racial or Ethnic Minority	0	\$0.00			
Women	0	\$0.00			
Persons with a Disability	0	\$0.00			
Total	0	\$0.00			

Note: Please provide numeric responses

III. 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, that is not an MWDBE firm but more than 50% of services are performed by:

Service Provider Reporting Twelve Month Period Ending:					
Non-MWDBE owned firms where more than 50% of the work is completed by:	Numt	oer of contracts	Fund expenses to date		
Racial or Ethnic Minority		0	\$0.00		
Women		0	\$0.00		
Persons with a Disability		0	\$0.00		
Total		0	\$0.00		

Note: Please provide <u>numeric responses</u>

<u>Other</u>

Additional information on diversity/initiative programs can be attached as part of the response to this request.

By signing, I acknowledge that the information provided is correct.		
Signature of Authorized Official:		Date:
Name (printed):	Title:	



Diversity Disclosures

Certain provisions of the Illinois Pension Code require SURS to make disclosures to various governmental bodies regarding the diversity of investment advisers and consultants employed by SURS and private market funds in which SURS invests. In addition, SURS uses information provided by investment advisers, consultants, and private market funds to determine achievement of various diversity goals set by SURS in accordance with requirements of the Illinois Pension Code. Accordingly, SURS requests that you provide the disclosures set forth above.

Appendix F: Compensation and Economic Opportunity Disclosures

Disclosures Pursuant to Illinois Pension Code Section 1-113.22 & 1-113.23

Beginning January 1, 2018, Sections 1-113.22 & 1-113.23 of the Illinois Pension Code requires the following disclosures from a consultant prior to the awarding of a contract:

Name of Firm:

1. The total number of searches for investment services made by the consultant in the prior calendar year; *(If none, state "none")*

Number of Searches

2. 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 female owned business, or (iii) a business owned by a person with a disability; *(If none, state "none")*

Classification	Number of Searches
Minority	
Female	
Person with a Disability	

3. 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 female owned business, or (iii) a business owned by a person with a disability; *(If none, state "none")*

Contract	Recommended for Selection
Minority	
Female	
Person with a Disability	

4. 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 female owned business, or (iii) a business owned by a person with a disability; *(If none, state "none")*

Contract	Selected
Minority	
Female	
Person with a Disability	

5. The total dollar amount of investment made in the previous calendar year with (i) a minority owned business, (ii) a female 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. *(If none, state "none")*

Contract	Total \$ of Investment Made
Minority	
Female	
Person with a Disability	

6. 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. "Compensation" means any money, thing of value, or economic benefit conferred on, or received by, a consultant in return for services rendered, or to be rendered, by himself, herself, or another. "Economic opportunity" means any purchase, sale, lease, contract, option, or other transaction or arrangement involving property or services wherein a consultant may gain an economic benefit. (If none, state "none")

Total Compensation & Economic Opportunity

7. Any compensation or economic opportunity received in the last 24 months from an investment advisor that is recommended for selection by the consultant. "Compensation" means any money, thing of value, or economic benefit conferred on, or received by, a consultant in return for services rendered, or to be rendered, by himself, herself, or another. "Economic opportunity" means any purchase, sale, lease, contract, option, or other transaction or arrangement involving property or services wherein a consultant may gain an economic benefit. (If none, state "none")

Total Compensation & Economic Opportunity

Supplemental Diversity Information (Optional):

If desired, please include additional information on your firm's efforts to supplement the information provided above. Please feel free to attach or include any policies or documentation to support these efforts.

INVESTMENT ADVISOR / CONSULTANT/ PRIVATE MARKET FUND:				
Company Name:				
Signature:				
Printed Name				
Title:				
Dated:				

Appendix G: SURS Investment Plan FY 2022

FISCAL YEAR 2022 INVESTMENT PLAN



September 2021

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Investment Department

August 30, 2021

Board of Trustees State Universities Retirement System 1901 Fox Drive Champaign, IL 61820

RE: Fiscal Year 2022 Investment Plan

Dear Board of Trustees:

The Investment Staff is pleased to provide the SURS Investment Plan for Fiscal Year 2022. This document was developed in order to formalize the strategic plans for the investment portfolio for the coming year and provide transparency of the planning process. The Investment Plan for Fiscal Year 2022 marks the eleventh year of the formal plan for the SURS investment program.

The Investment Plan reviews the results of Fiscal Year 2021 and defines the strategy for Fiscal Year 2022 in accordance with the Board-approved asset-liability study and Investment Policy. Since financial markets are dynamic, revisions to the plan may be required and will be communicated to the Board in a timely manner.

The SURS investment portfolio successfully navigated the volatile financial markets to produce robust returns during Fiscal Year 2021. The SURS investment portfolio returned 23.8%, net of fees, well ahead of the assumed rate but slightly trailing the policy benchmark. This return marked the 4th highest fiscal year return in SURS history.

From a long-term perspective, the SURS portfolio has performed well, earning an 8.5% annualized rate of return over the past 30 years, exceeding the 8.2% policy portfolio return. This return is also in excess of the 7.9% average assumed rate of return in effect over the last 30 years and the current 6.75% assumed rate of return.

As of June 30, 2021, the defined benefit plan is valued at approximately \$23.5 billion while the Retirement Savings Plan (RSP) is valued at approximately \$3.9 billion (including forfeiture and disability reserve assets).

Given the significant economic impact from the ongoing global pandemic and the resulting change in the portfolio's risk/return profile, prudence dictated the initiation of an updated asset-liability study in 2021. At the conclusion of the study in June 2021, new long-term strategic policy targets were adopted. This new asset mix is positioned to generate an expected return in-line with the current actuarial rate and offers an attractive mix of liquidity, drawdown protection, and expected return.

Fiscal Year 2021 also brought meaningful change to the SURS defined contribution plans. Highlights included the redesign and launch of the SURS Retirement Savings Plan (RSP) and the introduction of a new supplemental Deferred Compensation Plan (DCP). This new voluntary plan, called the SURS Deferred Compensation Plan (DCP), will provide members an avenue to save more and generate additional income in retirement.

Other key accomplishments in the defined benefit portfolio include:

- Completion of a private credit specialty advisor search;
- Continued commitment to core real assets portfolio;
- Continued implementation of non-traditional growth allocations (private equity and real assets), including the addition of a new farmland asset type;
- Restructuring of traditional growth portfolio;
- Increased allocation to the Crisis Risk Offset (CRO) class. The CRO class contains diversifying investments that are expected to exhibit offsetting behavior to growth investments during periods of significant drawdown; and
- Increase in assets under management by diverse firms by \$2.6 billion during FY 2021 (from \$7.2 billion, or 36.9%, to \$9.8 billion, or 41.6%).

Numerous projects are planned for Fiscal Year 2022, including, but not limited to, the following:

- Implementation of strategic allocation study;
- Evaluation of Traditional Growth portfolio structure;
- Continued implementation of Private Credit and Non-Traditional Growth allocations;
- Education on potential new strategies in the Crisis Risk Offset (CRO) class;
- Continued review of opportunities to include firms owned by minorities, women and persons with a disability in the investment program;
- Completion of Master Custodian and Securities Lending provider searches; and
- Completion of search for proxy voting service provider.

The Investment Plan for Fiscal Year 2022 contains additional details on Fiscal Year 2021 accomplishments and strategic initiatives for Fiscal Year 2022. While much was achieved during Fiscal Year 2021, it is important to maintain focus on the future. The investment team and external partners continue to seek excellence in every aspect of the investment program. I look forward to discussing the *Fiscal Year 2022 Investment Plan* at future meetings.

Sincerely,

Douglas Ø. Wesley, CFA Chief Investment Officer

cc: Suzanne Mayer, Interim Executive Director



FY 2022 Investment Plan Table of Contents

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I. Purpose

The Investment Plan reviews the results of Fiscal Year 2021 and defines the strategy for Fiscal Year 2022 in accordance with the Board-approved asset-liability study and Investment Policy¹. This Plan is intended to be a living document. Since financial markets are dynamic, revisions to the plan may be required during the year. In the event of changing circumstances or opportunities during the year, items will be discussed with the Board as necessary.

II. Overview

Background

The State Universities Retirement System (SURS) is the administrator of a cost-sharing, multiple employer public employee retirement system. SURS membership includes employees of the public universities and other affiliated organizations. Currently, SURS membership totals more than 240,000 active, inactive and retired participants. SURS maintains both a defined benefit and a defined contribution plan, known as the SURS Retirement Savings Plan (RSP). In addition, beginning March 1, 2021, SURS introduced a new supplemental defined contribution plan, called the SURS Deferred Compensation Plan (DCP). The DCP will provide members an avenue to save more and generate additional income in retirement. As of June 30, 2021, the defined benefit plan is valued at approximately \$23.5 billion while the RSP is valued at approximately \$3.9 billion (including forfeiture and disability reserve assets). The investment portfolio is broadly diversified across several functional classes.

Fiscal Year 2021 Performance Review

The SURS investment portfolio successfully navigated the volatile markets to produce robust returns during FY 2021. The SURS investment portfolio returned 23.8%, net of fees, well ahead of the assumed rate but slightly trailing the policy benchmark. This return marked the 4th highest fiscal year return in SURS history.

Over the last year, global equity markets produced strong returns, largely driven by record fiscal and monetary policy stimulus and an accelerated COVID-19 vaccine rollout. In the U.S., the economic recovery continued to gain strength as jobless claims declined steadily to reach pandemic-era lows in the June quarter. Concerns have risen, however, that the historic economic stimulus could lead to higher inflation and, ultimately, higher interest rates. Longer term bond yields have increased in anticipation.

The table that follows illustrates the performance of the overall SURS investment portfolio relative to the policy portfolio and average assumed rates of investment return, as of June 30, 2021.

Investment Performance* As of June 30, 2021							
1 Year 3 Years 5 Years 10 Years 20 Years 25 Years 30 Years						30 Years	
SURS	23.8%	10.4%	10.3%	8.5%	7.3%	7.9%	8.5%
Policy Portfolio	24.4%	10.7%	10.3%	8.6%	7.3%	7.8%	8.2%
SURS Assumed Rate	6.8%	6.8%	6.8%	7.1%	7.7%	7.9%	7.9%

*Net of investment management fees

¹ The SURS Investment Policies can be found at <u>http://surs.org/investment-policies</u>.

The Total Fund's underperformance relative to the policy portfolio for Fiscal 2021 was due to a number of factors, including:

- Weak relative performance by the non-U.S. and the global equity segments of the Traditional Growth portfolio;
- Underperformance by the option strategies component of the Stabilized Growth portfolio;
- Underperformance by the non-core real estate segment of the Non-Traditional Growth portfolio;
- Weak relative performance by the Crisis Risk Offset class; and
- An underweight to the options strategies component of the Stabilized Growth portfolio. Although the options portfolio lagged its benchmark, it was the best absolute performing segment of the Stabilized Growth portfolio.

Portfolio highlights included:

- Outperformance by the stabilized real assets and credit fixed income segments of the Stabilized Growth portfolio;
- Strong relative performance in the non-core real estate debt and infrastructure portfolios (Non-Traditional Growth);
- Modest excess performance by the private equity segment of the Non-Traditional Growth portfolio; and
- Modest relative performance by the Principal Protection portfolio;

At the aggregate level, the Stabilized Growth and Principal Protection portfolios exceeded their performance benchmarks for the year ending June 30, 2021, while the Inflation Sensitive portfolio matched the benchmark. The Non-Traditional Growth, Traditional Growth, and Crisis Risk Offset classes lagged their benchmarks for the period.

Of the private, illiquid asset classes, the private equity portfolio provided the strongest absolute return, +60.8%. The non-core real estate debt asset class provided the strongest relative return, exceeding the benchmark for the one-year period by 1,730 basis points.

Performance of each of the broad asset classes during FY 2021 is shown in the table that follows.

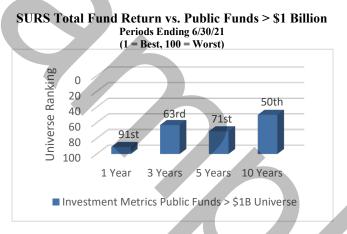
Asset Class	FY 2021 Return	Asset Class	FY 2021 Return
Growth-Oriented		Diversifying	
Non-Traditional Growth	42.3%	Inflation Sensitive	6.5%
Performance Benchmark	43.5%	Performance Benchmark	6.5%
Excess	-1.2%	Excess	0.0%
Traditional Growth	40.5%	Principal Protection	-0.2%
Performance Benchmark	40.9%	Performance Benchmark	-0.7%
Excess	-0.4%	Excess	0.5%
Stabilized Growth	13.1%	Crisis Risk Offset	-0.1%
Performance Benchmark	12.0%	Performance Benchmark	6.6%
Excess	1.1%	Excess	-6.7%

SURS FY 2021 Asset Class Returns (Net of Fees)

From a long-term perspective, the SURS portfolio has performed well, earning an 8.5% annualized rate of return over the past 30 years, exceeding the 8.2% policy portfolio return. This return is also in excess of the 7.9% average assumed rate of return in effect over the last 30 years and the current 6.75% assumed rate of return². In inflation-adjusted terms, the Total Fund returned 6.3% over this time period, exceeding the current actuarial real assumed rate target of 4.5% (6.75% less the 2.25% assumed rate of price inflation).

Peer Analysis

When compared to a universe of other large public funds, the SURS return trails that of the median plan for the one-, three- and five-year periods ending June 30, 2021, and matches the median plan for the ten-year period. The primary reason for the below-median results in the shorter term periods is a more defensive posture compared to peers. The SURS portfolio has a lower equity allocation and a higher Crisis Risk Offset allocation than the median plan in the universe. While this positioning will result in weaker relative results in very strong equity markets like those seen in FY 2021, it is expected to provide critical downside protection during periods of significant equity market declines. Asset allocation is the primary determinant of a fund's ranking in a peer universe.



Risk-Adjusted Results

On a risk-adjusted basis, the SURS portfolio compares much more favorably to the Median Public Fund, as shown in the table below. Over the three-, five-, and ten-year periods, SURS performance either matches or exceeds that of the median public fund.

Risk-Adi	insted	Return	of SURS	vs. Peers
INISK-AU	usicu	I CCUI II	01 50105	vs. i ccis

	ujusteu Return or Seris vs. ree		
	1 Year 3 Yea	rs 5 Years	10 Years
Total Fund (Gross of Fees)	24.0% 10.7%	6 10.6%	8.7%
Risk-Adjusted Median ³	24.2% 10.2%	6 10.2%	8.7%
Excess Return	-0.2% 0.5%	0.4%	0.0%

The pursuit of a more efficient (i.e., higher return per unit of risk) portfolio has been an explicit consideration of the SURS Board over the last two asset-liability studies, in particular.

 $^{^{2}}$ On June 3, 2021, the SURS Board of Trustees approved lowering the System's assumed rate of investment return to 6.50% from 6.75%. The rate is first effective with the valuation as of June 30, 2021.

³ Risk-adjusted median normalizes the median fund to the SURS exhibited volatility. Calculated as: risk-adjusted median = unadjusted median return * (SURS volatility/peer volatility). Source: Meketa.

III. Asset Allocation Framework

The purpose of the asset allocation policy is to establish an Investment Policy framework for SURS with a high likelihood, in the Board's judgment, of realizing SURS' investment objective. This is a critical step as the continued sustained growth of SURS assets is a necessary component to achieving long-term sustainability. SURS asset allocation framework organizes SURS' assets within a functional framework rather than the descriptive-oriented asset-based framework. In this approach, assets are grouped by similar risk profiles, rather than asset class name.

Industry best practices suggest completing an asset-liability (A-L) study every three-to-five years. SURS has adhered to this practice by completing recent studies in 2011, 2014, and 2018. Given the significant economic impact from the ongoing global pandemic and the resulting change in the portfolio's risk/return profile, the Board decided it was prudent to embark on an updated asset-liability study in 2021.

The goals of the 2021 asset-liability process were the same as those in 2018, to balance the following objectives:

- 1. To minimize the likelihood of material deterioration in the funded ratio over the near-term;
- 2. To achieve a long-term funded ratio in-line with the statutory goal of 90% in 2045;
- 3. To maintain contributions within a reasonable band and with a reasonable volatility; and
- 4. To improve the portfolio's expected efficiency by achieving portfolio performance targets in-line with the current actuarial rate and at a similar or lower expected risk than the current portfolio.

At the conclusion of the study in June 2021, the Board adopted the long-term strategic policy targets shown in the table that follows. This asset mix is positioned to generate an expected return in-line with the current actuarial rate and offers an attractive mix of liquidity, drawdown protection, and expected return. In addition, the new strategic policy targets continue the changes first approved in 2018, including the growth of both CRO and private market investments while continuing the reduction of traditional growth from current levels, although to a higher target than that adopted in 2018. The funding source for much of the 2021 portfolio changes would be from a reduction in the stabilized growth portfolio.

	Functional Asset Class	Strategic Policy Target as of 7/01//21	Previous Long- Term Strategic Policy Target	New Long-Term Strategic Policy Target
ch- ed	Non-Traditional Growth	11%	15%	16%
Growth- oriented	Traditional Growth	40%	25%	35%
00	Stabilized Growth	21%	26%	17%
ying	Inflation Sensitive	5%	6%	5%
Diversifying	Principal Protection	8%	8%	8%
Div	Crisis Risk Offset	15%	20%	19%

An implementation timeline is included in the Appendix.

At the highest level, assets are classified as either growth-oriented or diversifying strategies, as shown in the following table.

Growth-oriented strategies include risk-taking assets or strategies that produce high total returns relative to other asset classes. Success in this category is often linked to economic success or failure. The three strategic components within this group are shown and described below.

Role	Group	Description
l	Non-Traditional Growth	Provide growth in excess of Traditional Growth through exposure to investments driven by exposure to the equity risk and illiquidity risk premiums (i.e. Private Equity and Non-Core Real Assets)
Growth	Traditional Growth	Provide growth in line with traditional public equity markets (i.e. US Equity, Non-US Equity and Global Equity)
	Stabilized Growth	Provide growth through strategies that are exposed to market beta, exhibiting expected returns similar to Traditional Growth but with lower volatility (i.e. Credit fixed income, options strategies, and Core Real Assets)

Diversifying strategies provide two forms of diversification via anchor strategies and offset strategies. Anchor strategies are characterized by low volatility and high liquidity. Offset strategies, in contrast, tend to be higher volatility strategies that have zero-to-negative correlation to public equity markets. These strategies, described in the table that follows, are designed to perform well in the event of a prolonged equity market downturn.

Role	Group	Description			
Diversifying	Inflation Sensitive	Serves a mixed role as part anchor (i.e. TIPS) and part offset depending on the market environment. Designed to help protect the portfolio during periods of high inflation.			
	Principal Protection	Provide an anchor to the portfolio by exhibiting low volatility with minimal exposure to equity risk. Designed to provide consistent, stable returns during most market environments and preserve principal during periods where growth investments are experiencing significant drawdowns (i.e. Core Fixed Income).			
	Crisis Risk Offset	Provide an offset to growth risk through liquid exposures to risk premiums expected to exhibit offsetting behavior to growth investments during periods of significant drawdown (i.e. Long Duration Treasury, Systematic Trend Following, Alternative Risk Premia)			

IV. Fiscal Year 2021 Accomplishments

Much of the activity completed during Fiscal Year 2021 was tied to implementation of the functional-based portfolio structure approved in September 2018. The portfolio structure is designed to produce improvement in long-term expected returns with significantly improved volatility and downside risk measures, with a much tighter range of projected return paths, compared to the previous allocations. Key projects completed include the following:

Growth-Oriented Strategies

- Continued Implementation of Non-Traditional Growth Allocations The Non-Traditional Growth portfolio consists of the private equity and non-core real assets portfolios.
 - **Private Equity** Aksia TorreyCove (formerly TorreyCove Capital Partners) has served as SURS' discretionary private equity advisor since September 2019. This approach marked a shift in the model used by SURS to access the private equity asset class, moving away from a fund-of-funds approach to a less costly, more efficient method of directly accessing fund investments. This direct approach allows SURS greater control over portfolio strategy and allows for larger, more meaningful GP allocations. During FY 2021, SURS made a total of nine commitments to private equity investments, totaling \$291 million. These commitments were in accordance with the strategic plan and pacing model completed by Aksia TorreyCove. Importantly, 60% of the commitments made during this period were made to diverse firms. Highlights of commitments made during FY 2021 include:
 - Expansion of the Relationship with Fairview Capital Partners An additional \$100 million was committed to the Fairview Lincoln Fund I (Series B) portfolio to focus on venture capital and small-to-mid buyout funds in the diverse private equity space.
 - Emphasis on Co-Investments The allocation within Mesirow Financial Private Equity Special Fund B was revised to increase exposure to coinvestments via Mesirow Financial Private Equity Fund VIII-B. Coinvestments offer benefits of investing directly into private companies at a significantly reduced cost.
 - Increased Exposure to the Asia Pacific Region In order to better reflect the composition of the global private equity universe, additional commitments were made by Aksia TorreyCove to experienced General Partners for investment in the Asia Pacific region.
 - Non-Core Real Assets
 - Addition of a New Asset Class Within Real Assets With the assistance of SURS' specialty real assets consultant, Callan, a new strategy was introduced. Farmland is the newest asset type to receive an allocation within the real assets portfolio. Farmland is anticipated to make up 5% of the real assets portfolio over time. SURS has committed \$60 million to one fund to date.
 - Consideration of Non-Traditional Growth Real Assets Strategies

During FY 2021, the Board approved the following commitments to nontraditional growth real assets funds in accordance with the strategic plan and pacing study recently completed by Callan.

• Non-Traditional Growth

- Homestead Capital USA Farmland Fund III (\$60 million)
- BIG Real Estate Fund II (lesser of \$50 million or 10% of total commitments)
- Torchlight Real Estate Fund VII (\$50 million)
- Newport Capital Partners III (lesser of \$30 million or 10% of total commitments)
- Ember Infrastructure Partners Fund I (lesser of \$50 million or 10% of total commitments)
- Brookfield Strategic Real Estate Partners Fund IV (\$75 million)

• Implementation of Traditional Growth Portfolio Restructuring

• Equities - In FY 2020, the Board approved a new structure for the Traditional Growth portfolio with the goal to reduce exposure to fund the Crisis Risk Offset (CRO) class, capture the global equity risk premium and increase reliance on passive/structured-active strategies. Between December 2019 and July 2020, SURS' Traditional Growth allocation was reduced from 52% to 40% of SURS' total fund, in line with interim policy targets. The proceeds of the transition were reallocated to fund the Principal Protection, Inflation Sensitive, Credit and CRO portfolios. The completion of the asset-liability study in June 2021 resulted in a long term policy target of 35% to Traditional Growth. Due to market gains over the past year, SURS' assets in Traditional growth were at 43.5% as of June 2021. An additional step of the transition was completed at that time, bringing Traditional Growth assets back to 40%, in line with the current interim policy and closer to the long term target. This reduction was used to partially fund the most recent increase to CRO.

Continued Implementation of Stabilized Growth Portfolio

Completion of Private Credit Specialty Advisor Search – In September 2020, the search for a private credit specialty advisor concluded with the Board's selection of Meketa Investment Group as discretionary private credit advisor. In their role, Meketa will assist in the buildout of this new segment of the overall credit portfolio. The discretionary advisor provides a high level of control on private credit portfolio construction, pacing and evaluation. In addition, the use of a specialty advisory may increase opportunities to directly access the diverse private credit marketplace and would provide flexibility in the procurement process of securing direct private credit fund commitments.

Since their selection in September 2020, Meketa has completed a strategic plan and five-year pacing model for private credit and has begun making commitments on SURS behalf. Through June 30, 2021, commitments totaling \$425 million have

been made to three private credit investments. Commitments to minority-owned firms represented \$50 million of the total during the year.

- **Continued Commitment to Core Real Assets Portfolio** SURS made the following commitments to the core real assets portfolio during FY 2021:
 - BlackRock Global Renewable Power Fund III (\$100 million)
 - Carlyle Property Investors (\$100 million).

Diversifying Strategies

• Crisis Risk Offset Continued Implementation – The CRO class includes long duration, trend-following and alternative risk premia strategies. The target breakdown between the three classes is 21% long duration, 53% trend-following, and 26% alternative risk premia. The initial funding of 5% to the CRO class was completed in December 2019. Subsequent allocation, with funding from the equity restructuring, resulted in a 10% weighting in July 2020. The completion of the asset-liability study in June 2021 resulted in a policy target of 19% to the CRO class. An interim step of additional funding, from various classes, to reach an approximate 15% weighting was completed in June 2021. All the interim funding steps were made to managers selected during a search process completed in December 2019.

Defined Contribution Plans

- Roll-out of new Retirement Savings Plan (RSP) Fiscal Year 2021 brought meaningful change to the SURS defined contribution plans. First, the Self-Managed Plan (SMP) was redesigned and launched September 1, 2020. The revamped plan has been renamed the SURS Retirement Savings Plan (RSP). Enhancements include a new default investment option, a new simplified best-in-class fund lineup, new planning and education tools and a new recordkeeper, Voya Financial.
- Introduction of New Supplemental Deferred Compensation Plan (DCP) SURS is excited to announce a new supplemental defined contribution plan that became available from participating SURS employers beginning March 1, 2021. This new voluntary plan, called the SURS Deferred Compensation Plan (DCP), will provide members an avenue to save more and generate additional income in retirement. Most active SURS members employed by a state university, community college or other government entity will be able to participate.

The DCP was made available on March 1, 2021, to eligible employers who must adopt the plan before members may begin participation. All eligible employers are required to adopt the SURS Deferred Compensation Plan before June 30, 2021. Voya Financial is the recordkeeper for SURS DCP.

• Revisions to the DC Investment Policy were reviewed and approved in March 2021.

Policies, Investment Beliefs & Trustee Education

• **Investment Policy Revision** – The defined benefit Investment Policy statement was updated multiple times during FY 2021 as the asset allocation implementation progressed.

- **Procurement Policy Revision** The Procurement Policy was reviewed and updated in January 2021.
- **Trustee Education** Education was provided to Trustees on a number of relevant topics, during FY 2021, including:
 - o Diversity and Inclusion Considerations in Procurement
 - o Farmland
 - o Infrastructure
 - Asset-Liability Study
 - Real Estate Specialty Property Types
 - Active vs. Passive
 - Calendar Year 2021 Capital Market Assumptions

Diversity & Inclusion

- Diverse Manager Week SURS hosted its third annual Diverse Manager Week during the week of August 2, 2021. SURS investment staff conducted one-hour meetings with 21 firms across different asset classes. SURS' consultant/advisor partners also participated, with representatives from Meketa, Callan, Aksia TorreyCove, Fairview Capital Partners, The Bivium Group and Xponance.
- Co-Host of Various Webinars Focused on Diversity SURS has co-hosted webinars throughout the year alongside Bivium Capital and the National Association of Investment Companies (NAIC). Panelists shared best practices in the industry on a variety of topics, including ESG investing. In addition, SURS participated in an Institutional Investor Roadshow with NAIC where potential private equity firms presented their capabilities to SURS and our external private equity partners.
- **Revision to MWDBE Brokerage Utilization Goals** At the December 2020 meeting, the Board reviewed the asset and brokerage goals for the utilization of diverse firms. Upon recommendation by staff, the Board increased the brokerage goals for U.S. Equity, Non-U.S. Equity, and Global Equity as indicated in the table below.

Asset Class	Goal	New Goal
U.S. Equity	30%	35%
Non-U.S. Equity	20%	25%
Global Equity	20%	22%

- Commitment to Diversity SURS continues to be strongly committed to diversity throughout the investment program. In total, 32 firms owned by minorities, women, or persons with a disability (MWDB) directly manage a total of \$9.8 billion, or 41.6% of the Total Fund, as of June 30, 2021. SURS employs a multi-strategy approach designed to maximize opportunities for qualified firms.
 - The Manager Diversity Program (MDP) is a SURS-sponsored initiative designed to identify and provide opportunities to highly successful MWDB investment management firms. Managers in the MDP contract directly with SURS. As of June 30, the MDP totals \$5.6 billion and includes 29 minorityor women-owned investment managers across 32 strategies.

- Increase in MDP assets of approximately \$1.5 billion during Fiscal Year 2021.
- Second, SURS partners with two firms to construct manager of emerging managers programs. The Bivium Group manages a credit portfolio, and Xponance manages non-US and global equity portfolios. These collaborations allow SURS to extend its reach into the minority manager universe. As of June 30, 2021, the Bivium program includes five minority- or women-owned investment managers (with six mandates) and has total assets of \$395 million. The Xponance portfolio includes eight minority- or women-owned investment managers (with ten mandates) and has total assets of \$305 million, as of June 30, 2021.
- It is important to note that SURS' commitment to diversity extends beyond the bounds of the MDP and the Manager of Emerging Managers Programs. In addition to the firms previously mentioned, SURS contracts with one other MWDB firm, bringing the total number of MWDB firms in direct partnership with SURS to 32. As mentioned previously, assets managed for SURS by these 32 firms are approximately \$9.8 billion, or 41.6% of the Total Fund, as of June 30, 2021.
 - Increase in total assets with diverse firms of approximately \$2.6 billion during Fiscal Year 2021
 - Increase in percentage of assets with diverse firms from 36.9% to 41.6% of SURS total assets.

V. Fiscal Year 2022 Strategic Initiatives

Each year Staff and the General Investment Consultant (Meketa Investment Group) undertake initiatives to assist the Board with the goal of achieving more effective and cost-efficient implementation of investment strategies and positively contribute to the health of the System. The initiatives outlined below are often related and long term in nature.

Implementation of Strategic Allocation Study

As mentioned previously, the Board authorized an updated asset-liability study during FY 2021. With input from Meketa, the Board adopted new policy targets (see Section III for additional information). The new strategic offers an attractive mix of liquidity, drawdown protection, and expected return. The most significant changes in the new policy targets are an increase in the traditional growth strategic allocation and a reduction in the stabilized growth strategic allocation. Implementation activity will begin during FY 2022.

Growth Oriented Strategies

- Evaluation of Traditional Growth Portfolio Structure Staff will work with Meketa to evaluate the current structure of the Traditional Growth portfolio, looking for areas to improve overall diversification and eliminate any unintentional regional tilts.
- Continued Implementation of Private Credit Allocation (Stabilized Growth portfolio) Meketa, SURS' private credit specialty advisor, will continue to build out the new allocation, with a goal to commit to four to six funds totaling approximately \$500 million during FY 2022.
- Continued Implementation of Non-Traditional Growth Allocation
 - Real Assets Staff will continue to work with Callan to implement the strategic plan and pacing model for the coming year. The pacing plan ensures SURS annually deploys capital at a level which allows attainment of the strategic plan over time. Recently, the overall asset allocation has changed because of a new study completed by the SURS general consultant, Meketa. As a result, the real assets longterm target has changed from 10% of the total fund to 13% (8% to stabilized growth and 5% to non-traditional growth). Toward these efforts, two commitments within nontraditional growth that were approved in FY 2021 are expected to close in FY 2022 for a total of up to \$125 million within real estate and infrastructure.
 - **Private Equity** The long-term policy target for private equity is 11% of the total portfolio. During FY 2022, Aksia TorreyCove, SURS' discretionary private equity advisor, will continue implementation of the private equity strategic plan. An update to the pacing model is planned in late 2021 and is designed to reach the target level over the next several years. In total, commitments of approximately \$550 million are planned during FY 2022.

Diversifying Strategies

• Education on Potential New CRO Strategies

Staff will work with Meketa to research and provide education to the Board on potential strategies to complement the existing long duration (first responder) portfolio. An education session on long volatility tail risk hedging strategies is planned for the September meeting. In addition, other uncorrelated strategies will be considered to provide additional downside protection in the event of equity market declines.

Master Custodian and Securities Lending Provider Searches

A search for master custodian and securities lending provider was initiated in late FY 2021 and is expected to conclude during FY 2022. A custodian is a vital component to the operations, trust and administration of the SURS investment program. Custodial systems provide reliable access to investment holdings, accurate pricing information, and transaction data on a regular and timely basis. Currently, The Northern Trust Company provides custodial and banking services to SURS, and Deutsche Bank provides securities lending services.

Proxy Voting Service Provider Search

A search for a proxy voting service provider was initiated in late FY 2021 and is expected to conclude during FY 2022. The role of the proxy voting service provider is to primarily vote domestic and international proxies on behalf of SURS, based on proxy voting guidelines approved by the Board of Trustees. Currently, Glass Lewis serves as proxy voting service provider.

Investment Policy Review

The Investment Policy was last reviewed and approved by the Board at the January 2021 Investment Committee meeting. Additional review will be conducted and potential revisions to the Policy will be considered during FY 2022.

Diversity Initiatives

SURS will continue to review opportunities in the investment program to consider the utilization of minorities, women and persons with a disability. Investment managers of diversity are always encouraged to participate in the search process if an applicable strategy/mandate is identified. In August 2021, SURS hosted its third annual Diverse Manager Week. Investment managers in strategies across the portfolio were invited to present to staff and the corresponding consultant (either general or specialty). In total, 21 diverse owned firms participated in meetings during the week.

Investment Manager Oversight, Due Diligence, and Risk Management

A critical duty of the investment team and Meketa is to monitor the numerous investment managers under contract with SURS. Each manager plays a role in the success of the overall program and extensive resources are utilized to ensure strategies are functioning as desired and in accordance with guidelines. Risk management monitoring of the program continues to expand and evolve with the implementation of BlackRock's Aladdin, a risk analytics tool. Once fully implemented, it will provide a comprehensive view of SURS portfolio and zero in on exposure across every portfolio and functional classes. It will also allow staff to monitor risk factors and run stress tests across various scenarios. In addition to the new risk system, staff will continue implementation of a new software program designed to more efficiently manage documents and provide analytics for the expanding private markets portfolio.

Investment Management Fees

SURS pays close attention to the level of investment management fees paid to its external investment managers. Fees are negotiated with investment managers prior to the commencement of the relationship with SURS and may be subsequently renegotiated, if appropriate, especially in instances where an investment manager receives an additional allocation(s). Fees vary significantly among investment managers, with the services of private markets managers, such as those in real assets and private equity being generally higher than those of public market managers.

During Fiscal Year 2021, staff negotiated more favorable fee arrangements with eight new and existing investment service providers. In aggregate, these fee negotiations are expected to result in nearly \$900,000 in fee savings.

In total, SURS paid approximately \$79.9 million or approximately 36 basis points in investment management fees and administrative expenses for Fiscal Year 2021. Total investment management fees for Fiscal Year 2022 are projected to increase by \$11.9 million from fiscal year 2021 budgeted fees and include fees paid directly from alternative asset funds. This increase is due to the continued growth of the non-traditional growth portfolio and continued reallocation of assets from public equities into diversifying strategies.

VI. Environmental, Social & Governance (ESG) Issues

SURS continues to place a high priority on ESG issues. Illinois Public Act 101-0473, effective January 1, 2020, requires that SURS Investment Policy include material, relevant, and decision-useful sustainability factors to be considered by the Board, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors must 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, as provided under the Illinois Sustainable Investing Act. Revisions to the Investment Policy were made during FY 2020 to comply with this new statute. In addition, a related item has been added to the SURS Board of Trustees' Investment Beliefs.

Proxy voting is one important component of the System's corporate governance responsibilities. Additional actions pertaining to corporate governance include membership in the Council for Institutional Investors (CII), a nonprofit organization of more than 140 public, union and corporate employee benefit plans, endowments and foundations with combined assets of approximately \$4 trillion. CII is a "leading voice for effective corporate governance, strong shareowner rights and sensible financial regulations that foster fair, vibrant capital markets." Additionally, CII "works with its members to identify and promote effective engagement practices between companies and their shareholders and best disclosure of company policies on engaging with shareholders."

On October 19, 2017, SURS became a signatory to the Investor Stewardship Group (ISG), joining more than 70 U.S. and international investors with combined assets in excess of \$32 trillion. The ISG establishes a framework comprised of a set of stewardship principles for institutional investors and corporate governance principles for U.S. listed companies.

VII. Manager Diversity Program

Overview

The Manager Diversity Program (MDP) is a SURS-sponsored initiative designed to identify and provide opportunities to highly successful investment management firms owned by minorities, women, and persons with a disability.

Key items of note:

- Developed in 2004 to identify and retain MWDB firms
- Managers contract directly with SURS
- Market Value of \$5.6 billion, as of June 30, 2021

Asset Class	Number of MWDB Managers	Market Value* as of June 30, 2021	Commitment Amount (Private Equity & Real Assets Only)	
Traditional Growth				
U.S. Equity	3	\$571 million	N/A	
Non-U.S. Equity	3	\$1,157 million	N/A	
Global Equity	4	\$757 million	N/A	
Non-Traditional Growth				
Private Equity	9	\$297 million	\$490 million	
Non-Core Real Assets	3	\$93 million	\$235 million	
Stabilized Growth				
Options	1	\$346 million	N/A	
Principal Protection	4	\$1,740 million	N/A	
Crisis Risk Offset				
Systematic Trend 1		\$447 million	N/A	
Alternative Risk Premia	1	\$226 million	N/A	
Total	29**	\$5,632 million		

*Totals may not add due to rounding

**29 firms and 32 strategies due to 2 strategies with 1 private equity investment manager, 2 strategies with 1 real assets manager, and 2 strategies with 1 public equity investment manager

Performance Objectives

The performance objective of the MDP is to seek annualized investment returns, net of investment management fees, in excess of the market goal for 1, 3, 5, and 10 year periods. While individual investment managers may underperform in any given year, the diversification within the program should limit the underperformance at the program level.

Fiscal Year 2021 Performance Review

The MDP returned 19.4% for the fiscal year 2021, lagging the benchmark return of 23.2%. The highest absolute returns came from the public equity and private equity managers. GlobeFlex returned 42.3% outperforming their non-U.S. equity benchmark by 658 basis points. The weakest returns came from the Crisis Risk Offset asset class as the trend following and alternative risk premia managers underperformed their benchmarks. In addition, the Franklin Templeton MDP program significantly underperformed their benchmark in the real estate asset class.

Investment Performance* As of June 30, 2021

	1 Year	3 Years	5 Years	Since Inception
SURS MDP	19.4%	7.5%	8.7%	6.5%
Benchmark	23.2%	10.0%	10.1%	6.9%

*Net of investment management fees

Fiscal Year 2021 MDP Accomplishments

As of June 30, 2021, the MDP is valued at approximately \$5.6 billion. A summary of MDP activities follows.

- SURS made private equity commitments totaling \$175 million to MWDBE-owned private equity firms, including multiple commitments via SURS' discretionary private equity advisor, Aksia TorreyCove. In addition, an additional allocation was made to an existing account with Fairview Capital Partners, a private equity fund-of-funds provider. Commitments were made to the following funds during FY 2021, although not all had drawn capital by June 30, 2021:
 - Fairview Lincoln Fund I (Series B) (\$100 million)
 - Oak HC-FT Partners IV (\$25 million)
 - Base10 Advancement Initiative I (\$25 million)
 - Avance Investment Partners (\$25 million)
- SURS made direct real assets allocations via our real assets consultant, Callan. Commitments were made to the following funds during FY 2021, although not all had drawn capital by June 30, 2021:
 - BIG Real Estate Fund II (lesser of \$50 million or 10% of total commitments)
 - Newport Capital Partners III (lesser of \$30 million or 10% of total commitments)
 - Ember Infrastructure Partners Fund I (lesser of \$50 million or 10% of total commitments
- SURS initiated its private credit program in 2020 and committed \$50 million to Crayhill Capital via private credit consultant, Meketa.
- SURS hosted the 3rd Annual SURS Diverse Manager Week event.

SURS' commitment to diversity extends beyond the bounds of the MDP. In addition to the 29 firms utilized in the MDP, SURS contracts with three additional MWDB firms, bringing the total number of MWDB firms in partnership with SURS to 32. In the most recent Investment Policy, SURS has implemented guidelines for a graduation program for firms in the manager of emerging managers program to receive direct allocations from SURS.

Assets managed for SURS by these 32 firms are approaching \$9.8 billion, or 41.6% of the Total Fund, as of June 30, 2021.

Fiscal Year 2022 MDP Initiatives

Plans for the MDP in FY 2022 include the following:

- Expand industry outreach efforts
- Host the 4th Annual SURS Diverse Manager Week event
- Continue diligent monitoring of the overall program, manager structure, and risk parameters within the program

- Provide a thorough review of the MDP to the Board at the March 2022 Board meeting
- Identify potential opportunities to increase funding to existing qualified investment managers
- Continued interaction with system consultant, Meketa, via more frequent discussions regarding MWDB investment managers

VIII. Defined Contribution Plans

Retirement Savings Plan

The Retirement Savings Plan (RSP), formerly called the Self Managed Plan, is a 401(a) plan type defined contribution option available to SURS members. The RSP has grown steadily since the plan's inception in April 1998. Highlights of the plan include:

- Approximately \$3.9 billion in assets as of June 30, 2021
- RSP forfeiture assets were \$149 million as of June 30, 2021
- Disability reserve assets were \$13 million as of June 30, 2021
- Administrator and recordkeeper
 - Voya Financial (\$3.4 billion of plan assets)
- Legacy service provider
 - TIAA (\$394 million of plan assets)
- Custom lifecycle solution, the SURS Lifetime Income Strategy (LIS), managed by AllianceBernstein
- 16 investment options as of June 30, 2021, including the default option of LIS.
- Over 22,000 Participants currently invested
 - 14,188 active participants
 - 8,463 inactive participants

Deferred Compensation Plan

The Deferred Compensation Plan (DCP), is a new supplemental defined contribution 457(b) type plan created in Public Act 100-0769. This plan became available to SURS members beginning in March 2021.

- Approximately \$237,000 in assets as of June 30, 2021
- Administrator and recordkeeper
 - Voya Financial
- Custom lifecycle solution, the SURS Lifetime Income Strategy (LIS), managed by AllianceBernstein
- 16 investment options as of June 30, 2021, including the default option of LIS.

Fiscal Year 2021 Defined Contribution Accomplishments

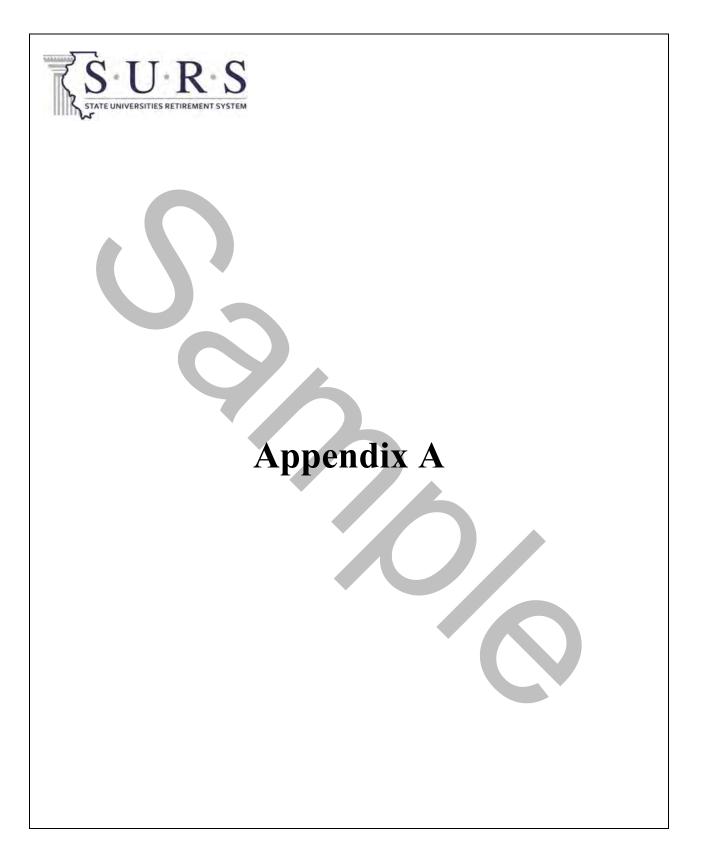
- Completed transition to the new administrator and recordkeeper, Voya Financial, for the RSP.
- Approved new lineup of investment options for the defined contribution plans, streamlining the number of options from 29 to 16.
- Worked with AllianceBernstein to create a custom lifecycle solution with a guaranteed income component (SURS LIS).

- SURS was recognized by industry publication Pensions and Investments with an Eddy Award for communications excellence in the category of plan conversions.
- SURS was a finalist for the 2021 PLANSPONSOR Plan Sponsor of the year award.

Fiscal Year 2022 Defined Contribution Initiatives

Plans for the Defined Contribution Plan in FY 2021 include the following:

- Continue diligent monitoring of the overall program, providers and investment options.
- Continue the roll out of the Deferred Compensation plan to eligible SURS covered employers.
- Prepare for automatic enrollment of new members into the DCP plan as of July 1, 2023, as outlined in SB2301, which is expected to become law.



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2175 NW Raleigh Street Suite 300A Portland, OR 97210 503.226.1050 Meketa.com

MEMORANDUM

- **TO:** State Universities Retirement System of Illinois ("SURS")
- **FROM:** Colin Bebee, CFA; David Sancewich; Ghiane Jones; Neil Rue, CFA; Meketa Investment Group, Inc.
- **DATE:** September 9, 2021
- RE: 2020/2021 Asset-Liability Study Evolving Policy Plan

Recommendation

Meketa recommends that SURS adopt the Evolving Policy Plan presented on page 2. This Evolving Policy Plan pertains to the planned transition of the SURS portfolio to the recently approved long-term strategic allocation policy targets.

Summary

At the June 2021 meeting, the SURS Board approved a new long-term strategic allocation policy. As an investment portfolio with over \$23.5 billion in assets, transitioning from one strategic allocation to another requires appropriate planning, and in most cases, several stages of transitions in order to prudently shift the investment portfolio to the new long-term strategic allocation targets.

The Evolving Policy Plan that is presented on the following page was designed to transition the portfolio to the new long-term strategic allocation targets in a smooth manner without material increases or decreases in the portfolio's aggregate risk/return posture or individual class allocation levels. Moreover, the proposed Evolving Policy Plan was designed in concert with the currently anticipated private markets pacing plans. This plan steps into the new allocations in a systematic and prudent fashion. It is important to note, however, that the plan may be modified over time as the cash flows associated with funding private markets are difficult to predict as well as due to general market dynamics. As a result, Meketa and the SURS Staff will review the Evolving Policy Plan on an ongoing basis and update accordingly.

Evolving Policy Plan					
	Current				New
	Policy				Policy
	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025
Traditional Growth	40.0%	38.0%	37.0%	36.0%	35.0%
Stabilized Growth	21.0%	17.0%	17.0%	17.0%	17.0%
Core Real Assets	4.5%	5.5%	6.5%	7.0%	8.0%
Options Strategies	4.0%	2.0%	2.0%	2.0%	2.0%
Lîquid Credit	12.0%	8.0%	5.5%	4.0%	2.0%
Private Credit	0.5%	1.5%	3.0%	4.0%	5.0%
Non-Traditional Growth	11.0%	13.0%	14.0%	15.0%	16.0%
Private Equity	8.5%	10.0%	10.5%	11.0%	11.0%
Non-Core Real Assets	2.5%	3.0%	3.5%	4.0%	5.0%
Inflation Sensitive	5.0%	5.0%	5.0%	5.0%	5.0%
Principal Protection	8.0%	8.0%	8.0%	8.0%	8.0%
CRO	15.0%	19.0%	19.0%	19.0%	19.0%
Total Illiquid Assets	16.0%	20.0%	23.5%	26.0%	29.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Key Takeaways

- During the summer months of 2021, SURS Staff increased the policy allocations of *CRO* from 10% to 15% and *Non-Traditional Growth* from 10% to 11% with corresponding policy reductions of 1% coming from both *Inflation Sensitive and Traditional Growth* and 4% coming from *Stabilized Growth*. These incremental changes were discussed at the June 2021 meeting and were in-line with prevailing allocation ranges per policy.
- During the current 2022 fiscal year, the allocation to CRO will increase from 15% to 19% and the allocation for Stabilized Growth will decrease from 21% to 17%. By the end of the fiscal year, Stabilized Growth, Inflation Sensitive, Principal Protection, and CRO will be at their new long-term strategic allocation policy targets.
- Over the next three fiscal years, there are two remaining transitions, both of which will be continual and deliberate:
 - 1. A reallocation of growth-oriented assets from *Traditional Growth* (i.e., public equity) to *Non-Traditional Growth* (i.e., high return-seeking private markets).
 - 2. A reconstitution of *Stabilized Growth*. The assets that make up *Stabilized Growth* will generally transition from public markets (i.e., Options Strategies and Liquid Credit) to private markets (i.e., Core Real Estate and Private Credit).

Appendix H: SURS Sustainability Disclosure



Investment Department

SURS Sustainability Disclosure

In accordance with 30 ILCS 238/10, the following disclosure is required of any potential investment manager hired by SURS.

Name of Asset Management Firm:

Name of Strategy:

Firm Address:

Contact Person's Name:

Phone:_____

Please **<u>attach</u>** a response to the following:

Describe how the firm integrates sustainability factors into the investment decision-making process, investment analysis, portfolio construction, due diligence, and investment ownership in order to maximize anticipated risk-adjusted returns, identify projected risk, and execute the firm's fiduciary duties.

By signing, I acknowledge that the information provided is correct.

Signature of Authorized Official:		Date:
Name (printed):	Title:	

Illinois Sustainable Investing Act

The five sustainability factors cited in the Illinois Sustainable Investing Act (30 ILCS 238/20) are listed below for reference:

"...Sustainability factors may include, but are not limited to, the following:

(1) Corporate governance and leadership factors, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.

(2) Environmental factors that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.

(3) Social capital factors that impact relationships with key outside parties, such as customers, local communities, the public, and the government, which may impact investment performance. Social capital factors include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.

(4) Human capital factors that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.

(5) Business model and innovation factors that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change."