

# FISCAL YEAR 2024 INVESTMENT PLAN



September 2023



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September 1, 2023

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

RE: ***Fiscal Year 2024 Investment Plan***

Dear Board of Trustees:

The Investment Staff is pleased to provide the SURS Investment Plan for Fiscal Year 2024. This document was developed 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 2024 marks the thirteenth year of the formal plan for the SURS investment program.

The Investment Plan reviews the results of Fiscal Year 2023 and defines the strategy for Fiscal Year 2024 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 produced modest returns over the course of the fiscal year, its defensive posture keeping total portfolio risk in check. The portfolio returned 5.3%, net of fees, trailing the policy benchmark return of 6.1%. When compared to a universe of other large public funds, the SURS peer rankings are challenged for the one-year period ending June 30, 2023, but are near top decile for the two-year period. For the three-, five- and ten-year periods, SURS ranks well above median in the universe. The primary reason for the weak results in the one-year period is a more defensive posture compared to peers. While this positioning will result in weaker relative results in very strong equity markets like those seen in FY 2023, it provided critical downside protection during periods of significant equity market declines seen during FY 2022.

From a long-term perspective, the SURS portfolio has performed well, earning an 7.9% annualized rate of return over the past 30 years, exceeding the 7.6% policy portfolio return. This return is also in excess of the 7.8% average assumed rate of return in effect over the last 30 years and the current 6.5% assumed rate of return.

As of June 30, 2023, the defined benefit plan is valued at \$22.9 billion while the Retirement Savings Plan (RSP) is valued at \$3.9 billion (including forfeiture and disability reserve assets). SURS also offers a new supplemental defined contribution 457(b) plan, the Deferred Compensation Plan (DCP). Assets in the DCP were \$29 million, as of June 30, 2023.

Over the past several years, the portfolio has systematically and purposefully been restructured. The portfolio restructuring is now nearly complete with relatively minor changes expected over the coming year. The new portfolio structure was designed to protect System assets and to minimize the impact of near-term negative surprises. Importantly, the new structure is expected to achieve our target expected returns with lower risk. While this has resulted in weaker relative results in very strong equity markets like those seen in FY 2023, it provided critical downside protection during periods of significant equity market declines seen during FY 2022. 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.

Other key accomplishments in the defined benefit portfolio include:

- Successful completion of searches for General Investment Consultant, Defined Contribution Consultant and Real Assets Consultant;
- Successful completion of search for emerging markets equity investment managers;
- Comprehensive structure review of the Traditional Growth portfolio;
- Continued commitment to private market portfolios;
- Elimination of Options Strategies allocation and increase to the Liquid Credit allocation;
- Implementation of new long volatility and tail risk strategies in the CRO class;
- Reallocation of 2% from the Alternative Risk Premium sub-class (CRO) to the Principal Protection portfolio;
- Continued focus on partnering with diverse investment managers. As of June 30, assets managed by diverse firms totaled \$10.2 billion, or 44.3% of the portfolio. This represents an increase in assets under management with diverse firms of \$914 million in the past year.

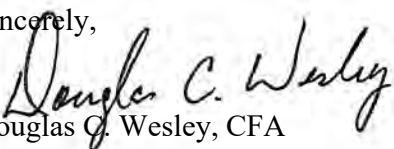
The new DCP, first available on March 1, 2021, continued its rollout, with almost 1,300 members enrolling during FY 2023. The DCP provides members an avenue to save more and generate additional income in retirement.

Numerous projects are planned for Fiscal Year 2024, including, but not limited to, the following:

- Implementation of automatic enrollment of new members into the DCP, as of July 1, 2023.
- Continued implementation of Private Credit and Non-Traditional Growth allocations;
- Continued review of opportunities to include firms owned by minorities, women and persons with a disability in the investment program;

The Investment Plan for Fiscal Year 2024 contains additional details on Fiscal Year 2023 accomplishments and strategic initiatives for Fiscal Year 2024. 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 2024 Investment Plan*** at future meetings.

Sincerely,



Douglas C. Wesley, CFA  
Chief Investment Officer

cc: Suzanne Mayer, Executive Director



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## I. Purpose

The Investment Plan reviews the results of Fiscal Year 2023 and defines the strategy for Fiscal Year 2024 in accordance with the Board-approved asset-liability study and Investment Policy<sup>1</sup>. **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

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 approximately \$22.9 billion in a diversified portfolio across several functional asset classes, as of June 30, 2023. SURS also administers a defined contribution plan, the Retirement Savings Plan, which currently has assets of approximately \$3.9 billion (including forfeiture and disability reserve assets), as of June 30, 2023. In addition, SURS offers the Deferred Compensation Plan (DCP), a supplemental defined contribution 457(b) type plan created in Public Act 100-0769. Assets in the DCP were approximately \$29 million, as of June 30, 2023.

### Fiscal Year 2023 Performance Review

The SURS investment portfolio produced modest returns over the course of the fiscal year, its defensive posture keeping total portfolio risk in check. The portfolio returned 5.3%, net of fees, trailing the policy benchmark return of 6.1%.

Over the past several years, the portfolio has systematically and purposefully been restructured. The restructuring was designed to protect System assets and diversify the portfolio to minimize the impact of near-term negative surprises. Importantly, the new structure is expected to achieve our target expected returns with a lower risk. The key portfolio change was the introduction of the Crisis Risk Offset (CRO) portfolio. First introduced in December 2019, the CRO portfolio was gradually increased and currently is at a policy target of 17% as approved by the Board in April 2023. The Traditional Growth portfolio (i.e., public equity), the primary funding source for CRO, was reduced to 36% as of June 30, 2023. This shift from growth-oriented assets to diversifying strategies reduces total portfolio risk. In periods where risk assets are unusually strong, the portfolio's lower risk profile would be expected to result in slightly lower portfolio returns. Given the System's funded status, SURS believes the defensive posture is prudent.

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, 2023.

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<sup>1</sup> The SURS Investment Policies can be found at <https://surs.org/business/investments/policy-and-procurement-practices>.

**Investment Performance\***  
**As of June 30, 2023**

	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years
<b>SURS</b>	5.3%	8.8%	7.0%	7.5%	7.6%	7.9%
<b>Policy Portfolio</b>	6.1%	7.8%	6.5%	7.3%	7.5%	7.6%
<b>SURS Assumed Rate</b>	6.5%	6.6%	6.6%	6.9%	7.5%	7.8%

\*Net of investment management fees

**Attribution for FY 2023:**

Negative contributors to relative performance during the fiscal year included:

- Underweight to the Traditional Growth Portfolio and Overweight to the Non-Traditional Growth Portfolio;
- Underperformance by the Stabilized Real Assets and Private Credit fixed income segments of the Stabilized Growth portfolio;
- Underperformance by the Alternative Risk Premia sub-component of the Crisis Risk Offset class.

Positive contributors to relative performance during the fiscal year included:

- Performance in four of the six major functional classes matched or exceeded the benchmark.
- Strong absolute and relative performance by the Traditional Growth public equity portfolio;
- Strong absolute and relative performance by the Public Credit segment of the Stabilized Growth portfolio;
- Outperformance by the Principal Protection portfolio;
- Strong relative performance of the Systematic Trend Following, Long Duration and Long Volatility segments of the Crisis Risk Offset portfolio;

Other portfolio sub-classes with strong relative returns for the fiscal year were:

- Non-Core Infrastructure (Non-Traditional Growth) Excess return of +10.6%
- Non-Core Real Estate Debt (Non-Traditional Growth) Excess return of +6.8%
- Non-Core Real Estate (Non-Traditional Growth) Excess return of +4.3%
- Long Volatility (CRO) Excess return of +2.8%
- Private Equity (Non-Traditional Growth) Excess return of +2.6%
- Systematic Trend Following (CRO) Excess return of +2.0%

Performance of each of the broad asset classes during FY 2023 is shown in the table that follows.

### SURS FY 2023 Asset Class Returns (Net of Fees)

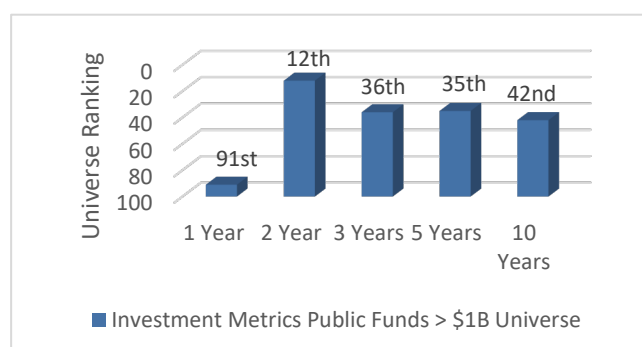
Asset Class	FY 2023 Return	Asset Class	FY 2022 Return
<b>Growth-Oriented</b>		<b>Diversifying</b>	
<b>Non-Traditional Growth</b>	<b>-1.6%</b>	<b>Inflation Sensitive</b>	<b>-1.4%</b>
Performance Benchmark	<b>-4.3%</b>	Performance Benchmark	<b>-1.4%</b>
Excess	2.7%	Excess	0.0%
<b>Traditional Growth</b>	16.3%	<b>Principal Protection</b>	<b>-0.8%</b>
Performance Benchmark	16.1%	Performance Benchmark	<b>-1.2%</b>
Excess	0.2%	Excess	0.4%
<b>Stabilized Growth</b>	0.1%	<b>Crisis Risk Offset ex-Tail Risk</b>	0.9%
Performance Benchmark	1.8%	Performance Benchmark	1.3%
Excess	<b>-1.7%</b>	Excess	<b>-0.5%</b>

From a long-term perspective, the SURS portfolio has performed well, earning an 7.9% annualized rate of return over the past 30 years, exceeding the 7.6% policy portfolio return. This return is also in excess of the 7.8% average assumed rate of return in effect over the last 30 years and the current 6.5% assumed rate of return. In inflation-adjusted terms, the Total Fund returned 5.6% over this time period, exceeding the current actuarial real assumed rate target of 4.25% (6.5% less the 2.25% assumed rate of price inflation).

### Peer Analysis

When compared to a universe of other large public funds, the SURS return ranks in the bottom decile for the one-year period ending June 30, 2023, but near top decile for the two-year period. For the three-, five- and ten-year periods, SURS ranks well above median in the universe. The primary reason for the weak results in the one-year period is a more defensive posture compared to peers. The SURS portfolio has a lower public 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 2023, it provided critical downside protection during periods of significant equity market declines seen during FY 2022. Asset allocation is the primary determinant of a fund's ranking in a peer universe.

**SURS Total Fund Return vs. Public Funds > \$1 Billion**  
Periods Ending 6/30/23  
(1 = Best, 100 = Worst)



On a risk-adjusted basis, the SURS portfolio has outperformed the Median Public Fund in all trailing time periods as shown below. 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.

SURS Return (%) vs. Risk-Adjusted Median Public Fund Return (%) As of June 30, 2023				
	1 Year	3 Years	5 Years	10 Years
<b>Total Fund Return</b>	<b>5.3</b>	<b>8.8</b>	<b>7.0</b>	<b>7.5</b>
<i>Risk-Adjusted Public Fund Median<sup>2</sup></i>	5.2	6.2	5.6	6.6
Excess Return	0.1	2.6	1.4	0.9

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, 2018, and 2021. In June 2021, SURS completed the comprehensive 2020/2021 Asset-Liability Study that culminated in a new long-term policy portfolio. This new long-term policy portfolio was an extension of the major decisions and portfolio alterations that were approved by the Board as a result of the 2018 Asset-Liability Study. A related, but technically separate, decision by the Board was the lowering of the assumed investment return (for actuarial purposes) from 6.75% to 6.50% as of 6/30/21.

At the March 2023 meeting, Meketa provided updated capital market projections to the SURS Board. Recent market movements provided SURS with the opportunity to potentially modify the portfolio structure at the margin in between major asset-liability studies. Higher interest rates result in higher expected returns for yield-oriented asset classes. In addition, more attractive valuations for public equity markets imply higher expected return in that class. These changes provide an opening to shift back, at the margin, into more traditional asset classes such as investment grade bonds. As a result, in April 2023 the SURS Board approved the following modest changes to the policy target allocations:

- Elimination of the Options Strategies sub-class, shifting the 2% allocation to Liquid Credit (both in Stabilized Growth Class)
- Shift of 2% from Alternative Risk Premia (CRO Class) to Principal Protection

These modifications are expected to reduce cost and complexity while maintaining a similar risk/return profile of the overall portfolio.

<sup>2</sup> Risk-adjusted median normalizes the median fund to the SURS exhibited volatility. Calculated as risk-adjusted median = unadjusted median return \* (SURS volatility/peer volatility).

The current and long-term strategic policy targets adopted by the Board in April 2023 are 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. Currently, four of the six broad functional classes are at target weight. The only functional classes not at target are Non-Traditional Growth and its funding source, Traditional Growth. Annual pacing plans within the Non-Traditional Growth class, comprised of private equity and non-core real assets investments, will move the class to the target over time.

	Functional Asset Class	Current Policy Target as of 7/01//23	Long-Term Strategic Policy Target
Growth-oriented	Non-Traditional Growth	15%	16%
	Traditional Growth	36%	35%
	Stabilized Growth	17%	17%
Diversifying	Inflation Sensitive	5%	5%
	Principal Protection	10%	10%
	Crisis Risk Offset	17%	17%

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

**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
Growth	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)
	Traditional Growth	Provide growth in line with traditional global public equity markets
	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 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, Tail Risk and Long Volatility)

## IV. Fiscal Year 2023 Accomplishments

The following projects were completed during Fiscal Year 2023:

### Consultant Searches

SURS spent a considerable amount of time during the previous fiscal year on various consultant searches. Requests for proposal (RFPs) were issued in the summer of 2022 for General Investment Consultant and Defined Contribution Consultant. In late 2022, an RFP for Real Assets Consultant was issued. Each of these searches concluded during FY 2023. State law requires that these positions be re-bid every five years. Incumbent firms are invited to participate. Consultants, along with investment staff, play an important role in advising the Board on prudent investment actions.

- **General Investment Consultant** – In December 2022 Meketa was selected as general investment consultant for the defined benefit plan. The contract term is five years.
- **Defined Contribution Consultant** – In February 2023 the SURS Board selected CAPTRUST as the defined contribution consultant for a five-year term.
- **Real Assets Consultant** – In June 2023 Callan was selected as real assets consultant for a term of five years.

### Growth-Oriented Strategies

- **Traditional Growth Portfolio** – Over the past year, much of the work in the traditional growth portfolio (public equities) has been related to fine-tuning the portfolio structure, as discussed below.
  - **Conclusion of Emerging Markets Equity Search** – A search for emerging markets managers was initiated in early 2022. In September 2022, the search concluded with the Board's selection of William Blair Investment Management and Nipun Capital. Assets were transitioned from the passive emerging markets equity strategy to fund the new mandates.
  - **Comprehensive Structure Review** – In April 2023 Meketa presented the results of a comprehensive review of the Traditional Growth portfolio structure. Structure reviews are designed to examine and potentially modify how asset classes are implemented. The review resulted in modest changes to the portfolio including the termination of two equity mandates and a modest increase in target weighting of a

passive U.S. equity mandate. These changes are expected to minimize unintended factor biases, lower management fees, improve contributions from diverse managers, streamline portfolio construction, and increase high conviction manager engagements.

- **Stabilized Growth Portfolio** – The Stabilized Growth portfolio is made up of four components: Core Real Assets, Private Credit, Liquid Credit, and Options Strategies.

- **Continued Commitment to Core Real Assets Portfolio** – The June 2021 asset-liability study substantially increased the targets to the two components of Real Assets.
  - Stabilized Growth (Core) was increased from 6% to 8% of total assets
  - Non-Traditional Growth (Non-Core) was increased from 4% to 5% of total assets

In December 2022, Callan, SURS non-discretionary real assets consultant, completed a pacing study to forecast how much additional capital will be required each year for SURS to reach and maintain its policy targets for the Real Assets portfolio. In line with this analysis, the following core Real Assets commitments either were approved by the SURS Board or closed during FY 2023:

- Clarion Lion Properties Fund (\$225 million) – closed July 2022
  - IFM Global Infrastructure Fund (\$100 million) – closed August 2022
- **Continued Buildout of Private Credit Portfolio** – In September 2020, the Board selected 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 February 2023, Meketa provided an update to the pacing model for private credit, designed to grow the portfolio to its 5% strategic policy target over the next several years. The annual commitment target is approximately \$500 million. The emphasis during FY 2023 was on increasing geographic diversification, especially within Europe, and emphasizing strategies that focus on re-investing rather than distributing income. During FY 2023, commitments totaling \$600 million were made to five private credit investments. Even though the portfolio is relatively young, SURS has already seen strong performance from the opportunistic investments in the private credit portfolio. Partnering with MWDBE firms remains a priority, and during the fiscal year, commitments to diverse-owned firms represented \$200 million of the total, or approximately 33%.

- **Changes to Liquid Credit and Options Strategies Allocations** – As discussed previously, in response to changing capital market projections (higher interest rates and increased return projections for investment grade bonds), in April 2023, the Board slightly modified the long-term strategic policy targets. Changes included eliminating the Options Strategies sub-class, shifting the 2% allocation to the Liquid Credit sub-class. This action is expected to reduce cost and complexity while maintaining a similar risk/return profile for the overall portfolio.

- **Non-Traditional Growth Portfolio** – The Non- Traditional Growth portfolio consists of the private equity and non-core real assets portfolios.
  - **Private Equity** – Aksia serves as SURS’ discretionary private equity advisor. In their role, Aksia evaluates the existing private equity portfolio, assists in strategy formulation, and, after thorough investment and operational due diligence, selects funds for investment on SURS’ behalf. During FY 2023, SURS closed on a total of seven commitments to private equity investments, totaling \$247.5 million. These commitments were in accordance with the strategic plan and pacing model completed by Aksia in December 2022. Importantly, 60.6% of the commitments closed during this period were made to diverse firms. Highlights of commitments made during FY 2023 include:
    - **Continued Emphasis on Diverse Managers in Small End of Market** – A follow-on commitment of \$100 million was made to Lincoln Fund I (Series C) managed by Fairview Capital Partners to gain additional diversifying exposure to the venture capital / small buyout market. The exposure is expected to complement the Aksia portfolio, which focuses more on the middle market private equity segment.
    - **Expansion of Co-Investment Program** – In February 2023 SURS committed \$410 million to expand the co-investment program with Aksia. This program, which is in addition to the \$247.5 million in commitments mentioned above, is expected to close in early FY 2024. SURS previously committed \$200 million to the SURS TorreyCove Co-Investment Fund I. Co-investments offer benefits of investing directly into private companies at a significantly reduced cost.
  - **Non-Core Real Assets**
    - **Consideration of Non-Traditional Growth Real Assets Strategies**  
Over the past year, commitments were made to further diversify the non-core real assets portfolio to include additional real estate and infrastructure exposure. During FY 2023, the Board approved the following commitments in accordance with the strategic plan and pacing study recently completed by Callan.
      - Non-Traditional Growth
        - Torchlight Debt Fund VIII (\$50 million)
        - Longpoint Fund III (\$60 million)
        - Homestead Capital USA Farmland Fund IV (\$40 million)
        - Brasa Real Estate Fund III (Lesser of \$50 million or 10% of total fund commitments)
        - Long Wharf Real Estate Partners VII (Lesser of \$40 million or 10% of total fund commitments)
    - **Continued Focus on Diversity** – During FY 2023, SURS committed \$150 million to Real Assets funds managed by diverse firms. This represented 62.5% of total commitments to Non-Traditional Growth Real Assets strategies during the year.

## Diversifying Strategies

- **Crisis Risk Offset and Principal Protection Portfolios**

- **Implementation of New CRO Strategies**

During the first quarter of FY 2023, Staff completed implementation of the new long volatility and tail risk strategies approved by the Board in late FY 2022. These strategies are sometimes called “first responder” strategies in that they serve as a hedge during a growth risk (public equities) crisis. These strategies will work in conjunction with the existing long duration strategy in fulfillment of the “first responder” role, further strengthening the “first responder” segment of the CRO class and providing additional downside protection in the event of sharp or significant equity market declines.

- **Shift of 2% from Alternative Risk Premia Strategies to Principal Protection**

As discussed previously, in response to changing capital market projections (higher interest rates and increased return projections for investment grade bonds), in April 2023, the Board slightly modified the long-term strategic policy targets. Changes included reallocating 2% from the Alternative Risk Premia sub-class to the Principal Protection class, reducing cost and complexity while maintaining a similar risk/return profile for the overall portfolio.

## Defined Contribution Plans

- **Replacement of RSP Fund Option** – SURS replaced the underlying fund option for the SURS U.S. Small-Mid Cap Value Equity Fund, resulting in lower fees to the plan.
- **Continued Enrollment Growth** – Almost 1,300 members enrolled in the supplemental Deferred Compensation Plan (DCP) during FY 2023, bringing the total enrolled members, as of 6/30/2023, to over 3,300 members.
- **Completion of Defined Contribution Consultant Search** – As mentioned previously, SURS completed a defined contribution consultant search during the year, resulting in the retention of incumbent consultant, CAPTRUST, for a five-year contract, which covers the relationship through March 31, 2028.
- **Preparation for Automatic Enrollment** – SURS worked with Voya, the Plan Administrator and Recordkeeper, and CAPTRUST, the defined contribution consultant, to prepare for automatic enrollment of new members into the DCP plan as of July 1, 2023, as outlined in Public Act 102-0540.
- **DCP Recognition** – SURS was awarded a 2023 Leadership Recognition award by the National Association of Government Defined Contribution Administrators for the design and rollout of the SURS Deferred Compensation Plan (DCP).
- **Review of the DC Investment Policy** took place during FY 2023 with no changes recommended.

## Search for Database and Analytics Service Provider

For several years, SURS staff has been using eVestment on an annual renewal basis for due diligence, selection and monitoring of investment managers. In February 2023, staff issued an RFP for an investment manager and data analytics database, with the goal of securing a multi-year contract to provide cost savings over an annual renewal framework. Nine firms responded to the RFP. Staff compiled all responses and interviewed firms that were determined to be able to provide the required services at a cost-effective value. The contract was awarded to the current provider, eVestment, for a three-year term.

## Policies, Investment Beliefs & Trustee Education

- **Investment Policy Review and Revision** – SURS works with the Board, investment consultants, and legal department to make Policy changes. There are three main policies administered by the Investment Department: the defined benefit (DB) policy, defined contribution (DC) policy, and the Investment Procurement Policy.

The DB Investment Policy statement and Investment Procurement Policies were reviewed and revised in September 2022. In addition, the Board reviewed and reaffirmed the asset and brokerage goals for the utilization of diverse firms. The DC policy was reviewed during March 2023 with no changes recommended.

- **Trustee Education** – Education was provided to Trustees on a number of relevant topics, during FY 2023, including:
  - Fixed Income Portfolio Management
  - Continuation Funds and Co-Investments
  - Direct Lending
  - Systematic Trend Following Strategies
  - 2023 Economic Outlook
  - Securities Litigation Overview and Foreign Opt-In Process
  - Defined Contribution Plans & SURS Lifetime Income Strategy
  - CY 2023 Capital Market Assumptions

## Diversity & Inclusion

- **Diverse Manager Week** – SURS hosted its fourth annual Diverse Manager Week during the week of August 1, 2022. SURS investment staff conducted meetings with 21 firms across different asset classes. SURS’ consultant/advisor partners also participated, with representatives from Meketa, Callan, Aksia, Fairview Capital Partners, The Bivium Group, Xponance, and CapTrust.
- **Launch of Diverse Manager Outreach Portal** – During FY 2023 SURS Investment Staff launched a Diverse Manager Outreach Portal to provide an opportunity for diverse-owned investment management firms with greater than 51% ownership by minorities, women, or people with a disability to present to the SURS investment team, its manager-of-manager partners, and/or its consultants on a monthly or quarterly basis depending on asset class. The portal is an expansion of the annual Diverse Manager Week event designed to provide the ability to meet with more managers throughout the year. Since its launch, 60 meetings have been arranged and conducted with diverse firms, as of June 30, 2023.
- **Hosting of Joint Webinar with Fairview Capital** – SURS partnered with Fairview Capital Partners to host a virtual session in August 2023 providing insights into SURS diverse and emerging manager program, specifically in reference to the private equity portfolio. Participants were able to learn about features distinct to Illinois pension plans, the history and evolution of the program and its current parameters.
- **Participation in Diversity-Themed Conferences** - Staff also participates in various diversity themed conferences/webinars to make sure SURS is a familiar organization for

diverse-owned firms in both public and private markets. Examples of events during the past year include:

- Big Path Impact & Diverse PE Manager Showcase Oct – October 2022 – Participant
  - GCM Grosvenor Small & Emerging Manager Conference - October 2022 - Participant
  - NAIC LP Meetup – Oct 2022 – Participant
  - Brasa Real Estate Diversity Summit Co-hosted by NAIC and the Toigo Foundation – November 2022 – Participant
  - Chicago Chapter of Association of Asian American Investment Managers (AAAIM) Seminar – November 2022 - Panelist
  - DAMI/Emerging Manager Monthly DEI in Asset Management – February 2023 – Participant
  - Texas TRS/ERS Emerging Manager Conference – February 2023 – Participant
  - NASP Women’s History Month Breakfast – March 2023 - Honoree
  - Meketa Emerging and Diverse Manager Conference Roundtable – April 2023 – Participant
  - Women’s Alliance 2<sup>nd</sup> Annual Diversity Investing Symposium – April 2023 - Panelist
  - GCM Grosvenor Consortium – May 2023 – Participant
  - MWDBE Owned Manager of Managers Outreach/Introductory Meetings with Leading Edge & Attucks – May 2023 – Meeting Host
  - Fairview Capital Partner's Mid-Year Update on Woman and Minority-Owned Firms – June 2023 – Participant
- **Commitment to Diversity** – SURS continues to be strongly committed to diversity throughout the investment program. In total, 38 firms owned by minorities, women, or persons with a disability (MWDB) directly manage a total of \$10.2 billion, or 44.3% of the Total Fund, as of June 30, 2023. SURS employs a multi-strategy approach designed to maximize opportunities for qualified firms.
    - The Manager Diversity Program (MDP) is an 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, 2023, the MDP totals \$5.8 billion and includes 35 minority- or women-owned investment managers.
      - Increase in MDP assets of approximately \$359 million during FY 2023
    - Second, SURS partners with two firms to construct manager of emerging managers programs. The Bivium Group manages a liquid credit portfolio, and Xponance manages a global equity portfolio. These collaborations allow SURS to extend its reach into the minority manager universe. As of June 30, 2023, the Bivium program includes five minority- or women-owned investment managers (with six mandates) and has total assets of \$362 million. The Xponance portfolio includes ten minority- or women-owned investment managers and has total assets of \$295 million, as of June 30, 2023.
    - 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 additional MWDB firm, bringing the total number of MWDB firms in partnership with SURS to 38. Assets managed for SURS by these 38 firms are approximately \$10.2 billion, or 44.3% of the Total Fund, as of June 30, 2023.

- Increase in total assets with diverse firms of approximately \$914 million during Fiscal Year 2023
- Increase in percentage of assets with diverse firms from 40.9% to 44.3% of SURS total assets.

## V. Fiscal Year 2024 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

The asset-liability study conducted and approved during FY 2021 has largely been implemented, with only fine-tuning remaining. Much of this implementation occurred during FY 2022, and, currently, four of the six broad functional classes are at target weight. The only functional classes not at target are Non-Traditional Growth and its funding source, Traditional Growth. As is typical with private market investments, annual pacing plans are presented to gradually increase the allocation towards the targets.

### Growth Oriented Strategies

- **Continued Implementation of Stabilized Growth Portfolio**

While the Stabilized Growth portfolio is at its target weight, some rebalancing remains within functional sub-classes as pacing into the Private Credit portfolio will likely be ongoing for the next couple of years. Meketa, as the private credit specialty advisor, will continue to build out the private credit allocation, with a goal to commit to six to eight funds totaling \$500 million during FY 2024.

- **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. The real assets long-term target is currently 13% (8% to stabilized growth and 5% to non-traditional growth).
- **Private Equity** – The long-term policy target for private equity is 11% of the total portfolio. During FY 2024, Aksia, SURS' discretionary private equity advisor, will continue implementation of the private equity strategic plan. An update to the pacing model is planned for late 2023 and is designed to maintain the portfolio at its target level.

### Deferred Compensation Plan (DCP)

In accordance with statute, SURS is in the process of preparing for automatic enrollment of new members into the DCP, as of July 1, 2023. Participation in DCP is voluntary and complements other SURS retirement plans. Supplemental savings play a critical role in retirement readiness.

## **Investment Policy Review**

The Investment Policy Statements for the defined benefit and defined contribution plans and the Investment Procurement Policy were reviewed and approved by the Board during FY 2023. Additional review will be conducted and potential revisions to the various policies will be considered during FY 2024.

## **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 addition, SURS staff plans to continue to utilize the new Diverse Manager Outreach portal on the SURS website to facilitate meetings with prospective diverse-owned firms.

## **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. If necessary, staff and Meketa collaborate to make any necessary revisions to a manager's guidelines.

Monitoring the risk of the investment program continues to expand and evolve with the implementation of BlackRock's Aladdin, a risk analytics tool. Aladdin provides a comprehensive view of SURS portfolio and allows a detailed view on exposure across every portfolio and functional classes. It will also allow staff to monitor risk factors and run stress tests across various scenarios.

## **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 2023, staff negotiated more favorable fee arrangements with five new and existing investment service providers. In aggregate, these fee negotiations are expected to result in over \$1.0 million in fee savings.

In total, SURS paid approximately \$112.1 million or approximately 50 basis points in investment management fees and administrative expenses for Fiscal Year 2023. Total investment management fees for Fiscal Year 2024 are projected to increase by \$31.6 million from fiscal year 2023 budgeted fees and include fees paid directly from alternative asset funds. This increase is attributable to the continued growth of the private credit and non-traditional growth portfolios and also due to efforts to increase transparency of private market fee reporting.

## VI. Environmental, Social & Governance (ESG) Issues

SURS continues to place a high priority on ESG issues. Illinois statute 40 ILCS 5/1-113.6, 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. These factors were incorporated into the Investment Policy and the SURS Board of Trustees' Investment Beliefs.

In compliance with recently passed Illinois statute, 40 ILCS 5/15-177.6, SURS will post an Annual Fiduciary Report to the SURS website by September 1<sup>st</sup> which will outline SURS' incorporation of the sustainability factors across the portfolio. Topics in the report will include: Board strategy related to the sustainability factors, risk assessment, investment manager's incorporation of the sustainability factors into the decision making process, an annual proxy voting report, and SURS' practices regarding corporate engagement and stewardship.

Proxy voting is one important component of the System's corporate governance responsibilities. SURS continues to work closely with Glass Lewis to vote its proxies in line with Public Pension Policy guidelines. During FY2023, SURS voting policy voted in favor of proposals related to the following topics:

- Increased board gender diversity
- Increased disclosure regarding EE01 reporting regarding workforce diversity
- Increased involvement in United Nations Global Compact or adoption of Human Rights Policies in line with International Labor Organization or the Universal Declaration on Human Rights (UDHR).
- Reporting aligned with the Sustainability Accounting Standards Board (SASB) and responding to the CDP climate survey
- Change in auditor when tenure has exceeded 20 years
- Compensation issues that re linked to performance and are transparent

More information on SURS proxy voting history can be found on the SURS website.

Additional actions pertaining to corporate governance include membership in the Council for Institutional Investors (CII) and Investor Stewardship Group (ISG).

- CII is 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." Mitch Vogel, a member of the SURS Board of Trustees, has been a member of the CII Board of Directors since 2020.
- 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 an 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 \$5.84 billion, as of June 30, 2023

Asset Class	Number of MWDB Managers	Market Value* as of June 30, 2023	Commitment Amount (Private Equity, Real Assets & Private Credit Only)
<b>Traditional Growth</b>			
Non-U.S. Equity	5	\$1,192 million	N/A
Global Equity	3	\$804 million	N/A
<b>Non-Traditional Growth</b>			
Private Equity	11	\$544 million	\$725 million
Non-Core Real Assets	7	\$213 million	\$595 million
<b>Stabilized Growth</b>			
Private Credit	3	\$148 million	\$300 million
<b>Principal Protection</b>	4	\$2,203 million	N/A
<b>Crisis Risk Offset</b>			
Systematic Trend	1	\$491 million	N/A
Alternative Risk Premia	1	\$243 million	N/A
<b>Total</b>	35	\$5,838 million	

\*Totals may not add due to rounding

### Fiscal Year 2023 MDP Accomplishments

As of June 30, 2023, the MDP is valued at approximately \$5.8 billion. A summary of MDP activities follows.

- In partnership with Aksia, SURS made private equity commitments totaling \$150 million to MWDBE-owned private equity firms during FY 2023, representing 60.6% of total private equity commitments during the year. Commitments were made to the following funds during FY 2023, although not all had drawn capital by June 30, 2023:
  - Base10 Advancement Initiative II
  - OceanSound Partners Fund II
  - Fairview Lincoln Fund I (Series C)

- SURS made direct private credit allocations via our private credit advisor, Meketa. A \$200 million commitment, which represents 33.3% of total private credit commitments, was made to the following fund during FY 2023:
  - Silver Rock Tactical Allocation Fund – Vintage 2022
- SURS made direct real assets allocations via our real assets consultant, Callan. Commitments totaling \$150 million were made to the following funds during FY 2023:
  - Longpoint Fund III
  - Brasa Real Estate Fund III
  - Long Wharf Real Estate Partners VII
- SURS hosted the 4<sup>th</sup> Annual SURS Diverse Manager Week event.
- SURS hired one diverse-owned manager as a result of the emerging markets equity search:
  - Nipun Capital

SURS' commitment to diversity extends beyond the bounds of the MDP. In addition to the 35 firms utilized in the MDP, SURS contracts with three additional MWDB firms, bringing the total number of MWDB firms in partnership with SURS to 38. In accordance with the 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 38 firms are approximately \$10.2 billion, or 44.3% of the Total Fund, as of June 30, 2023.

### **Fiscal Year 2024 MDP Initiatives**

Plans for the MDP in FY 2024 include the following:

- Expand industry outreach efforts
- Continue diligent monitoring of the overall program, manager structure, and risk parameters within the program
- 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) 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, 2023
- RSP forfeiture assets were \$17 million as of June 30, 2023
- Disability reserve assets were \$150 million as of June 30, 2023
- Administrator and recordkeeper
  - Voya Financial (\$3.4 billion of plan assets)
- Legacy service provider
  - TIAA (\$360 million of plan assets)
- Custom lifecycle solution, the SURS Lifetime Income Strategy (LIS), managed by AllianceBernstein
- 16 investment options as of June 30, 2023, including the default option of LIS.
- Over 23,000 Participants currently invested
  - 14,233 active participants
  - 9,194 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 \$29 million in assets, as of June 30, 2023
- Administrator and recordkeeper
  - Voya Financial
- Custom lifecycle solution, the SURS Lifetime Income Strategy (LIS), managed by AllianceBernstein
- 16 investment options as of June 30, 2023, including the default option of LIS.

### **Fiscal Year 2023 Defined Contribution Accomplishments**

- SURS replaced the underlying fund option for the SURS U.S. Small-Mid Cap Value Equity Fund, resulting in lower fees to the plan.
- Almost 1,300 members enrolled in the DCP during FY 2023, bringing the total enrolled members as of 6/30/2023 to over 3,300 members.
- SURS completed a defined contribution consultant search during the year, resulting in the retention of incumbent consultant, CAPTRUST, for a five-year contract, which covers the relationship through March 31, 2028.
- SURS worked with Voya and CAPTRUST to prepare for automatic enrollment of new members into the DCP plan, as of July 1, 2023, as outlined in Public Act 102-0540.
- SURS was awarded a 2023 Leadership Recognition award by the National Association of Government Defined Contribution Administrators for the design and rollout of the SURS Deferred Compensation Plan (DCP).

### **Fiscal Year 2024 Defined Contribution Initiatives**

Plans for the Defined Contribution Plan in FY 2024 include continued diligent monitoring of the overall program, providers, and investment options.