Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 25

MEETING DATE: **August 20, 2025**

SUBJECT: **Master Investment Policy Statement and Asset Category Investment Policy Statements**

SUBMITTED FOR: **_X_ Action** **___ Information**

RECOMMENDATION

Approve amendments to the Master Investment Policy Statement (IPS) and the Asset Category Investment Policy Statements and rescind the Limited Partner Advisory Committees Policy and incorporate key and relevant components of the policy into the Master IPS.

PURPOSE

This agenda item provides updates to SCERS' investment policy statements and contributes to the effective management and oversight of investment activities.

DISCUSSION

The SCERS Board approved a revised strategic asset allocation at the March 2025 Board meeting and subsequently approved structural revisions to the Global Equity and Credit asset classes at the May 2025 Board meeting. Staff has incorporated these changes into the Master IPS and the Asset Category IPSs.

Staff also recommends the Board approve other structural recommendations within the Absolute Return, Real Assets, and Real Estate asset classes that have been incorporated into the IPSs, in addition to minor and clarifying revisions throughout the IPS documents

SCERS utilizes a Master IPS, and separate asset category IPSs for the Growth, Diversifying, and Real Return IPSs. The Master IPS is a principles-based document that establishes broad policies that will guide SCERS' Investment Program. The individual asset category IPSs include detailed information specific to the asset categories and underlying asset classes. The individual asset category IPSs represent supporting documents to the Master IPS.

The changes to the IPSs are broad and the Board has been provided with two versions of each IPS: (1) a 'redline' version that tracks all the changes between the current IPSs and the revised

IPSs; and (2) a ‘clean’ version. The Staff presentation at the August meeting will summarize and cover the key revisions to the IPSs.

ATTACHMENTS

- Board Order
- Investment Policy Statement Updates presentation
- Revised Master IPS – redline version
- Revised Growth asset category IPS – redline version
- Revised Diversifying asset category IPS – redline version
- Revised Real Return asset category IPS – redline version
- Revised Master IPS – clean version
- Revised Growth asset category IPS – clean version
- Revised Diversifying asset category IPS – clean version
- Revised Real Return asset category IPS – clean version

Prepared by:

/S/

Steve Davis
Chief Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

Retirement Board Order

Sacramento County Employees' Retirement System

Before the Board of Retirement
August 20, 2025

AGENDA ITEM:

Master Investment Policy Statement and Asset Category Investment Policy Statements

THE BOARD OF RETIREMENT hereby approves the Staff recommendation to approve amendments to the Master Investment Policy Statement (IPS) and the Asset Category Investment Policy Statements and rescind the Limited Partner Advisory Committees Policy and incorporate key and relevant components of the policy into the Master IPS.

I HEREBY CERTIFY that the above order was passed and adopted on August 20, 2025 by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

______________________________	______________________________
	Eric Stern
Board President	Chief Executive Officer and

Retirement Board Order

Sacramento County Employees' Retirement System

Board Secretary

Investment Policy Statement Updates

August 20, 2025

Recommendations

- Approve updates to SCERS' Investment Policy Statements
  - Incorporate recent Board approved asset allocation and asset class structuring changes
    - Master IPS and asset Category IPSs (Growth, Diversifying, Real Return)
  - <u>Approve</u> other structural recommendations within the Private Equity, Absolute Return, Real Assets, and Real Estate asset classes
  - Other cleanup changes
- Rescind the Representation on Advisory Committees Policy and incorporate key elements into the Master IPS

IPS Overview

Master IPS

Principles-based

Articulates Board's view on:

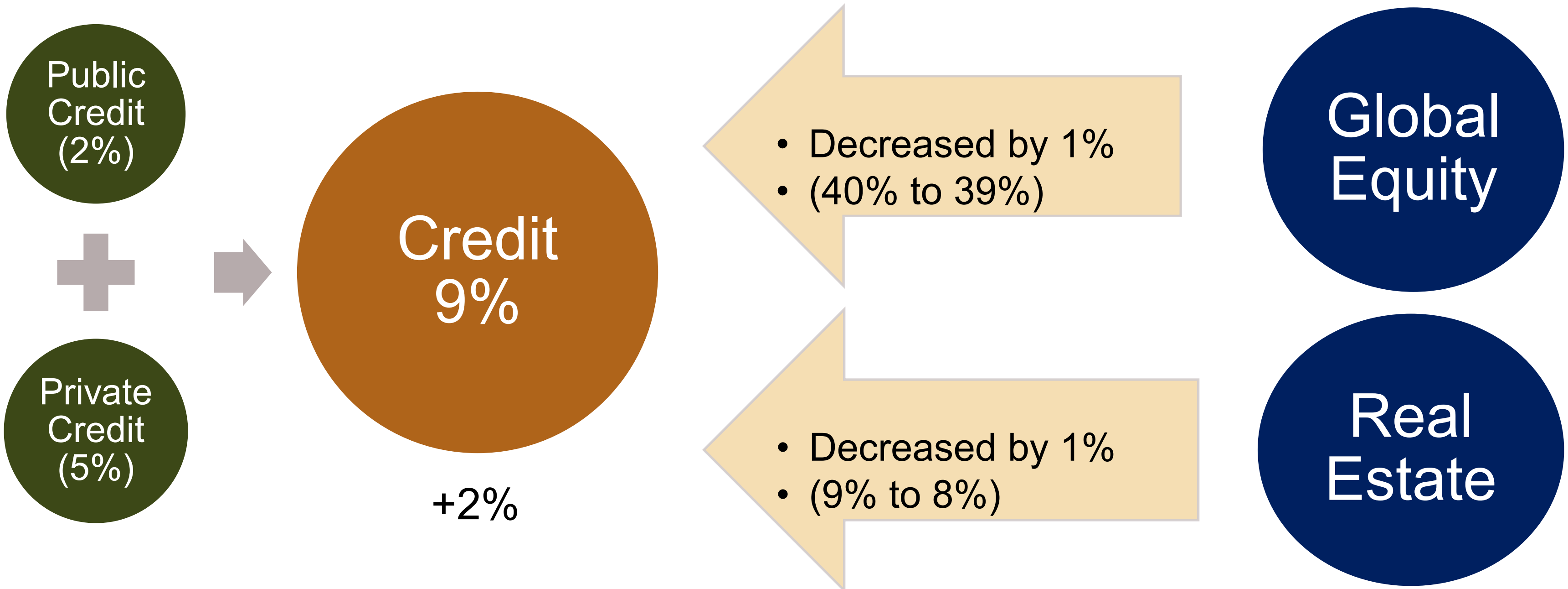
- Investment philosophies
- Investment objectives
- Governance/implementation protocols
- Investment strategy/asset allocation
- Risk management
- Portfolio monitoring

Asset Category IPS

Detailed information related to asset categories and underlying asset classes

- Investment objectives
- Benchmarks
- Investment descriptions
- Investment guidelines/ranges
- Risk considerations
- Investment vehicles
- Liquidity
- Monitoring

Asset Allocation Changes



- Board approved revisions to asset class targets and ranges, which have been incorporated within Master IPS and Asset Category IPSs

Master IPS – Implementation Protocols

- Additions/revisions to implementation protocols

Alternative Assets/Private Markets

- Board approved the new Credit asset class under alts/private markets protocols – Section 5.B.I.b
- Later fund life continuation vehicles (CVs) – Section 5.B.I.b
  - Recommend delegating CV decision making to Staff, with Board reporting

Traditional Assets/Public Markets

- Adjustments to existing manager investment agreements
  - Recommend delegating to Staff the ability to revise existing agreements for adjustments that are technical in nature, with Board reporting
  - i.e., investment guidelines and management fees
  - Section 5.B.I.a

Limited Partner Advisory Committees

- Representation on Advisory Committees Policy is a standalone SCERS policy
  - Policy establishes guidelines and procedures for SCERS staff serving on limited partner advisory committees (LPAC) of a limited partnership in which SCERS is a participating limited partner
  - Standalone policy contains several elements that are less relevant today

- For efficiency, recommend rescinding the policy and incorporating key and relevant components of the policy into the Master IPS
  - Section 11

Master IPS– Other Updates

Watch List

- Clarifying language related to Staff providing Board communication on additions and removals prior to any action being taken
- Updated to reflect move from monthly to quarterly reporting – changed in 2023
  - Section 9.C

Asset Category – General Revisions

Continuation Vehicles	Secondary Investments

• Added reference to CVs within Growth and Real Return IPSs
  • Section 4 – Investment Vehicles
	• Added to language related secondary investments (purchases and sales) - Section 5 (Secondary Investments and Co-investments)
	  • Implementation according to alts/private markets protocol, with Board reporting

SCERS

Asset Class Updates

Global Equity – Growth Asset Category IPS

- Incorporate structural changes approved by the Board – May Board meeting

+/- 4% range around the 39% target allocation (section A)

Revised Sub-asset class targets (section B.2)

Domestic Equity: 19%
International Equity: 14%
Global/Unconstrained: 6%

Credit – Growth Asset Category IPS

- Incorporate structural changes approved by the Board – May Board meeting

+/- 3% range around 9% target allocation	Sub-strategies: Illiquid Credit: 60%-100% Liquid Credit: 0%-40%	Benchmarks: (section B) Policy Index: Cambridge Private Credit Index L/T: CS LL+ 2%
Alternative Assets/Private Markets implementation protocol (Master IPS)	Updates to Investment Objective (section A) and Investment Descriptions (section C.1)	Updates to asset class construction table and description (section C.2)

Private Equity – Growth Asset Category IPS

- Recommendations – not previously approved by the Board

Benchmark: (section B):

Change L/T Objective from Russell 3000 + 3% to MSCI ACWI IMI + 3% - PE invests globally & better match with Global Equity benchmark

No change to policy Index: Cambridge PE & VC Pooled Index

Benchmark (section B):

Eliminate specific timeframe references for Policy Index (3-5 years) and L/T benchmarks (5-10 years)

Eliminate 'Distressed Debt' and 'Other' sub-strategies (section C.2)

→

Move 'Distressed for Control' funds to 'Buyout' sub-strategy and adjust Buyout target from 55% to 65%

Moved Special Situations funds to Credit asset class

Absolute Return – Diversifying Asset Category IPS

- Recommendation – not previously approved by the Board

Asset Class Construction (section C.2):

Increase target # of funds from 12 to 13, and range from 8-15 to 10-16

Cash – Diversifying Asset Category IPS

Incorporate increase in Cash allocation from 1% to 2% that the Board approved in June 2023 (section A)

It was incorporated in the Master IPS, but not the Diversifying IPS

Adjusted benchmark from Overnight LIBOR/SOFR to Overnight SOFR (section B)

Real Assets – Real Return Asset Category IPS

- Recommendations – not previously approved by the Board

Eliminate 10% target to Agriculture, Timber, Other sub-strategy (range remains), and increased Infrastructure by 5% (to 65%) and Energy & Power sub-strategies by 5% (to 35%)

(section 2)

Revise custom policy benchmark to 65% Cambridge Private Infrastructure Index and 35% Cambridge Private Energy Index (section B)

Benchmarks: eliminate specific timeframe references for Policy Index (3-5 years) and L/T benchmarks (5-10 years)

(section B)

Real Estate – Real Return Asset Category IPS

- Recommendation – not previously approved by the Board

Change maximum allocation to the main property types from the greater of 40% or the NFI-ODCE index weight, to the greater of 40% or the NFI index weight **+ 10%**

Increase maximum allocation to any of the 'Other' proper types (as defined by NFI-ODCE) from 25% to 30%

(section C.3)

Liquid Real Return – Real Return Asset Category IPS

Incorporate decrease in Liquid Real Return allocation from 2% to 1% that the Board approved in June 2023 (section A and C.2)

It was incorporated in the Master IPS, but not the Diversifying IPS

MASTER INVESTMENT POLICY STATEMENT

1. Introduction

Investment Policy for the Sacramento County Employee's Retirement System is documented in a Master Investment Policy Statement (IPS) and supported by individual asset class policy documents. The Master IPS is designed to establish broad policies that will guide SCERS' investment program (Investment Program), including Investment Philosophies, Investment Objectives, Plan Governance, Investment Strategy, Risk Management and Portfolio Monitoring.

The Sacramento County Employees' Retirement System (SCERS or the System) was created on July 1, 1941, by Sacramento County Ordinance #283 as adopted by the Board of Supervisors on April 30, 1941, pursuant to the County Employees' Retirement Law of 1937. SCERS provides retirement, disability, and death benefits for qualified employees of Sacramento County and eleven participating special districts.

A nine-member Board of Retirement (Board) governs SCERS. The Board has the sole and exclusive responsibility to administer SCERS in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. See California Constitution at Articles XVI Section 17.

In administering the System, SCERS will value open communication, transparency, and the consideration of different points of view. It will also follow the highest ethical standards in meeting its fiduciary duties of prudence and loyalty to the System's participants and beneficiaries, and will act solely in the interest of, and for the exclusive purpose of providing benefits and related services to participants and their beneficiaries.

2. Master IPS Purpose

The Master IPS is a principles based document that establishes broad policies that will guide SCERS' Investment Program. It is intended to provide guidance to the Board, Staff, Stakeholders, and third party professionals.

The System's individual asset categories have their own dedicated investment policy statements that include detailed information specific to the asset categories and underlying asset classes. Individual asset category IPSs contain objectives, investment guidelines, ranges, permissible investments, benchmarks, and monitoring specific to the asset categories and underlying asset classes. The individual asset category IPSs are included as supporting documents to the Master IPS.

3. Investment Philosophies

The Investment Philosophies represent the System's principles on which the Investment Program is based. All investment decisions for the System are made within the context of these philosophies, which include:

- ◊ Strategic asset allocation has the greatest impact on long-term investment returns and volatility. Using quantitative asset/liability modeling coupled with qualitative evaluation, an appropriate strategic (long-term) asset mix target is determined and serves as the guide for the investment allocation throughout market cycles. The qualitative evaluation emphasizes the long-term sustainability of the system, mitigation of large drawdown risk, and the ability to achieve long term funding goals.
- ◊ The strategic asset allocation target is a well-diversified portfolio across asset categories and asset classes. However, it is recognized that the portfolio's risk exposure is heavily influenced by equity risk, which historically has been favorably correlated with the ability to achieve long term funding objectives.
- ◊ While it is essential to hold to the Investment Program's strategic asset allocation throughout market cycles, the ranges around the targeted asset class allocations allow for marginal adjustments as market opportunities arise. Under normal market conditions, asset category and asset class exposures will be rebalanced to target periodically to enforce a "buy low/sell high" approach across the portfolio.
- ◊ An allocation to low-cost investment strategies, including passive strategies, will be used in the most efficient asset classes. Active management strategies, and the fees associated with active management, are acceptable when the expected excess return over the strategy benchmark compensates the System for the active risk taken, and the fee incentives align with the System's interests.
- ◊ Given the long-term nature of the System, investments that offer an illiquidity premium in return for a longer holding or lock-up period will be utilized to the extent that overall liquidity is not imperiled.
- ◊ The strategic asset allocation should generate sufficient levels of cash flow to support the System in meeting its benefit payment obligations.

4. Investment Objectives

A. The primary and over-arching goals of the System are to:

- Provide for current and future benefit payments, i.e. sustain the plan through its useful life.
- Diversify plan assets as its main defense against large market drawdowns, while maintaining reasonable risk exposure to meet return requirements.
- Preserve a degree of liquidity ample to meet benefit payments and capital calls, without incurring substantial transaction costs or “fire sales” of illiquid holdings.
- Incur costs that are reasonable and consistent with industry standards.
- Achieve funding goals, including the maintenance of funded status, and manageable, consistent contribution rates.

B. Investment performance objectives include:

- Returns in excess of policy benchmarks at the total fund and asset class levels over rolling three-year periods.
  - The System’s total fund performance is evaluated by applying the investment performance of the asset class benchmarks to the Investment Program’s strategic asset allocation target (Policy Index). The Policy Index permits the Board to compare the Investment Program’s actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence.
- Achieve real (after inflation) returns at the total fund level that are at or above the actuarial real return (assumed return less per capita pay growth) over complete market cycles.
- For asset classes and actively managed portfolios, achieve net returns that exceed policy benchmarks, and rank in the top half of a competitive, after-fee universe.

5. Investment Program Governance

A. ROLES AND RESPONSIBILITIES

I. Board

With the authority noted above, the organizational structure of SCERS focuses the attention of the Board on governance and policy and not on the management of the System. The Board’s primary responsibility is to set and direct investment policies set forth in this document, set and direct the strategic direction of the System, and guide its progress in achieving its goals and objectives. The Board has fiduciary responsibility for the System and the Investment Program.

While the Board may delegate certain responsibilities under the Investment Program for purposes of implementation, administrative efficiency and expertise, the following areas are the primary responsibilities of the Board, which may not be delegated:

- ◊ The governance model of the Investment Program
- ◊ Establishing and maintaining investment policy, including:
    - Investment philosophy
    - This Investment Policy Statement (IPS)
    - Investment objectives
    - Strategic asset allocation
    - Allocation-level performance benchmarks
    - Risk philosophy
- ◊ Engaging Board consultants and service providers
- ◊ Monitoring the Investment Program

II. Investment Staff

The Chief Executive Officer (CEO) is responsible for the overall management and administration of the System under the Board's direction. The Chief Investment Officer (CIO) and other Investment Staff, along with the CEO, are responsible for the implementation and maintenance of the Investment Program. The Investment Staff shall exercise the same fiduciary responsibility under applicable law as the Board. Staff shall act reasonably as custodians of the public trust, and shall recognize that the Investment Program is subject to public review and evaluation. The overall management of the System's Investment Program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

Key responsibilities of the Investment Staff include:

- Implementation and oversight of the System's Investment Program, including policies, structures, investment mandates, systems, service providers, and cash flows.
- Assisting the Board in the formulation and evaluation of investment policies and strategy, the development of the strategic asset allocation and asset class structures, and the risk management framework.
- Development and recommendations regarding investment mandates, service providers, and investment management tools and systems.

III. General Consultant

General Consultant responsibilities include, but are not limited to, providing the Board guidance on strategic asset allocation and interim market tactics, selection and monitoring of plan and manager performance, assisting with documentation, and guiding Board education.

The General Consultant is and shall agree to be a fiduciary to the System under California law. The General Consultant works with Investment Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The General Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the General Consultant are contained in an Agreement for Investment Consulting Services, and generally include providing advice with respect to:

- ◊ Investment strategy development and implementation
- ◊ Investment policy development
- ◊ Asset allocation among asset classes and subclasses
- ◊ Investment manager selection, evaluation and termination
- ◊ Investment performance monitoring
- ◊ Investment risk monitoring
- ◊ Capital markets projections
- ◊ Coordination with the System's actuary in conducting periodic asset/liability studies and other required reporting
- ◊ Board education
- ◊ Collaboration with Investment Staff on maintaining an investment manager Watch List

IV. Alternative Assets Consultants

The Alternative Assets Consultants are and shall agree to be a fiduciary to the System under California law. The Alternative Assets Consultants work~~s~~ with Investment Staff in the development of recommendations while recognizing their fiduciary duties are to provide prudent investment advice to the Board. The Alternative Assets Consultants provide advice without discretionary authority to execute on their advice. The specific duties of the Alternative Assets Consultants are contained in an Agreement for Investment Consulting Services.

Responsibilities of the Alternative Assets Consultants include, but are not limited to, developing and maintaining strategic plans for the System's Absolute Return, Private Equity, ~~Private~~ Credit, Real Assets and Real Estate Investments. This includes manager selection, monitoring and due diligence, maintaining liquidity and pacing projections, and Board education.

V. Investment Managers

A. Investment Managers of Custodied Assets

Subject to this IPS and their specific contractual obligations to the System, Investment Managers are responsible for making investment decisions on a discretionary basis (unless stated otherwise within their investment contract) regarding assets placed under their jurisdiction, and will be accountable for achieving their investment objectives. Decisions include the purchase, sale, and holding of investments in amounts and proportions that are reflective of the stated investment mandate. Investment managers shall maintain (1) errors and omissions insurance, (2) directors and officers liability insurance, (3) cybercrime insurance, and (4) fidelity bond (financial crime), in a commercially reasonable amount not under $5 million each. Staff may, in its reasonable discretion and for good cause, require or accept insurance coverage and/or levels that deviate from those in the foregoing sentence. In addition, SCERS' investment managers agree to notify the Board Chairman, SCERS' CEO, and/or Investment Staff, in writing, if they are unable to continue acting in the capacity of a fiduciary or investment advisor. ~~As stated above, i~~Investment managers are expected to act as prudent experts in the management of account(s) for SCERS, and agree to be fiduciaries to the System. In fulfilling their roles, investment managers will continually educate the Board about capital market developments that pertain to their area of investment expertise.

B. Fund Managers and General Partners

Managers and General Partners of commingled funds in which SCERS is a limited partner have the responsibilities and duties set forth in their respective limited partnership agreements and side letters. With respect to such fund managers and general partners, SCERS will strive to obtain their contractual agreement to a fiduciary duty of care, in accordance with and subject to the provisions of the Alternative Asset~~s~~ Investment Standard of Care Policy.

VI. Custodian Bank

The System's Custodian Bank is responsible for the safekeeping of assets, trade reconciliation and settlement, income collection, short-~~-~~term investing, securities lending, commission recapture, and compliance monitoring.

The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of the System's assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the custodial agreement. The Custodian Bank, per the custodial bank agreement/ contract, may be authorized to conduct a securities lending program within liquidity and risk constraints as authorized by the custodial agreement.

B. IMPLEMENTATION PROTOCOLS

I. Investment Manager~~Vendor~~ Procurement

The following implementation protocols describes the allocation of investment authority and responsibilities between SCERS' Board, Staff, and consultants. Overall, the implementation protocols delegates the most time intensive elements of the process to Staff and consultant, while preserving the Board's oversight of the overall asset categories and their underlying asset classes.

The Board will approve the long-term Asset Allocation Structure for the individual asset classes within the asset categories, as developed and presented by Staff and Consultant. The long-term Asset Allocation Structure for underlying asset classes will articulate the long-term direction and objectives of each asset class including elements such as: (1) asset allocation targets and ranges by strategy, geography and style, and types of investment vehicles; and (2) for alternative assets/private markets asset classes, a target range for the number of investment managers, and the role of Fund of Funds and strategic partners.

On an annual basis, the Board will approve the Annual Investment Plan for the individual asset classes within the asset categories. The Annual Investment Plan will articulate the direction over the next year in taking the necessary steps to achieve the above objectives of the long-term Asset Allocation Structure of the underlying asset classes.

The execution of the long-term Asset Allocation Structure and Annual Investment Plan will vary between that of traditional assets/public markets investments and alternative assets/private markets investments.

Traditional assets/public markets investments include:

- Global Equity
- Fixed Income
- ~~Public Credit~~
- Liquid Real Return

Alternative assets/private markets investments include:

- Absolute Return
- Private Equity
- ~~Private~~ Credit
- Real Estate
- Real Assets

The primary difference between the traditional assets/public markets and alternative assets/private markets implementation process is as follows. For alternative assets/private markets investments, the selection of investment managers is delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant during the investment protocol process. For traditional assets/public markets investments, the Board makes the final decision at a Board meeting after a presentation by the candidate recommended by Staff and the consultant.

a. *Traditional Assets/Public Markets:*

Overall, the traditional assets/public markets implementation protocol delegates the most time intensive elements of the process to Staff and consultant, including the screening and evaluation leading to the recommendation to engage or terminate a particular investment manager. The Board provides oversight of the overall traditional assets/public markets programs and makes the final decision regarding engagement or termination of investment managers.

The key features of the traditional assets/public markets implementation protocol are as follows:

- If Staff and the consultant believe that a change is necessary to the manager structure in order to obtain optimal performance from the asset class, Staff and the consultant will present the Board with a report outlining the basis for their conclusion including how the change under consideration would fit within: (a) the allocation model for the asset class approved by the Board; and (b) the annual investment plan approved by the Board.

- Staff and the consultant will then identify the most qualified candidates to bring into the manager structure based on the full range of relevant factors regarding the manager, its investment team, and strategy. Staff will prepare a report for the Board outlining why the manager(s) in question have been identified for closer evaluation for a possible commitment. The consultant will also provide investment strategy and operational due diligence reports.

- Staff and the consultant will pursue more extensive due diligence on the manager candidate(s), including conducting extended interviews with the portfolio managers and other key members of the investment team. Legal counsel will begin reviewing the documentation for the possible engagement and preliminary negotiation of deal terms will take place.

- If/When: (a) the due diligence process is completed; (b) deal terms have been determined; (c) ~~s~~Staff and the consultant have determined which manager(s) to recommend to the Board; then (d) ~~s~~Staff will prepare a report to the Board outlining the basis for the decision, the proposed commitment amount, and the target date for closing on the commitment.

- At any point in the process, questions or concerns by a Board member regarding a proposed investment or proposed manager can be communicated to the ~~Chief Executive Officer (~~CEO~~)~~. The CEO will be responsible for assuring that a prompt response is provided. The CEO will also provide the full Board with the response. If the Board member is not satisfied with the response, the Board member can request that the matter be brought to the full Board for consideration. In such a case, the CEO will refer the matter to the Board President who will determine whether the manager search process should be suspended until the matter is resolved. As a general rule, it is anticipated that the process of identifying and vetting a proposed investment will take place over a period of time sufficient to allow, if necessary, for full Board consideration of questions or concerns before a recommendation is finalized.

- The manager(s) being recommended for the engagement will make a presentation to the Board. At that time the Board can address any questions or concerns regarding the recommended candidate as well as any previously raised questions or concerns regarding another candidate or candidates. The Board can (a) approve engagement of the recommended manager; (b) direct that one or more alternative candidates be brought forward for consideration; (c) request further information regarding a candidate or candidates; or (d) take any other action the Board deems appropriate.

- If the new investment manager(s) engagement also involves the recommended termination of an existing manager(s), Staff and the consultant will develop and report to the Board on the reasons (as listed in the Investment Manager~~Vendor~~ Termination section below), timeline, and plan for terminating the existing engagement, and transitioning the assets from the outgoing manager to the incoming manager. The Board will take action on the recommended termination.

- If Staff and the consultant determine that it would be advisable to physically re-balance the portfolio at the same time as making the investment manager structure changes, Staff and consultant will prepare a report for the Board outlining the recommended physical re-balancing and why it is necessary and appropriate. The Board will take action on the recommended physical re-balancing.

- Upon approval by the Board: (a) an investment agreement for the new investment engagement will be negotiated,~~finalized~~ and the necessary documentation executed; (b) the engagement with the outgoing manager will be terminated; and (c) the transition plan, and any necessary physical re-balancing, will be implemented.

- SCERS' Board President or ~~Chief Executive Officer~~CEO are authorized to execute any and all documents which may reasonably be required to complete a new investment engagement, to terminate an engagement with an outgoing manager, and to effectuate a transition of assets on behalf of SCERS.

- Staff and the consultant will report to the Board when the manager structure changes and any necessary re-balancing have been completed, along with an analysis of the costs associated with the transition.

- For traditional assets/public market investments, SCERS' Board President or CEO are authorized to execute amended agreements and other documents that may be reasonably necessary, advantageous to SCERS, or are technical in nature, including but not limited to changes in management/performance fees, investment guidelines, and Most Favored Nation provisions. Any amendments will be reported to the Board prior to execution.

b. *Alternative Assets/Private Markets:*

For the alternative assets/private markets asset classes, the execution of the long-term Asset Allocation Structure and Annual Investment Plan including the selection of investment managers will be delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant during the investment protocol process.

The key features of the alternative assets/private markets investment protocol are as follows:

- Staff and consultant will identify the most qualified candidates for a prospective ~~a~~Absolute ~~r~~Return, ~~p~~Private ~~e~~Equity, ~~private c~~Credit, ~~r~~Real ~~e~~Estate, or ~~r~~Real ~~a~~Assets investment commitment based on: (a) the Asset Allocation Structure for the underlying asset classes approved by the Board; and (b) the Annual Investment Plan for the underlying asset classes approved by the Board (which takes into account SCERS' investments and prioritizes and targets optimal new investment opportunities that complement those investments, and in the case of private markets investments, are expected to come to market in the next twelve months).

- When a particular manager candidate is identified, Staff and consultant will pursue extensive due diligence on the manager candidate, including conducting extended interviews with the portfolio managers and other key members of the investment team.

- The consultant will complete its investment strategy and operations due diligence reports, if they have not done so already. Legal counsel will begin reviewing the documentation for the possible commitment/investment amount, and preliminary negotiation of deal terms will take place.

- Staff will prepare a detailed Initial Report for the Board outlining the basis for the potential commitment/investment, the contemplated commitment/investment amount, the target date for closing on the commitment/investment, and an assessment of the fit within SCERS' portfolio. The Initial Report will include an

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- If/When: (a) the due diligence process is completed; (b) deal terms have been determined and fund documents have been negotiated; (c) ~~s~~Staff and consultant have concluded that a commitment/investment should be made; then (d) ~~s~~Staff will prepare a Final Report for the Board outlining the basis for the decision, the proposed commitment/investment amount, and the target date for closing on the commitment/investment. The Final Report will summarize the due diligence items that have been completed in order to move forward with a commitment/investment, as well as any considerations that have arisen since the issuance of the Initial Reports by Staff and the consultant.

- At any point in the process, questions or concerns by any trustee regarding a proposed investment or proposed manager will be communicated to the ~~Chief Executive Officer (~~CEO~~)~~. The CEO will be responsible for assuring that a prompt response is provided. The CEO will also provide the full Board with the response. If a Board member is not satisfied with the response, the Board member can request that the matter be brought to the full Board for consideration. In such a case, the CEO will refer the matter to the Board President who will determine whether the manager search process should be suspended until the matter is resolved. As a general rule, it is anticipated that the process of identifying and vetting a proposed investment will take place over a period of time sufficient to allow, if necessary, for full Board consideration of questions or concerns before a commitment is finalized.

- Absent questions or concerns by the Board, the proposed investment will be finalized and the necessary documentation executed, and in the case of Absolute Return, funds placed with the manager.

- SCERS' Board President or ~~Chief Executive Officer~~CEO are authorized to execute any and all documents which may reasonably be required to complete any Absolute Return, Private Equity, ~~Private~~ Credit, Real Estate, or Real Assets investment on behalf of SCERS.

- Staff and consultant will confirm that the commitment/investment has been made, and the amount allocated to SCERS, at a subsequent Board meeting.

- With private market funds, periodically an existing general partner (GP) will present existing investors/limited partners (LPs) with the option to roll their investment in an underlying fund company or a group of companies into a new fund that the GP controls, generally known as a Continuation Vehicle (CV). The creation of a CV by a GP is typically the result of the GP believing there is more potential value in the underlying company; however, more time is needed to realize that value. Generally, the GP offers LPs the option to take liquidity by selling their stake in an underlying company or rolling their position by making

Formatted: List Paragraph, Left, No bullets or numbering a commitment into a new fund/CV controlled by the same GP. The timeline for an LP to decide to take liquidity or roll into the new CV is typically short, and therefore this decision will be delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant, similar to the process with primary fund investments. Staff and consultant will provide the Board with reporting during the process.~~V~~

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- ❖ Because management of the aggregate Absolute Return portfolio is dynamic and ongoing, Staff and the consultant will also have authority to make adjustments to the Absolute Return portfolio in order to assure that the portfolio is optimally aligned to achieve the objectives of the asset class. This includes, but is not limited to the authority to: (1) trim or add to existing investment mandates; (2) terminate and/or replace an existing manager; (3) submit redemption requests; (4) determine the appropriate sources for funding a new mandate or adding to an existing mandate; and (5) determine the appropriate application of any returned capital.

- ❖ If and when Staff and consultant determine that such actions are necessary, a timely report will be prepared outlining why the action is/was deemed necessary and how it impacts SCERS' Absolute Return portfolio. Notice will be promptly provided to the Board regarding the action and the report will be put on the secure Board website.

c. *Cash:*

- ❖ Staff and General Consultant will determine the most effective approach toward implementation of cash, and recommend any changes to the Board for approval.
- ❖ Examples of approaches toward cash implementation include short-term investment funds (STIF), short duration government bonds, and a demand deposit account (DDA) that pays an interest rate tied to overnight ~~LIBOR/~~SOFR rates.

II. Investment Manager~~Vendor~~ Termination

a. General Termination

From time to time it will be necessary for the System to terminate a contractual relationship with an investment manager. The Board has established the following criteria to assist in making termination decisions. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the System.

Any action to terminate an investment manager may be based on one or more but not limited to, the following primary criteria:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and or/assets under management
- Shifts in the firm's investment philosophy or process
- Significant and persistent lack of responsiveness to client requests
- Changes in SCERS' investment strategy eliminating the need for a particular style or strategy
- Persistent violations of the strategy's investment guidelines
- Investment performance that has fallen below policy benchmarks and SCERS' expectations
- Accusations of theft or fraud by a regulatory agency or other government body
- Any other issue or situation of which Investment Staff and/or Consultant become aware that is deemed material

The ability to terminate an investment manager is defined within the contractual agreement with each investment manager. Within the traditional assets/public markets, most of SCERS' separate account mandates are structured with immediate termination rights, while most commingled funds have specific redemption schedules, varying from daily to quarterly.

Within the alternative assets/private markets asset classes, the ability to terminate an investment manager is defined within the contractual agreement with the manager. Open- end funds, including Absolute Return and Real Estate investments, typically have monthly and quarterly termination rights, subject to lock-up periods and investor level gates. Closed-end funds within the private markets, including Private Equity, ~~Private~~ Credit, Real Assets and Real Estate, are generally illiquid structures with five to fifteen year holding periods. Any early liquidity within closed-end funds is typically achieved through the dissolving of the fund, by either the limited partners or the general partner prior to the end of a fund's term, or selling a limited partner stake in a fund in the secondary market.

b. Emergency Termination – traditional assets/public markets

In the case of an emergency within the traditional/liquid asset classes, SCERS may immediately terminate an investment manager for any reason without prior notice, subject to the termination language within the investment contract with the manager, and subject to liquidity provisions of the investment strategy. In most cases, any action to terminate a manager should be taken by the Board upon the recommendation for termination by Staff, with the concurrence of the Investment Consultant at either a regularly scheduled or specially called Board meeting. If the CEO and the CIO determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, that: (1) it is necessary to immediately terminate an investment manager in order to protect the assets under the control of the investment manager; (2) it is not feasible to convene a meeting of the Retirement Board for that purpose in a timely manner; and (3) delay could result in detrimental impact to SCERS' assets or interests, the CEO or the CIO may terminate the agreement with the investment manager. The CEO or the CIO shall immediately report such termination to the Board, along with a report of the circumstances that prompted such action.

Whenever the CEO or the CIO exercise the authority to terminate an agreement with an investment manager as provided above, he or she may also take whatever actions he or she may determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, are reasonable and necessary to transition the assets under the control of the investment manager to alternate management, including, without limitation: (1) temporarily assigning the assets to another existing contracted investment manager; (2) identifying and engaging an alternate investment manager to manage the assets until a permanent replacement for the terminated manager can be engaged; or (3) contracting for the services of a transition manager to facilitate an efficient and cost effective transition of the assets between the former and interim manager. The CEO, or in his or her absence, the CIO, may execute any and all agreements reasonably necessary to facilitate an orderly and efficient transition of the affected assets, so that they will be managed and protected until they are assigned to one or more alternate investment managers. The CEO, or in his or her absence the CIO, shall immediately report any and all steps taken to transition the assets and to protect the interests of SCERS to the Board.

III. Portfolio Rebalancing – Overlay Program and Physical

On a quarterly basis, the Investment Staff will report all rebalancing activity, either physical or via the Overlay Program.

a. Overlay Program

- The Overlay Program, which is managed by an external investment manager, is utilized to monitor and rebalance the asset allocation to policy targets, and to invest available cash.
- Under the supervision of the CIO and working with Consultants, quarterly rebalancing, primarily using derivatives, will occur in order to maintain exposures within defined bands and approaching long-term targets.
- The rebalancing frequency, rebalancing methodology, and overlay proxies are defined within the Investment Management Agreement for the Overlay

Program.

b. Physical Rebalancing

- When a physical rebalancing is appropriate, as determined by the CIO, it will be directed by the CIO, who will determine the most cost effective approach. Any physical rebalancing will be reported, along with associated costs, at the subsequent Board meeting.

6. Investment Strategy

An important component of the System's investment strategy is to view risk exposures through multiple lenses, including functional and common factor exposures, in order to manage and maintain allocations that are aligned with its investment philosophy and objectives. The multiple lens approach allows the System to better understand the sources of its returns and risks and to make informed adjustments to exposures when appropriate. Appendix One shows the Board approved desired functional asset category and asset class (Policy Index) exposures. Common factor exposure will be included in the performance reviews.

The Board will conduct periodic reviews (at least every five years) of its strategic asset allocation linked with projected liability behavior.

7. Asset Allocation

A. Growth Asset Category

The Growth asset category includes assets that are exposed to equity and credit risk factors. They tend to perform best when economic growth is average or above and/or rising, and inflation is moderate and/or falling. Asset classes within the Growth asset category include:

◊ Global Equity

◊ ~~Public Credit, i.e., high yield credit and bank loans~~

◊ ~~Private Credit~~

◊ Private Equity, including Buyout, Venture Capital, and Growth Equity strategies

◊ Credit, including Illiquid and Liquid strategies

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B. Diversifying Asset Category

The Diversifying asset category includes assets that are expected to help preserve capital in periods of market distress, particularly in periods of low and falling growth. In such periods, diversifying assets may experience negative returns but are expected to perform better than growth assets, and are expected to enhance diversification by exhibiting low or negative correlation with both equity and credit markets. Diversifying assets are expected to have a positive return profile over market cycles. Asset classes within the Diversifying asset category include:

◊ Fixed Income, including US Treasuries and Core and Core-Plus strategies
◊ Absolute Return, including absolute return strategies that have low to negative correlation and low beta to equity and credit markets
◊ Cash - the dedicated 2% cash allocation is included in Diversifying asset category and serves as a liquidity tool. It is intended to close the gap between annual benefit payments and total contributions in an environment where investment earnings fall short of the targeted assumed rate of return, and is used as a source of liquidity prior to other Plan assets during a stressed liquidity environment.

C. Real Return Asset Category

The Real Return asset category includes assets that should perform well in periods of unexpectedly rising inflation while producing positive net real returns over complete market cycles. The category should also provide moderate levels of income and cash flow generation. Additionally, Real Return assets should enhance diversification by exhibiting low or negative correlation with both equities and nominal bonds. Asset classes within the Real Return asset category include:

◊ Real Estate, including both Core and Non-Core strategies~~exposures~~
◊ Real Assets, including ~~i~~Infrastructure, ~~e~~Energy and ~~p~~Power, and ~~a~~Agriculture/~~t~~Timber strategies
◊ Liquid Real Return

8. Risk Management

Risk is inherent in a defined benefit pension plan's investment portfolio, putting a high premium on maintaining the appropriate risk level throughout market cycles. However, the System recognizes that there may be infrequent periods when risk levels become extreme and expected risk premia do not justify the exposure. While the System's primary risk management approach is broad diversification and disciplined rebalancing, the System will assign ranges around exposures to accommodate asset preservation during periods of market unrest, allowing for the ability to increase liquid defensive positions (i.e. Treasuries) and reduce liquid growth exposures (i.e. Equities and Credit). The System views risk through multiple lenses in order to address the following circumstances:

◊ Large drawdowns

◊ Maintenance of real actuarial earnings expectation and purchasing power
◊ Ability to meet benefit payments and capital calls (i.e. liquidity)
◊ Avoid large volatility in contribution rates

In periodic performance reports, the System will monitor the following characteristics to keep track of various portfolio risks:

◊ Actual allocations vs. target allocations
◊ Risk Factors, including exposure to equity, credit, inflation, interest rates, and currencies
◊ Exposures and liquidity/pacing provisions in private market asset classes
◊ Longer-term volatility (standard deviation) relative to policy

9. Portfolio Monitoring

A. Reporting

I. Quarterly Reporting

The Board will receive quarterly performance and exposure reports from its General and Alternative Assets Consultants. The reports will generally include performance results and comparisons to benchmarks and peers, as well as asset class and risk exposure relative to policy allocations.

II. Annual Reporting

On an annual basis, Staff, with assistance from the Investment Consultants, will provide an 'Investment Year in Review' for the Board. This report and presentation will highlight investment activity for the total fund and individual asset categories and asset classes during the prior calendar year, and preview anticipated investment objectives and expected activity for the upcoming calendar year. The report will also present new investment/commitment budgets within the alternative/private market asset classes for the Board to approve.

B. Portfolio~~Compliance~~ and Compliance Monitoring

Monitoring of ~~of~~ compliance with manager investment guidelines will be performed monthly by the CIO and Investment Staff relying on data provided by the custodian, consultants, and investment managers. In addition, the CIO and Investment Staff will monitor portfolio exposures, risk, performance, and attribution characteristics~~, and dispersion of results relative to expectations~~. On an annual basis, the CIO and Investment Staff will request and review each manager's form ADV Part II and will inform the Board of significant changes and apparent conflicts of interest.

C. Watch List

The Watch List status will be determined and monitored by the Investment Staff and Consultants, focusing on relative performance and organizational instability. Decisions to add or remove an investment manager to/from the Watch List will be less rules-based and more a function of analyzing both quantitative and qualitative factors related to the investment manager. Investment managers on the Watch List will be subject to enhanced scrutiny and are subject to termination upon Board approval of Staff recommendation.

Investment manager additions and removals from the Watch List will be communicated to SCERS' Board prior to any action being taken, and a report on any managers on the Watch List will be presented quarterly to the Board.~~monthly.~~

D. Manager Due Diligence

The Investment Staff and Investment Consultants will monitor individual investment managers' performance quarterly and annually. The Investment Staff and Consultants will meet with all investment managers periodically. Typically, these meetings will occur in the SCERS'/ Consultants' office~~s~~ or through a web conferencing platform (i.e., Zoom). However, manager on-site meetings may be scheduled for existing managers, Watch Listed managers, and as a part of new investment manager due diligence.

10. Other Investment Considerations

SCERS recognizes that corporate business practices associated with an underlying investment or investment firm, including approaches to environmental or ethically responsible strategies—commonly referred to as "ESG" (environmental, social, governance)—may present financial risks or opportunities for the System. SCERS will identify, evaluate, and manage material and financially relevant factors in its investment process to safeguard and enhance System performance. Consideration of these factors shall be conducted in conjunction with other relevant factors in a manner that helps SCERS achieve its strategic objectives.

If the Legislature, by statute, prohibits any investments by boards operating under the County Employees Retirement Law of 1937 (CERL) under the authority of section (g) of article XVI, section 17 of the California Constitution, then the SCERS Board will undertake an independent investment analysis to determine whether such a prohibition satisfies the standards of fiduciary care and loyalty required of the SCERS Board pursuant to the California Constitution and Government Code sections 31594 and 31595 of CERL.

11. Limited Partner Advisory Committees

General partners often invite SCERS, as a limited partner in an investment fund, to serve as a voting member or observer (through Investment Staff) on a Limited Partner Advisory

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Committee (LPAC). Serving on an LPAC can provide value to SCERS through a better understanding of the general partner, fund issues, and the market in general. Subject to approval of the CEO, and General Counsel where appropriate, the decision to serve on an LPAC is delegated to the CIO, who shall consider no fewer than the following factors to determine whether Staff and SCERS should serve on an LPAC:

◊ Staff experience as an institutional investor committing capital to private market investments (i.e., whether Staff understands the peculiarities of private markets at an institutional level);

◊ Staff's length of service with SCERS (i.e., whether Staff understands important SCERS issues such as personal identifiable information or reporting requirements);

◊ Public pension plan representation (i.e., whether other public pension plans' membership in the LPAC can adequately protect SCERS' interests);

◊ Institutional maturity of the market opportunity and the general partner's track record, (i.e., whether the nature of the investment or the general partner's history justifies additional attention from SCERS); and

◊ Potential risk to SCERS through participation (i.e., whether SCERS and Staff are insured or indemnified for LPAC activities)

No individual Staff member may serve on more than five (5) LPACs at any given time. The CIO will advise the Board of any LPAC participation at his or her earliest opportunity.

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History

Amended August 20, 2025

Amended February 21, 2024

Amended June 21, 2023

Amended June 15, 2022

Amended March 17, 2021

Amended September 18, 2019

Amended on March 20, 2019

Restated on July 19, 2017 as "SCERS Master Investment Policy Statement"

Amended on February 18, 2010

Amended on December 18, 2008

Adopted on January 17, 2008 as "SCERS Investment Policy & Objectives"

Appendix

Appendix I - SCERS' Asset Allocation Policy

Asset Category	Asset Class	Minimum Allocation	Target Allocation	Maximum Allocation	Policy Benchmark
Growth			59%~~58%~~		
	Global Equity	35%~~36%~~	39%~~40%~~	43%~~44%~~	MSCI ACWI IMI
	Private Equity	8%	11%	14%	Cambridge Associates PE/VC Index
	~~Public~~ Credit	6%~~1%~~	9%~~2%~~	12%~~3%~~	~~50% BofA High Yield/50% CS Leveraged Loan~~Cambridge Associates Private Credit Index
	~~Private Credit~~	~~3%~~	~~5%~~	~~7%~~	~~CS Leveraged Loan Index + 2%~~
Diversifying			25%		
	Fixed Income	12%	16%	20%	75% Bloomberg Barclays Aggregate Index/25% Bloomberg US Treasury Index
	Absolute Return	5%	7%	9%	HFRI FoF Conservative Index
	Cash	0%	2%	3%	Overnight SOFR
Real Return			16%~~17%~~		
	Real Estate	6%~~7%~~	8%~~9%~~	10%~~11%~~	60% NFI-ODCE/40% NFI-ODCE + 1%
	Real Assets	5%	7%	9%	Real Assets Custom Blend*
	Liquid Real Return	0%	1%	3%	SSGA Real Return Overlay Proxy**
			100.0%		

*Real Assets Custom Blend: 65%~~60%~~ Cambridge Associates Private Infrastructure Index, 35%~~30%~~ Cambridge Associates Private Energy Index.~~, 10% NCREIF Farmland Index.~~

**SSGA Real Return Overlay Policy: 15% FTSE EPRA/NAREIT Developed Liquid Index, 25% S&P Global Infrastructure Index, 10% S&P Global Large Mid Cap Commodity and Resources Index, 10% Bloomberg Roll select Commodity Index, 30% Bloomberg Barclays 1-10 year US TIPS Index, and 10% Bloomberg Barclays US Dollar Floating Rate <5 Year Index.

SCERS GROWTH ASSET CATEGORY INVESTMENT POLICY STATEMENT

~~June 15, 2022~~August 20, 2025

Contents

A. GROWTH ASSET CATEGORY INVESTMENT OBJECTIVE

The Growth asset category seeks to achieve the following investment objectives:

- Attractive returns that tend to be generated during a high growth and low/moderate inflationary environment, and which tend to be correlated to equity and credit risk factors.
- A combination of capital appreciation, income, and cash flow generation.
- Moderate levels of diversification within the asset category.

Asset classes within the Growth asset category include:

- Global Equity
- Private Equity
- Credit
- ~~Public Credit~~
- ~~Private Credit~~

Asset class target weights within the Growth asset category are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Global Equity	35%	39%	43%
Private Equity	8%	11%	14%
Credit	6%	9%	12%
Growth Asset Category		*59%*	

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Asset Class	Minimum	Target Allocation	Maximum
Global Equity	36%	**40%**	44%
Private Equity	8%	**11%**	14%
Public Credit	1%	**2%**	3%
Private Credit	3%	**5%**	7%
Growth Asset Category		***58%***	

Global Equity:

The investment objective of the Global Equity portfolio is to enhance total fund performance by investing in a diversified portfolio of publicly traded domestic and international equity securities across investment styles and market capitalizations, and through the use of passive and active externally managed strategies. The Global Equity asset class will strive to earn net returns in excess of the MSCI ACWI IMI global equity benchmark, primarily from the selection of investment managers. SCERS shall seek to maintain reasonable levels of aggregate risk, as measured through standard deviation and tracking error.

Private Equity:

The investment objective of the Private Equity portfolio is to enhance the total fund performance through investments in non-publicly traded securities. Private equity investments are illiquid and long-term in nature. To compensate for the illiquidity and the higher risks of the private equity market, the Private Equity portfolio is expected to generate a rate of return that exceeds the return of publicly traded equities over the long-term. Along with earning this 'illiquidity premium', SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.

Credit:

The investment objective of the Credit portfolio is to produce attractive risk-adjusted returns and generate current cash flow through illiquid/private non-exchange traded lending and special situations strategies, as well as through liquid/publicly traded credit strategies through flexible mandates that can touch multiple points within the credit universe. To compensate for the general illiquidity of the asset class, the Credit portfolio is expected to generate a rate of return that exceeds the return of exchange traded bank loans over the long-term. Along with earning this 'illiquidity premium', SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.

~~**Public Credit:**~~

~~The primary objective of the Public Credit portfolio is to enhance returns relative to SCERS' broader fixed income exposure, through investments in high yield, bank loans, structured credit, event-driven investments, or distressed loans (at varying points in the cycle). Compared to traditional fixed income strategies, such as U.S. Treasuries and core plus, Public Credit strategies focus on more idiosyncratic and niche credit investments by virtue of possessing greater credit expertise and investment flexibility. The strategy helps achieve the objectives of moderate income generation and a source of return enhancement, but can also have higher correlations to equities than traditional fixed income strategies, and can detract from diversification and liquidity objectives that are associated with traditional fixed income strategies. However, Public Credit's correlation to equities can be mitigated with capabilities to hedge credit and other exposures through a credit cycle.~~

~~**Private Credit:**~~

~~The investment objective of the Private Credit portfolio is to produce attractive risk-adjusted returns and generate current cash flow through non-exchange traded lending strategies. Private Credit investments are illiquid and longer-term in nature than exchange traded fixed income investments. To compensate for the illiquidity, the Private Credit portfolio is expected to generate a rate of return that exceeds the return of exchange traded bank loans over the long-term. Along with earning this 'illiquidity premium', SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.~~

B. BENCHMARKS

The Growth asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Growth asset class benchmarks are as follows:

Global Equity:

- ❖ Performance of the Global Equity asset class will be evaluated against the MSCI ACWI IMI. The underlying sub-asset classes and segments, will be evaluated and compared against the following benchmarks. The Global Equity portfolio, sub-asset classes, and most of the underlying segments are expected to outperform their respective benchmarks over a period of greater than three years.

Sub-Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
Domestic Equity Large Cap	Russell 1000 Index
Large Cap Passive	Russell 1000 Index
Large Cap Active	Russell 1000 Index
Domestic Small Cap	Russell 2000 Index
Small Cap Active	Russell 2000 Index

Sub-Asset Class	Benchmark
International Equity	MSCI ACWI ex-US Index
International Equity Developed Markets	MSCI World ex-US Index
Developed Markets Large Cap Active	MSCI World ex-US Index
International Developed Small Cap Active	MSCI World ex-US Small Cap Index
International Equity Emerging Markets	MSCI Emerging Markets Index
Emerging Markets Active	MSCI Emerging Markets Index

Sub-Asset Class	Benchmark
Global/Unconstrained Equity	MSCI ACWI IMI

Private Equity:

SCERS Private Equity Portfolio	Benchmark
Policy Index Benchmark	Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR
Long-Term Objective	MSCI ACWI IMI Index + 3%

SCERS Private Equity Portfolio	Benchmark	Time Period
Policy Index Benchmark	Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR	3 to 5 Years
Long-Term Objective	Russell 3000 Index + 3%	5 to 10 Years

- ~~Over the medium-term (3-5 years),~~The performance of the Private Equity portfolio is expected to exceed the return of the Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR for the respective vintage years. The Cambridge Associates LLC Global Private Equity~~w~~ & Venture Capital Pooled IRR will also serve as SCERS' Policy Index.

- Over the long-term~~, (5-10 years),~~ the objective of the Private Equity asset class is to exceed the MSCI ACWI IMI ~~Russell 3000~~ Index by 3%, net of fees and expenses.

- Individual partnerships will be compared to the appropriate Cambridge Associates Universe category, adjusted for vintage year.

Credit:

SCERS Credit Portfolio	Benchmark
Policy Index Benchmark	Cambridge Associates Private Credit Index
Long-Term Objective	Credit Suisse Leveraged Loan Index + 2%

- The performance of the Credit portfolio is expected to exceed the return of the Cambridge Associates Private Credit Index for the respective vintage years. The Cambridge Associates Private Credit Index will also serve as SCERS' Policy Index.

- Over the long-term, the objective of the Credit asset class is to exceed the Credit Suisse Leveraged Loan Index + 2%, net of fees and expenses.

~~Public Credit:~~

SCERS Public Credit Portfolio	
Policy Index Benchmark	50% BofA ML US High Yield Master II and 50% CS Leveraged Loan Index

- ~~Performance of the Public Credit portfolio is expected to exceed a blended benchmark of 50% BofA ML US High Yield Master II and 50% CS Leveraged Loan Index.~~

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~~Private Credit:~~

SCERS Private Credit Portfolio	
Policy Index Benchmark	Credit Suisse Leveraged Loan Index + 2%

❖ ~~The Credit Suisse Leveraged Loan Index plus 2% will serve as SCERS' Policy Index for Private Credit. Over all measurement periods, including while the program is being invested and after the program is fully invested, performance of the Private Credit portfolio is expected to exceed the return of the Credit Suisse Leveraged Loan Index by 2%, net of fees and expenses.~~

C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Global Equity:
Global Equity investments shall include equity securities purchased on listed U.S. stock exchanges, non-U.S. listed stock exchanges, over-the-counter (OTC) markets (including NASDAQ), and also includes equity securities of foreign companies traded on registered U.S. stock exchanges. Eligible investments shall include publicly-traded common stock and preferred stock. Eligible investments are also listed in the Investment Guidelines of the Investment Management Agreements (IMAs) of externally managed investment manager mandates.

Equity investments are managed through external investment manager strategies. SCERS' equity asset class exposures are diversified across a variety of styles, factors, and capitalizations:

- *Value Stocks:* Stocks that trade at a lower price relative to their fundamentals and are considered undervalued by investors. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and/or low price-to-equity ratio.

- *Growth Stocks:* Stocks of companies whose revenues and earnings are expected to grow at an above-average rate relative to the broad equity market. Growth stocks typically pay smaller dividends, as a growth company would prefer to re-invest retained earnings back into the company.

- *Core Stocks:* Stocks of companies that are reliable and consistent growers, with predictable earnings that pay moderate levels of dividends. Core companies are financially healthy, and typically generate meaningful free cash flow.

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❖ *Other Style Factors:* Includes factors outside of growth, value, and core, including quality, momentum, market sentiment, and idiosyncratic factors specific to a company.

❖ *Large Capitalization Stocks:* ~~-~~ Stocks of companies with a market capitalization value generally in the range of companies within the Russell 1000 Index. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

❖ *Small Capitalization Stocks:* ~~-~~ Stocks of companies with a market capitalization value generally in the range of companies within the Russell 2000 Index. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Private Equity Investments:

Private equity investments primarily involve the purchase of unlisted, illiquid common and preferred equity, and to a lesser degree, subordinated and senior debt of companies that are typically privately held. Investment is authorized in vehicles and investment strategies that invest in a broad array of various securities, including but not limited to:

❖ *Buyout Investments* - Investments include acquisitions, recovery investments, and distressed for control investments (debt positions that are often converted to equity typically during a bankruptcy reorganization process).~~special situations (a category which represents a diversified strategy across many sub-categories).~~ Investments are made across the market capitalization spectrum and typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company and may include the use of leverage in the form of debt. Investments are typically made in years one through six and returns typically occur in years three through ten. The potential for fund term extensions of up to three years is typically structured into most buyout funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

❖ *Venture Capital Investments* - Investments include companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage, but with a heavier focus on companies in their earlier stage of development. Investments are typically made in years one through six and returns typically occur in years four through ten. The potential for fund term extensions of up to three years is typically structured into most venture capital funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

❖ *Growth Equity Investments* – Investments with properties and features of both buyouts and venture capital, and which falls between each on the risk-

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return spectrum. Includes minority investments in more mature and profitable companies looking to further accelerate growth by expanding operations or funding an acquisition. Investments are typically made in years one through six and returns typically occur in years four through ten. The potential for fund term extensions of up to three years is typically structured into most venture capital funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- ~~*Distressed Debt Investments* - Investments include the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or potential candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments are typically made in years one through five and returns typically occur in years three through ten. The potential for fund term extensions of up to three years is typically structured into most distressed debt funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.~~

- ~~*Other Investments* - Investments include strategies that do not fall in the above three categories or do not justify a separate long-term allocation.~~

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Credit:

Illiquid Credit

The bulk of Illiquid Credit is comprised of private lending-oriented strategies (Direct Lending and Opportunistic Lending), which are illiquid strategies focused on private loans to performing companies. Private lending strategies include primarily debt investments, where an investor expects to receive principal and interest, with the majority of returns being generated from cash flow yield. Private lending strategies are typically structured with floating rate loans, with a spread over a benchmark rate like SOFR, so cash flow income increases as interest rates increase, but can also include fixed rate loans. The Illiquid Credit sub-strategy also includes a small allocation to Special Situations.

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- *Direct Lending* - Direct lending investments are directly originated, non-traded, performing loans made to primarily middle market companies. Direct lending investments primarily are comprised of senior secured debt, which can be secured by general corporate collateral or by a company's specific collateral. Equity participation can be structured into the loan, typically through warrants, but this is generally a small component of the strategy. Direct lending investments often utilize leverage (typically in the range of 0.5 to 2.5 times) at the fund level. Direct lending investments also have broadly diversified sector exposure and include a combination of sponsored (private equity backed companies) and non-sponsored borrowers, as well as purchases of loans in the secondary market. Non-

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sponsored loans will typically have higher yields and stronger covenants than sponsored loans. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.

- *Opportunistic Lending* - Opportunistic lending investments are also performing loans like direct lending (not distressed), but represent a broader range of investment types. Opportunistic lending includes mostly senior secured structures, but can also include subordinated debt structures, convertible debt, and structured equity. Opportunistic lending is often designated as an asset-backed lending strategy, where collateral comes in the form of specific assets such as receivables, inventory, or royalty streams. Opportunistic lending investments can have meaningful equity participation, depending on the structure. This is often in the form of warrants and convertible bonds, but can also include direct equity participation. Opportunistic lending investments typically utilize little to no leverage. Opportunistic lending funds can have a targeted sector focus, which can often include only one sector, and generally are targeted toward non-sponsor borrowers. Opportunistic lending investments can also include acquisition and leasing strategies that produce income and cash flows, such as aircraft leasing and entertainment royalties. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.

- *Special Situations* - Special Situations are opportunistic investments in a broad category of assets, typically related to corporate or market dislocations. Specific examples of Special Situations investments include sub- and non-performing loans, secondary debt purchases, new originations of debt instruments including rescue financings, and structured credit. Special Situations primarily include debt investments, although it can include investments with equity participation. Special Situations investments can include investments in companies that are facing financial or operational stress. Special situations is expected to make up a small portion of the Illiquid Credit sub-strategy (around 10%).

Liquid Credit

Liquid Credit strategies primarily invest in liquid/publicly traded credit though flexible mandates that can touch multiple points within the liquid credit universe. Liquid Credit investments typically generate moderate income and also serve as a source of return enhancement. Eligible investments for Liquid Credit are broad and include but are not limited to below investment grade high yield corporate bonds and bank loans, investment grade corporate bonds, derivatives, structured credit, agency and non-agency backed mortgage-backed securities, commercial mortgage backed securities (CMBS), collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs), asset-backed securities, stressed/distressed corporate credit, government bonds, agencies, agency and non-agency mortgage-backed

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~~**Public Credit:**~~

~~Public credit strategies focus on more idiosyncratic and niche credit investments by virtue of possessing greater credit expertise and investment flexibility. The strategy helps achieve the objectives of moderate income generation and a source of return enhancement, and the strategy's correlation to equities can be mitigated with capabilities to hedge credit exposures through a credit cycle. The strategy includes primarily high yield corporate bond and bank loans, but can also include high grade corporate bonds, derivatives, government bonds, distressed credit, defaulted securities, and cash.~~

~~**Private Credit:**~~

~~Private credit is an illiquid, lending-oriented strategy focused on private loans to performing companies. It includes primarily debt investments, where an investor expects to receive principal and interest, with the majority of returns being generated from cash flow yield. Private credit is typically structured with floating rate loans, with a spread over a benchmark rate like LIBOR/SIFOR, so cash flow income increases as interest rates increase, but can also include fixed rate loans. The average maturity of a loan is generally three to seven years; however, loans tend to be repaid prior to maturity, so the average life of the loans is generally three years. Most loans are senior secured loans, but they can range down the capital structure to junior/mezzanine loans. Loans are typically either sponsored private companies (private equity backed companies) or non-sponsored companies. Non-sponsored loans will typically have higher yields and stronger covenants than sponsored loans. Private Credit fund lives are typically 5 to 8 years, with investment periods between 2 and 3 years. Private Credit funds can recycle early loan payoffs during the investment period. Because of recycling, capital called can be as much as 150% of the commitment amount. The potential for fund term extensions of up to three years is typically structured into most Private Credit funds. Private Credit investments will be authorized in vehicles and strategies that invest in two sub-strategies, including:~~

- ~~*Direct Lending* - Direct lending investments are directly originated, non-traded, performing loans made to primarily middle market companies. Direct lending investments primarily are comprised of senior secured debt, which can be secured by general corporate collateral or by a company's specific collateral. Equity participation can be structured into the loan,~~

~~typically through warrants, but this is generally a small component of the strategy. Direct lending investments often utilize leverage (typically in the range of 0.5 to 2.5 times) at the fund level. Direct lending investments also have broadly diversified sector exposure and include a combination of sponsored (private equity backed companies) and non-sponsored borrowers, as well as purchases of loans in the secondary market. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.~~

- ~~*Opportunistic Lending* - Opportunistic lending investments are also performing loans like direct lending (not distressed), but represent a broader range of investment types. Opportunistic lending includes mostly senior secured structures, but can also include subordinated debt structures, convertible debt, and structured equity. Opportunistic lending is often designated as an asset-backed lending strategy, where collateral comes in the form of specific assets such as receivables, inventory, or royalty streams. Opportunistic lending investments can have meaningful equity participation, depending on the structure. This is often in the form of warrants and convertible bonds, but can also include direct equity participation. Opportunistic lending investments typically utilize little to no leverage. Opportunistic lending funds generally can have a targeted sector focus, which can often include only one sector, and generally are targeted toward non-sponsor borrowers. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.~~

2. ~~Risk and Diversification~~Asset Class Construction:

~~Growth asset category investments, like investments in most asset categories, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from expectations.~~ The expected volatility of the Growth asset category investments is~~are~~ often higher than in other parts of the SCERS portfolio. The asset category is diversified by investment strategy and geography. The expected portfolio construction parameters for the Growth asset category investments are reflected in the target allocations and ranges below.
~~The investment risks associated with Growth asset category segments shall be addressed in several ways:~~

- ~~***Diversification by investment strategy and geography, including target allocation and ranges.***~~

~~The construction of the Growth asset category is important because a well-developed portfolio can add diversification to an asset category that is subject to higher levels of expected volatility.~~ Distinguishing characteristics of the Growth asset category are: (1) a wide range of assets in both the public markets

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Formatted: List Paragraph, Indent: Left: 0.25", No bullets or numbering (liquid) and private markets (illiquid); (2) and a number of differing investment strategies across several underlying asset classes. It is ~~also~~ anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

~~The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.~~

Global Equity

Target allocations and ranges for the Domestic Equity, International Equity, and Global/Unconstrained sub-asset classes are provided below:

Sub-Asset Class	Target Allocation	Target Allocation
Domestic Equity	**19.0%**	
Domestic Equity Large Cap	90.0%	
Large Cap Passive		50.0%
Large Cap Active		40.0%
~~Domestic Small Cap~~	~~10.0%~~	
Small Cap Active		10.0%

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Sub-Asset Class	Target Allocation	Target Allocation
Domestic Equity	**20%**	
Domestic Equity Large Cap	90%	
Large Cap Passive		50%
Large Cap Active		40%
Domestic Small Cap	10%	
Small Cap Active		10%

The Domestic Equity sub-asset class contains a combination of passive and active mandates and is separated between the large capitalization and small capitalization segments, with the objective to maintain diversification across investment styles (i.e., growth, value, core), sectors, and industries.

Sub-Asset Class	Target Allocation	Target Allocation
International Equity	**14.0%**	
International Equity Developed Markets	70.0%	

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Developed Markets Large Cap Active		60.0%
International Developed Small Cap Active		10.0%
International Equity Emerging Markets	30.0%	
Emerging Markets Active		30.0%

Sub-Asset Class	Target Allocation	Target Allocation
International Equity	**16%**	
International Equity Developed Markets	70%	
Developed Markets Large Cap Active		60%
Developed Markets Small Cap Active		10%
International Equity Emerging Markets	30%	
Emerging Markets Active		30%

The International Equity sub-asset class contains 100% active mandates, without any passive allocations, and is separated between developed markets and emerging markets segments. The developed markets are further broken out between large capitalization and small capitalization segments. The emerging markets allocation is diversified across capitalization and styles. The International Equity sub-asset class seeks to maintain diversification across investment styles (i.e., growth, value, core), sectors, and industries.

Sub-Asset Class	Target Allocation	Sub-Asset Class Target Allocation
Global/Unconstrained Equity	**6.0%**	
Global Equity		>/= 50%
Non Beta 1 (Long/Short)		</= 25%
Niche or Country/Sector Concentrated		</= 25%

Sub-Asset Class	Target Allocation	Target Allocation
Global/Unconstrained Equity	**4%**	
Global Equity		>/= 50%
Sector or Country Concentrated		</= 25%
Non Beta 1 (Long/Short)		</= 25%

The Global/Unconstrained sub-asset class contains a broad range of strategies with greater flexibility to generate excess returns above the broad Global Equity asset class benchmark (MSCI ACWI IMI). The primary allocation within the sub-asset class (at least 50%) is comprised of a 'Global Equity' segment that

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has the flexibility to allocate across a wide range of global equity markets, including U.S., developed international, and emerging markets.

The Global/Unconstrained sub-asset class also contains an 'Unconstrained' segment, comprised of strategies that are more benchmark agnostic compared to traditional public equity investments. Examples include sector and country specific strategies, and non-beta 1 strategies that are comprised of long and short exposures. 'Unconstrained' strategies are expected to predominantly invest in publicly traded equities, but can opportunistically allocate to other market segments (such as credit) if the manager believes it can earn equity like returns with less risk at certain points in a cycle. 'Unconstrained' strategies do not have a target allocation, but can comprise up to 50% of the Global/Unconstrained sub-asset class's target allocation.

Private Equity:

For the Private Equity asset class, the targeted and range of investment exposures to the various private equity investment sub-strategies and geographies are shown in the table below. These exposures ~~should be~~are measured on a fair value basis.~~, once the Private Equity portfolio is fully invested.~~ SCERS shall endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Private Equity asset class by adhering to these targets and ranges. It is expected that the non-U.S. investments will be further diversified across different regions.

SCERS Private Equity Portfolio Construction	Minimum	Target	Maximum
Total Private Equity Portfolio	8%	11%	14%
Sub-Strategy			
Buyout	40%	65%	80%
Venture Capital	10%	20%	40%
Growth Equity	10%	15%	35%
Geography			
U.S.	70%	80%	90%
Non-U.S.	10%	20%	30%

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SCERS Private Equity Portfolio Construction	Minimum	Target	Maximum
Total Private Equity Portfolio	8%	**11%**	14%
~~*Sub-Strategy*~~			
Buyout	35%	**55%**	75%
Venture Capital	10%	**20%**	40%
Growth Equity	10%	**15%**	35%
Distressed Debt	5%	**10%**	30%
Other	0%	**0%**	15%
Geography			
U.S.	70%	**80%**	90%
Non-U.S.	10%	**20%**	30%

SCERS will favor a diversified approach by allocating approximately 2%-6% of the total Private Equity target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 25 private equity managers with an expected range of 20-30 manager relationships. No single investment manager will exceed 10% of SCERS' total active commitment level, unless the vehicle is a fund of funds or separate account advisory relationship. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Private Equity Asset Allocation Structure.

Credit:

For the Credit asset class, the targeted and range of investment exposures to the various credit investment sub-strategies and geographies are shown in the table below. These exposures are measured on a fair value basis. SCERS shall endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Credit asset class by adhering to these ranges. It is expected that the non-U.S. investments will be further diversified across different regions.

The Credit sub-strategies include Illiquid and Liquid Credit. There are not specific targets to the sub-strategies, but rather ranges, to allow for greater flexibility in implementation. Illiquid Credit will make up the bulk of the Credit asset class, with a range of 60% to 100%, meaning that SCERS' allocation to Illiquid Credit strategies will be at least 60% of the overall Credit portfolio. Liquid Credit strategies will be allocated on a more opportunistic basis toward strategies that are capable of generating returns in line with those of Illiquid Credit strategies. The range for Liquid Credit strategies is 0% to 40%. The Illiquid sub-strategy is comprised of the Direct Lending, Opportunistic Credit, and Special Situations segments. While these segments do not have specific targets and ranges, Direct Lending is expected to make up the majority of the allocation, followed by Opportunistic Credit, and to a lesser extent Special Situations.

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SCERS Credit Portfolio Construction	Minimum	Target	Maximum
Total Credit Portfolio	6%	9%	12%
Sub-Strategy	-	-	-
Illiquid Credit	60%	-	100%
Direct Lending		-	-
Opportunistic Lending		-	-
Special Situations		-	-
Liquid Credit	0%	-	40%
-	-	-	-
Geography	-	-	-
U.S.	75%	-	100%
Non-U.S.	0%	-	25%

~~**Public Credit:**~~

~~Public Credit is given a 2% target allocation, with a flexible mandate that primarily invests across high yield bonds and bank loans, but can also invest within structured credit, event-driven investments, or distressed credit (at varying points in the cycle). The strategy also uses macro hedges to protect capital during a down market.~~

~~**Private Credit:**~~

~~The targeted and range of investment exposures to the identified Private Credit investment sub-strategies and geographies are shown in the table below. These exposures should be measured on a fair value basis, once the Private Credit portfolio is fully invested. The primary geographic focus within the Private Credit portfolio will be in the United States, though the portfolio can also include non-U.S. investments to increase geographical diversification. It is expected that the non-U.S. investments will be further diversified across different regions.~~

SCERS Private Credit Portfolio Construction	Minimum	Target	Maximum
~~Total Private Credit Portfolio~~	~~3%~~	**5%**	7%
Sub-Strategy			
Direct Lending	50%	**65%**	90%
Opportunistic Lending	10%	**35%**	50%
Geography			
U.S.	65%	**75%**	100%
Non-U.S.	0%	**25%**	35%

SCERS will favor a concentrated approach within the Credit asset class ~~, particularly within the direct lending segment, by allocating approximately 6%-25% of the total Private Credit target allocation to each fund. SCERS~~ and will strive to maintain ongoing long-term relationships with approximately 10-15 Illiquid Credit ~~private credit~~ managers and 0-5 Liquid Credit managers. ~~with an expected range of 8-12 manager relationships.~~ The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the ~~Private~~ Credit Asset Allocation Structure.

3. Asset Class Specific Risk Considerations:

Global Equity:

With public equity investments, there is an inherent risk that the actual returns will vary significantly from expected returns. Publicly traded equities generate significant levels of volatility (measured by standard deviation), and emerging markets tends to exhibit higher volatility than developed markets. Public equity investments also expose investors to high levels of equity market beta and the equity risk premium (ERP). Investment returns and risks within SCERS' Global Equity portfolio shall be measured according to all or some of the following measures:

- *Standard Deviation:* A measure of volatility which calculates the dispersion of returns from an average rate of return.
- *Sharpe Ratio:* A ratio that measures risk-adjusted performance. In particular, it measures a portfolio's excess returns over the risk free rate, and divides the result by the standard deviation of the portfolio returns.
- *Tracking Error:* The standard deviation, or volatility, of excess returns generated between a portfolio and that of a benchmark.
- *Information Ratio:* A risk-adjusted performance measure which calculates a portfolio's excess returns above a benchmark, and divides the result by the tracking error, or volatility of the excess returns.

- *Beta:* A measure of the sensitivity of a security or portfolio in comparison to the market as a whole. Beta measures the tendency of a security's or a portfolio's return to swings in the market.

The investment risks associated with the Global Equity portfolio shall be addressed in several ways:

- *Diversification by geography:* SCERS shall maintain a Global Equity portfolio that is diversified across geographies. Global equities shall encapsulate the domestic equity markets and the international equity markets, including both developed and emerging markets. SCERS' Global Equity portfolio, which is comprised of the domestic equity, international equity, and global/unconstrained sub-asset classes, will benchmark itself against the MSCI AWI IMI, which is diversified across global geographies.

- *Diversification across style:* SCERS' Global Equity portfolio shall seek to maintain style neutrality across the sub-asset classes. This includes an approximate equal weight across both the value and growth styles, and/or to core strategies that will inherently be style neutral across a market cycle.

- *Diversification across market capitalization:* SCERS' Global Equity portfolio invests across the large-capitalization and small-capitalization spaces. While the portfolio does not consist of any dedicated mid-capitalization mandates, exposure to mid-cap stocks is provided by SCERS' large and small capitalization strategies

- *Diversification across externally managed active investment mandates and passive investment mandates:* A key variable in the decision to use active mandates over passive mandates is the probability of active equity managers generating consistent excess returns over the benchmark in aggregate. The ability to generate excess returns depends on the region, market capitalization, and style that an investor has exposure to. Within domestic equities, domestic small cap has historically produced a higher probability of excess returns versus domestic large cap. International developed and emerging market equities have historically produced a higher probability of excess returns. Global/unconstrained strategies are expected to generate excess returns over the MSCI ACWI IMI.

- *Diversification by investment manager:* SCERS' Global Equity portfolio will seek to allocate capital to a variety of external investment managers in order to ensure diversification by sub-asset class, style, sector, and region, and to avoid concentration of capital to any specific manager or factor exposure. However, SCERS will seek to avoid manager redundancies through over-diversification to external investment managers. This will be accomplished by keeping track of portfolio characteristics and exposure levels of investment managers, including unnecessary overlap of individual security positions among managers.

- *Diversification by sector and industry:* ~~-~~SCERS' Global Equity portfolio shall achieve diversification across sectors and industries among its equity investment managers, and across the sub-asset classes. Individual investment manager guidelines shall call for the prudent allocation of assets across sectors and industries, to avoid over-concentration to any sector or industry. Individual strategies within the global/unconstrained sub-asset class can contain greater concentration at the sector/industry level.

Private Investments:

Private investments, (e.g. private equity and private/illiquid credit), like investments in most asset classes, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from the return and amounts expected. The expected volatility of private investments in aggregate is high among major asset classes. The investment risk associated with private investments shall be addressed in several ways:

- *Diversification by geography and investment strategy*. SCERS will endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Growth asset category by investing across regions and strategies.

- *Diversification by vintage year.* SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results of the Growth asset category by investing across business cycles and vintage years. It is anticipated that SCERS will commit to private market funds (i.e., private equity and private credit) over multiple years, whereby the aggregate amount will be spread across the entire business cycle. This will serve to limit the exposure or risk to investing and relying on the performance of private funds in any given year of the business cycle. The Board will determine with SCERS' investment staff and consultant the funding allocation for the private segments of the Growth asset category each year in conjunction with its annual review of the Asset Allocation Structure and Annual Investment Plan for asset classes such as Private Equity and Private Credit.

- *Diversification by industry or business sector.* SCERS will attempt to limit the potential for any one industry or business sector to negatively impact the long-term results by investing across a variety of industries.

- *Diversification by investment manager and general partner.* SCERS will endeavor to invest across a number of investment managers and limited partnerships to mitigate the potential negative impact of a concentrated portfolio of investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will vary with time and will be evaluated as part of the Growth asset allocation structure.

4. Investment Vehicles: The vehicles for investments within the Growth asset category reflect the broad scope of investments held within this asset category.

Global Equity and Liquid~~Public~~ Credit:
Investment vehicle options for investing in the Global Equity and Liquid~~Public~~ Credit segments~~asset classes~~ include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships and institutionally investor-focused mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, transparency, and whether a commingled fund's investment guidelines are consistent with SCERS' investment objective.

Private Equity:
Investment vehicles for private equity investments are often commingled funds, structured as private limited partnerships, but may also include other entities such as limited liability companies or offshore corporations. Private equity limited partnerships are drawdown structures with management fees and carried interest. It is anticipated that the majority of SCERS' Private Equity investments will be made through direct investments into private equity limited partnerships.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in private equity partnerships on a discretionary basis. FoFs will own the underlying private equity partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to private equity limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

Periodically, an existing general partner (GP) will present existing investors/limited partners (LPs) with the option to roll their investment in an underlying fund company or a group of companies into a new fund that the GP controls, generally known as a Continuation Vehicle (CV). The creation of a CV by a GP is typically the result of the GP believing there is more potential value in the underlying company; however, more time is needed to realize that value. Generally, the GP offers LPs the option to take liquidity by selling their stake in an underlying company or rolling their position by making a commitment into a new fund/CV controlled by the same GP. The decision to take liquidity or roll into the new fund will be made based on the implementation protocol for alternative assets/private market investments.

Illiquid~~Private~~ Credit (i.e. Private Credit):

A common investment vehicle for private credit investments is a commingled fund, structured as a limited partnership. Private credit limited partnerships are drawdown structures with management fees, and typically carried interest. Direct lending strategies generally have lower fees and carried interest than other private market strategies, and often only charge management fees on invested capital, not committed capital. Opportunistic and special situations funds can have higher management fees and carried interest given their higher return targets.

Separate accounts or fund of ones are also vehicles that can be used to invest in private credit. These vehicles are larger and customizable accounts with investment managers that have greater flexibility in the guidelines, greater input from Staff and consultant, and may have lower fees. Separate accounts and fund of ones generally have a size of $100 million or greater.

Another investment vehicle that is common in private credit is private business development companies (BDCs). Private BDCs have similar investment strategies as a private commingled fund, but have a differing structure. These vehicles can have lower fees, lower yields, and the potential to earn a return premium by going public through the IPO markets.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in private credit partnerships on a discretionary basis. FoFs will own the underlying private credit partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

Illiquid Private Credit investments may also encounter CVs as a portfolio matures. These investments will have similar characteristics and follow a similar pattern to CVs in Private Equity.

5. Secondary Investments and Co-investments: Secondary investments are made when an investor purchases the limited partnership interest of another investor in an existing fund. Secondary investments also include sales of stakes in existing funds from one investor to another. A co-investment is a direct investment in an underlying portfolio company where a

manager offers investors the opportunity to invest directly in an underlying company alongside the fund investment. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

Neither secondary investments nor co-investments are considered separate investment strategies within the Growth asset category. ~~For example, a secondary or co-investment could be in any of the asset classes, but will be most prevalent within the Private Equity and Private Credit asset classes. Therefore, secondary and co-investments will be categorized according to the underlying strategy and geography and will conform to the guidelines outlined in the above section on risk and diversification.~~ SCERS will seek to allocate to secondary investments and co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Growth asset category, and any underlying asset class, if any.

Secondary sales will serve as a portfolio management and rebalancing tool for the Private Equity and Illiquid Credit segments.~~private credit asset classes, and a~~Any secondary sales will be considered on a standalone basis. Secondary investments (both purchases and sales) and co-investments will be implemented according to the alternative assets/private markets implementation protocol. If a sale of assets is considered, Staff will keep the Board informed throughout the process. ~~Secondary investments (both purchases and sales) and co-investments will be implemented according to the implementation protocols of the asset class in which it resides.~~

6. Investment Vehicle Concentration:

~~**Global Equity and Public Credit:**~~

SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment, or for private market investments 20% of any one investment vehicle such as a limited partnership, limited liability company, or offshore corporation. ~~at the initiation of the investment.~~ Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account or fund of one~~,~~ whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

~~**Private Equity and Private Credit:**~~

~~SCERS shall not comprise more than 20% of any one investment vehicle at the initiation of the investment that is a limited partnership, limited liability company, or offshore corporation. The exception to this guideline is an investment in a FoF or a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will make reasonable efforts to ensure that it does not generate a majority of the firm's profits.~~

7. Liquidity: Overall, the Growth asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Global Equity and ~~Public~~Liquid Credit:
Investments in public equity and liquid ~~public~~ credit markets offer varying degrees of liquidity depending on region, market capitalization for equities, and bond sector; however, liquidity is generally high relative to other asset classes. In public equities, larger capitalization stocks generally have higher average daily volumes and a greater number of trading intermediaries, and therefore offer higher liquidity levels than smaller capitalization stocks.

Among investment vehicles, investing through separate accounts typically offer the highest liquidity, as the underlying assets are owned by SCERS, and are held at SCERS' custodian. While the underlying assets of commingled funds offer high liquidity, there is the potential for less immediate liquidity when redeeming assets from a commingled fund. This liquidity can vary from immediate to monthly liquidity, depending on the structure of the fund.

Private Equity and Illiquid/Private Credit:
Private equity investments are illiquid and typically have long expected holding periods such as 10-13 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value.

Private credit investments are illiquid and typically have long~~er~~ expected holding periods such as 5-12 years. While the majority of investments are tied to coupon payments and cash distributions are returned to investors on a quarterly basis, most investments are held until maturity or full repayment and selling an interest in a fund prior to maturity may result in realizing a sales price that reflects a discount to fair market value.

Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits, or lowering asset allocation targets to private equity or private credit investments. In order to better assess liquidity needs, a capital budget and cash flow forecast will be developed over a ten-year horizon and updated as necessary. The assumptions of this forecast are stress tested in the context of the total fund to assess the effect of worst case liquidity scenarios. If liquidity is needed within private markets an option is through a secondary sale as discussed in the Secondary Investments and Co-Investments section. Secondary sales can incur discounts in pricing relative to Net Asset Value (NAV).

8. Distributed Securities: Within the Global Equity ~~and Public Credit~~ asset class~~es~~, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS'

custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

SCERS shall avoid the direct receipt of distributed securities from individual private equity and illiquid/private credit funds, and most liquid credit funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

9. Performance Evaluation:

- ❖ Performance of the Growth asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

- ❖ Individual investment vehicle performance will be evaluated on a monthly basis for Global Equity,~~ and Public Credit,~~ and on a quarterly basis for Private Equity and Credit,~~Private Credit,~~ compared to the performance of respective peer universes and vintage years (where applicable).

- ❖ It is recognized that immature private investments within closed-end investment vehicles will ordinarily have a 'J-curve effect' whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

10. Investment period to ramp-up:

It is recognized that it can take multiple years for segments of the Growth asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the Private Equity and ~~Private ~~Credit asset class ramp-up periods, exposures can be estimated using percentages of committed capital. During the ramp-up period for the Growth asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Growth asset category to the target allocation, using the designated Growth overlay proxy within the investment guidelines for the Overlay Program.

11. Rebalancing to guidelines:

It is anticipated that the majority of changes to rebalance the private market components of the Growth asset category will be made on a long-term basis due to: (1) the general illiquidity of the private investments, which often have investment horizons of 10-15 years; and (2) the potential for discounts that can be applied if and when private holdings are liquidated in the secondary market. Accordingly, when these guidelines are exceeded, it is anticipated that reducing exposures will be carried out within a long-term time-frame and over a period that is as soon as practical to reflect the illiquidity of many Growth investment vehicles.

SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Growth asset category. Rebalancing occurs quarterly, unless upper or lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Growth asset category's, and its underlying asset classes, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Growth asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Growth asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Growth asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

E. POLICY HISTORY

Date	*Description*
10-20-2011	Board adopted Hedge Fund asset class investment policy statement
07-10-2014	Board adopted Equity asset class investment policy statement
07-10-2014	Board adopted Fixed Income asset class investment policy statement
04-19-2017	Board adopted Private Equity asset class investment policy statement
06-21-2017	Board adopted Private Credit asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Growth asset category investment policy statement
03-20-2019	Amended Growth asset category investment policy statement
03-18-2020	Amended Growth asset category investment policy statement
06-15-2022	Amended Growth asset category investment policy statement
08-20-2025	Amended Growth asset category investment policy statement

SCERS DIVERSIFYING ASSET CATEGORY INVESTMENT POLICY STATEMENT

~~June 15, 2022~~August 20, 2025

Contents

A. DIVERSIFYING ASSET CATEGORY INVESTMENT OBJECTIVE

The Diversifying asset category seeks to achieve the following investment objectives:

- Help preserve capital in periods of market distress, particularly in periods of low and falling growth.
- Enhance diversification by exhibiting low or negative correlation with both equity and credit markets.
- Maintain a positive return profile over time.

Asset classes within the Diversifying asset category include:

- Fixed Income
  - Core Plus Fixed Income
  - U.S. Treasury
- Absolute Return
- Cash

Asset class target weights within the Diversifying asset category are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Fixed Income	12%	**16%**	20%
Absolute Return	5%	**7%**	9%
~~Cash~~	~~0%~~	~~**2%**~~	3%
Diversifying Asset Category		**25%**	

Asset Class	Minimum	Target Allocation	Maximum
Fixed Income	12%	**16%**	20%
Absolute Return	5%	**7%**	9%
Cash	0%	**1%**	2%
Diversifying Asset Category		***24%***	

Fixed Income:

The Fixed Income portfolio seeks to achieve multiple investment objectives as outlined below:

- Moderate income and cash flow generation.
- Diversification for SCERS' portfolio, and in particular, as an "anchor to safety" in periods such as a recession, when growth/risk assets fall.
- A source of return enhancement.

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- Liquidity.

The Fixed Income portfolio is unique because accomplishing the investment objectives will not be based on one singular investment strategy or underlying asset, but rather by virtue of the construction of the Fixed Income portfolio and the sum of its components. As an example, credit investments achieve some of the objectives such as moderate income generation and a source of return enhancement, but may detract from objectives of diversification and liquidity. U.S Treasuries on the other hand, lack return enhancement; however, they provide meaningfully toward the objectives of diversification and liquidity for SCERS' overall portfolio.

Absolute Return:
The investment objective of the Absolute Return portfolio is to emphasize a lower sensitivity to broad market performance (i.e., less correlated returns), while still generating a positive absolute return profile over time. Absolute return strategies within the Diversifying asset category tend to ~~be~~ have less long-biased equity and credit exposures, with lower standard deviations, lower equity and credit beta, and lower correlations than more growth oriented absolute return strategies.

Cash:
SCERS maintains a dedicated ~~1~~2% cash allocation that is part of the strategic asset allocation. The dedicated cash allocation serves as an additional liquidity tool, to help ensure liquidity is available to meet SCERS' pension obligations, particularly in a stressed market environment. SCERS, like many public pension plans, is a mature plan with negative cash flows, meaning member benefit payments going out are greater than employer and employee contributions coming in on an annual basis. The dedicated cash allocation assists in closing the gap between annual benefit payments and contributions in an environment where investment earnings fall short of the assumed rate of return.

SCERS also has additional cash within the portfolio that is separate from the dedicated cash allocation. The 'other' cash is not part of the strategic asset allocation, and is comprised mostly of the pre-funded annual employer contribution that funds monthly benefit payments, capital used to fund private market capital calls, investment management fees, and other plan expenses. SCERS' Overlay Program eliminates cash drag by investing the 'other' portfolio cash into positions that replicates SCERS' target portfolio. In contrast, SCERS' dedicated cash allocation is not invested by the Overlay Program.

B. BENCHMARKS

The Diversifying asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Diversifying asset class benchmarks are as follows:

Fixed Income:

❖ Performance of the Fixed Income portfolio is expected to exceed the weighted average return of the benchmarks for the underlying Fixed Income sub-asset classes as outlined below:

Fixed Income Segments	Benchmark	Weighting (relative to total Fixed Income
Core Plus Fixed Income	Bloomberg Barclays Aggregate Index	75%
U.S. Treasury	Bloomberg Barclays US Treasury Index	25%

❖ Performance of each segment within the Fixed Income Portfolio will be benchmarked as follows:
   ➢ Performance of the Core Plus Fixed Income investment strategies are expected to exceed the Bloomberg Barclays Aggregate Bond Index.
   ➢ Performance of the U.S. Treasury segment is expected to perform in-line with the Bloomberg Barclays United States Treasury Index.

Absolute Return:

Absolute Return Asset Class	Benchmark	
Policy Index Benchmark	HFRI FoF Conservative Index, net of fees and expenses	
Long-Term Objective	90-day T-Bills + 2%, net of fees and expenses	

❖ ~~Over the medium-term (3-5 years),~~ The performance of the Absolute Return portfolio is expected to exceed the HFRI FoF Conservative Index, net of fees and expenses. The HFRI FoF Conservative Index will also serve as SCERS' Policy Index.

❖ Over the long-term, ~~(greater than 5 years),~~ the objective of the Absolute Return portfolio is to exceed the 90-day T-Bills plus 2%, net of fees and expenses.

Cash:

Asset Class	Benchmark
Cash	Overnight SOFR

Asset Class	Benchmark
Cash	Overnight LIBOR/SOFR

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- Performance of the dedicated cash allocation is benchmarked against the Secured Overnight Financing Rate (SOFR), which is the benchmark interest rate for dollar-denominated derivatives and loans.~~overnight London Interbank Offered Rate (LIBOR), which is the benchmark that establishes overnight borrowing costs for banks.~~
- ~~LIBOR is being phased out in mid-2023, replaced by the Secured Overnight Financing Rate (SOFR), which is the benchmark interest rate for dollar-denominated derivatives and loans.~~

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C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Fixed Income:
Investments within the Fixed Income portfolio are~~is~~ authorized in a broad array of sub-asset classes and strategies including, but not limited to the following:

- Cash and cash equivalents
- Treasuries
- Agencies
- Agency and Non-Agency Mortgage-Backed Securities
- CMBS
- Asset-Backed Securities
- CLO's and CDO's
- TIPS or other inflation-linked securities
- Investment Grade Debt
- Municipal securities
- High Yield Debt
- Bank Loans
- 144A and Reg S securities
- IO's and PO's
- Hybrid and Capital securities such as preferred equity and trust preferreds
- International / non-dollar fixed income securities
- Emerging Markets Debt
- Foreign exchange

The key segments of the Fixed Income portfolio are described below:

- *Core Plus Fixed Income:*
  Core plus bond strategies allow for greater flexibility including: (1) ability to invest in a broader set of exposures across 'plus' segments that are higher yielding and diversifying bond sectors such as high yield, bank loans, non-agency MBS/structured credit, and non-U.S. securities; (2) ability to increase/decrease exposures between 'core' and 'plus' bond segments in order to increase/decrease exposure to sources of yield or safety, as well as; (3) focus on managing interest rate risk with greater flexibility to adjust

duration. Since the security holdings and risk characteristics tend to have deviations with the benchmark (Bloomberg Barclays Aggregate Bond Index) within set limits, core plus bond strategies help to provide some diversification to equities and fulfill the roles of an “anchor to safety” and liquidity, while attempting to balance more capability to generate moderate income. The addition of the ‘plus’ sectors provide for greater diversification across sources of yield, but may detract from the strategy’s ability to be a diversifier to equities as the ‘plus’ sectors are more correlated to equities and the business cycle.

❖ *U.S. Treasury*
U.S Treasuries are considered “anchor to safety” assets, and one of the most diversifying components of a portfolio, often generating positive returns when equity returns are negative. Historically when equity assets have been down significantly, investors have tended to gravitate toward safe haven assets such as government bonds, and particularly U.S. Treasuries. Another advantage of having Treasury exposure is that it is one of the most liquid segments of the markets, providing a source of liquidity for SCERS’ overall portfolio. U.S. Treasuries will tend to underperform in a rising interest rate environment.

Absolute Return:
SCERS’ Absolute Return asset class has a target allocation of 7%. Absolute return strategies tend to emphasize a lower sensitivity to broad market performance, particularly equity markets (i.e., less correlated returns), while still generating a positive absolute return profile over time. Absolute return strategies also tend to have less long-biased equity and credit exposures, and lower standard deviations and correlations than more growth oriented absolute return strategies.

SCERS’ alternative assets consultant breaks the absolute return universe into the following investment strategies. A well-diversified absolute return portfolio will contain allocations to each of these strategies at varying target weights.

❖ *Equity Long/Short* - Strategies where there is a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates.

❖ *Event Driven* - Strategies such as activist equity, risk arbitrage, merger arbitrage, distressed debt, credit, and other event-driven strategies.

❖ *Credit/Distressed* - Strategies that typically utilize fundamental credit analysis to invest in below investment grade, stressed, or distressed corporate and asset-backed credit. Managers may take long and short positions in mispriced debt instruments and may become actively involved in a restructuring process.

- *Market Neutral* - Strategies such as equity market neutral, fixed income arbitrage, and convertible bond arbitrage.

- *Global Macro* - Strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies, or other specialty strategies.

- *Multi-Strategy* - Strategies where absolute return funds invest using a combination of previously described strategies.

Examples of the more diversifying and uncorrelated absolute return strategies that typically reside within SCERS' Absolute Return portfolio include market neutral, global macro, and multi-strategy strategies, but can also include the other strategies such as equity long/short, event driven, and credit/distressed strategies. However, in practice SCERS will categorize individual strategies based upon each fund's expected characteristics, including risk, market sensitivity and market exposure, not by a fund's stated strategy, so each absolute return segment could include a variety of fund strategies.

Cash:
The Cash allocation can be invested in a variety of investment vehicles, including, but not limited to the following:

- Investment instruments that offer a risk-free rate of return.
  - Short duration government bonds (i.e., 90-day Treasury Bills).
  - Demand deposit account (DDA) that pegs itself to overnight SOFR.~~LIBOR rates (LIBOR is transitioning to SOFR in mid-2023).~~
- Cash management funds.
  - Have the potential to generate marginally higher yields than the risk free rate, but also contain exposure to market risks including duration, interest rate, and credit risk.

2. ~~Risk and Diversification~~Asset Class Construction:

- ~~***Diversification by investment strategy and geography, including target allocation and ranges.***~~

The construction of the Diversifying asset category is important because a well-developed portfolio can add diversification to the overall SCERS investment portfolio, which is heavily weighted to assets that have higher return and volatility expectations within the Growth asset category. Distinguishing characteristics of the Diversifying asset category are: (1) a wide range of investment strategies across several underlying segments, mostly within the publicly traded markets; and (2) exposure to diversifying absolute return investment strategies with higher levels of leverage in the form of total notional gross exposure.

The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Fixed Income

The Fixed Income portfolio is constructed in a way to achieve multiple objectives, with each allocation helping to fulfill the different roles and objectives including: (1) moderate income generation; (2) diversifier to growth assets; (3) a source of return enhancement; and (4) liquidity. Allocations across the strategies are also designed to provide sufficient diversification by sources of yield, by bond segment, and by geographic region. Accordingly, the asset allocation within the Fixed Income portfolio is targeted to be significantly diversified across fixed income bond strategies as outlined below:

SCERS Fixed Income Portfolio Construction			
Asset Class	**Minimum**	**Target Allocation**	**Maximum**
Total Fixed Income	12%	**16%**	20%
Core Plus Fixed Income	9%	**12%**	15%
U.S. Treasury	3%	**4%**	5%

Absolute Return:

Absolute return funds represent a distinctive investment style that is different from traditional, long-only funds. A fundamental difference is that absolute return fund managers emphasize absolute, rather than relative returns, and they may also use a wider range of investment techniques, such as leverage, short selling, and derivatives to achieve their objectives. This greater level of investing flexibility results in a wide range of strategies that produce different risk and return characteristics between the strategies and provides the opportunity to diversify risk.

SCERS shall strive to invest in a sufficient number of managers and set constraints on the size of each absolute return manager compared to the Absolute Return portfolio and the total portfolio. This will provide some protection and spread the unique risks of absolute return funds across a larger base. These risks include operational risk, headline risk, event risk, liquidity risk, counterparty risk, leverage risk, and reduced transparency.

Accordingly, investing in a large number of funds and strategies across the aggregate Absolute Return asset class can assist in achieving the Absolute

Return portfolio's objective of emphasizing a lower sensitivity to broad market performance (i.e., less correlated returns), while still generating a positive absolute return profile over time. For the Absolute Return portfolio, the target number and range of funds, and targeted geographic ranges are shown in the table below.

	Diversifying Strategies
Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Target Allocation	7% of total assets
Allocation Range	5% to 9% of total assets
Number of Funds	Target 13 funds with a range of 10 to 16
Non-U.S. Exposure	Expect 20% to 50% non-U.S. exposure

	Diversifying Strategies
Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Target Allocation	7% of total assets
Allocation Range	5% to 9% of total assets
Number of Funds	Target 12 funds with a range of 8 to 15
Non-U.S. Exposure	Expect 20% to 50% non-U.S. exposure

Within these guidelines, Staff and consultant will allocate funds within each investment style in a manner that, in their judgment, enhances SCERS' ability to achieve the investment objectives of the Absolute Return portfolio over the long term. In the event exposure to an absolute return style becomes overly concentrated, Staff is authorized to rebalance assets in a manner consistent with the implementation protocol for Absolute Return as described within SCERS' Master Investment Policy Statement.

- *Diversification by selection of individual funds:* SCERS will strive to select individual absolute return funds based on their ability to diversify SCERS' total fund:
  - Low correlation to equities.
  - Uncorrelated alpha sources.

- Low beta compared to equities.
- Low kurtosis in the return distribution (smaller extreme returns both positive and negative).
- Positive skew in the return distribution (larger and more frequent occurrences of positive returns versus negative).
- Ability to be up or exhibit significantly less downside in declining equity markets.
- Capability to manage tail risk.

- *Diversification across geographies, business sectors, and asset classes*: It is expected that absolute return managers will actively, and oftentimes quickly, change the composition of portfolios to take advantage of opportunities in the markets. Accordingly, it will be important to actively monitor and understand the dynamic absolute return environment relative to more general objectives, making portfolio changes when necessary rather than reacting to rigid guidelines. This should allow SCERS to capture the benefits of allowing absolute return managers to execute their strategies without compromising the objectives of SCERS' aggregate fund or total portfolio. These general objectives include:

  - Geographic diversification in non-U.S. regions.
  - Diversification across sectors and industries.
  - Diversification across asset classes.

- *Minimum size of absolute return managers:* Requirements for absolute return funds to register with the SEC and provide greater shareholder transparency and reporting have increased, along with operating costs, benefitting larger funds with the in-house capabilities to manage these issues. However, small and mid-sized funds can often perform better, particularly during the phase when the absolute return partners are more focused on generating returns to build initial wealth. To balance these considerations, SCERS will invest in absolute return funds with minimum assets under management greater than $250 million.

- *Absolute Return Risk Considerations:*

  There are several risk considerations specific to the ~~Diversifying~~ Absolute Return portfolio:

	Asset Class Characteristics
Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Risk Target	Standard Deviation < 25% of global equities
Market Sensitivity	Target an equity beta <0.2 Target equity correlation <0.5
Market Exposure	Total notional gross exposure < 750%

- *Absolute Return Risk Targets:* Absolute return portfolio risk is often measured by standard deviation. The target standard deviation for Absolute Return is less than 25% of the MSCI ACWI Index.

- *Market Sensitivity:* Common measures for market sensitivity for an absolute return portfolio are beta and correlation. The equity beta target for the Absolute Return portfolio is < 0.2, and the equity correlation target is < 0.5.

- *Market Exposure/Leverage:* Within absolute return, leverage may be utilized by underlying absolute return managers as part of their strategies, but it will not be employed at the total portfolio level.

  Leverage at the total Absolute Return portfolio level is the aggregated amount from SCERS' underlying managers and will be defined as the total notional gross exposure, which is equal to the sum of gross long notional exposure plus gross short notional exposure, expressed as a percentage of total invested capital. Total leverage for the Absolute Return portfolio will not exceed 750%.

  In addition, leverage utilization will be monitored within each individual hedge fund and investment manager to ensure appropriateness given the respective strategy.

3. Investment Vehicles: The vehicles for investments within the Diversifying asset category reflect the broad scope of investments.

Fixed Income:

Investment vehicle options for investing in the Fixed Income portfolio include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships, limited liability companies, offshore corporations and mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, and transparency.

Absolute Return:
Investment vehicles for absolute return investments are typically separate accounts and/or a variety of commingled vehicles, such as limited partnerships, limited liability companies, or offshore corporations.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in absolute return partnerships on a discretionary basis. FoFs will own the underlying absolute return partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to absolute return limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

4. Co-investments: A co-investment is a direct investment in an underlying portfolio company where a manager offers investors the opportunity to invest directly in an underlying company alongside the fund investment. Investments may be made in companies that are either U.S. or non-U.S. domiciled. Co-investments are considered separate investment strategies within the Diversifying Asset Category. ~~For example, a co-investment could be in any of the asset classes, but are typically most prevalent within the absolute return strategies. Therefore, co-investments will be categorized according to the underlying strategy and geography and will conform to the guidelines outlined in the above section on risk and diversification.~~ SCERS will seek to allocate to co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Diversifying asset category, and any underlying asset class, if any. Any co-investments will be implemented according to the implementation protocols of the asset class in which it resides.

5. Investment Vehicle Concentration:

~~**Fixed Income:**~~
SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment, or for absolute return investments 20% of any one investment vehicle such as a limited partnership, limited liability company, or offshore corporation. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account, whereby SCERS may be the sole investor.

In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

~~**Absolute Return:**~~
~~SCERS shall not comprise more than 20% of any one investment vehicle at the initiation of the investment that is a limited partnership, limited liability company, or offshore corporation. The exception to this guideline is an investment in a FoF or a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will make reasonable efforts to ensure that it does not generate a majority of the firm's profits.~~

6. Liquidity: Overall, the Diversifying asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Fixed Income:
Investments in fixed income offers varying degrees of liquidity depending on region and bond sector, however, liquidity is generally high relative to other asset classes. Treasuries and core bond segments tend to offer the greatest liquidity, while credit-oriented investments and emerging market debt tend to offer less liquidity.

Among investment vehicles, investing through separate accounts typically offer the highest liquidity, as the underlying assets are owned by SCERS, and are held at SCERS' custodian. While the underlying assets of commingled funds offer high liquidity, there is the potential for less immediate liquidity when redeeming assets from a commingled fund. This liquidity can vary from immediate to monthly liquidity, depending on the structure of the fund.

Absolute Return:
Individual absolute return fund investments may have specified liquidity parameters defining lock-up periods and withdrawal frequency. Liquidity risk is managed by monitoring and maintaining a schedule of the liquidity of the individual absolute return funds and aggregating it at the total Absolute Return asset class level.

SCERS may want to take advantage of fee discounts that may be available for funds offering a longer lock-up period or a different share class under certain circumstances and dependent on the underlying characteristics of the absolute return fund. In addition, SCERS may want to invest with absolute return funds that possess strategies where a longer investment horizon is necessary and appropriately matches the illiquidity of the underlying assets invested. While SCERS may want to take advantage of investing in these opportunities, it is not appropriate for the Absolute Return program to consist entirely of illiquid vehicles. Accordingly, guidelines are outlined below to both capture the opportunity set and balance the need for liquidity.

SCERS may invest in absolute return funds that permit voluntary redemptions (Evergreen Portfolio Funds) and absolute return funds that do not permit voluntary redemptions (Self-Liquidating Portfolio Funds).

SCERS shall allocate a minimum of 50% of its capital (at market) to Evergreen Portfolio Funds with quarterly or more frequent liquidity (after applicable “lock ups” expire)

SCERS may not allocate more than 15% of its capital (at cost) to Self-Liquidating Portfolio Funds.

With regard to the capital allocated to Evergreen Portfolio Funds, SCERS may not allocate more than 25% of its Absolute Return capital (collectively, at market) to Evergreen Portfolio Funds that impose a “lock up” (determined either based on the date SCERS first invests in such Evergreen Portfolio Fund or with respect to each investment in such Evergreen Portfolio Fund by SCERS on an investment-by-investment basis, as applicable, and not from the time of any capital commitment to an Evergreen Portfolio Fund) of greater than or equal to 2 years. SCERS may not allocate to Evergreen Portfolio Funds that impose a “lock up” of greater than or equal to 3 years without the consent of SCERS’ Board.

In order to facilitate liquidity, SCERS should reasonably limit a portfolio absolute return funds’ ability to use side pockets. Side pocket investments should not exceed 10% of SCERS’ total Absolute Return portfolio at fair market value.

Cash:
Cash offers the highest liquidity of any asset within the SCERS portfolio, and should typically be available daily.

7. Distributed Securities: Within the Fixed Income asset class, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS’ custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

SCERS shall avoid the direct receipt of distributed securities from individual absolute return funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

8. Performance Evaluation:
   - ❖ Performance of the Diversifying asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.
   - ❖ Individual investment vehicle performance will be evaluated on a monthly and quarterly basis for Fixed Income and Absolute Return.

9. Investment period to ramp-up: It is recognized that it can take multiple years for segments of the Diversifying asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the ramp-up period for the Diversifying asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Diversifying asset category to the target allocation, using the designated Diversifying overlay proxy within the investment guidelines for the Overlay Program.

10. Rebalancing to guidelines: It is anticipated that the majority of changes to rebalance the Diversifying asset category will be made on a long-term basis. SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Diversifying asset category. Rebalancing occurs quarterly, unless upper or lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. <u>MONITORING</u>

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Diversifying asset category's, and its underlying asset classes, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;

- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Diversifying asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Diversifying asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Diversifying asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

Absolute Return Monitoring

Monitoring risks specific to absolute return funds: Investing in absolute return funds brings additional risks, which will be managed and mitigated through a combination of factors including: (1) the asset allocation and guidelines set forth above (diversification across managers and strategies); (2) due diligence of Staff and consultant on individual funds; and, (3) ongoing monitoring and active investment management by Staff and consultant. This includes:

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- *Addressing transparency risk*, or the reluctance of absolute return managers to report individual positions, particularly short positions. While absolute return funds may limit transparency at the position level, SCERS' consultant will hold conference calls to review individual absolute return portfolios on a monthly basis. In addition, both the consultant and Staff will be measuring and monitoring exposures in aggregate, e.g. at the level of investment strategy, regions, industries, countries, and portfolio. Leverage, net exposures, and counterparty risk are all monitored at the fund level and portfolio in aggregate.

- *Addressing counterparty risk*, specifically related to the counterparty/entity, including prime broker, that an absolute return manager selects to hold assets or execute investment transactions, and the risk that the absolute return manager will not be paid or able to reclaim assets held by the selected counterparty. Counterparty risk will be assessed in the due diligence and monitoring process by measuring and quantifying the level of exposures inherent in the absolute return investment strategy and operations, and evaluating the measures, processes and other risk controls of each absolute return fund by comparing funds to a set of industry best practices. As part of the assessment, it is important that SCERS understands where the absolute return manager's assets are held, understands the types of investment transactions being made and securities held by the absolute return manager, evaluates the measures being taken by the absolute return manager to mitigate and manage the risk exposure relative to the best practices of the investment industry, and have a monitoring process that will assure that the risk exposure continues to be within an acceptable range and that the absolute return manager is continuing to execute its risk mitigation and management program properly.

As part of the due diligence process for potential absolute return funds, Staff will provide a due diligence questionnaire (DDQ) to any absolute return manager that SCERS is considering for investment. The DDQ has a range of legal, business, and regulatory questions; however, for absolute return funds it also has several questions related specifically to counterparty risk. Monitoring and oversight of existing absolute return managers related to counterparty risk will include:

- *Contractually mandating transparency to the metrics necessary to gauge risk exposure.*
- *Regular reporting of risk exposure and risk management information.*
- *Periodic meetings with the manager to re-assess the risk mitigation and risk management program, and to discuss risk exposures and any recent developments*

- *Addressing liquidity risk*, or the inability to redeem immediately from a fund due to hard to value investments, side pockets, lock-ups, and gates. SCERS' consultant monitors the liquidity based on the days to redeem and the individual manager limited partnership agreements. These factors are incorporated into the due diligence process and part of the decision to invest in a particular fund.

- *Addressing operational risk*, or the risk of failure in operations outside of the investment strategy. SCERS' consultant has developed a specific in-house unit to assess a hedge fund's legal, financial statements/audits, compliance, custodian(s), prime broker(s) and other service vendors, operations, administration, trading functions, asset valuation, and conduct background checks. Alongside the consultant's due diligence, Staff will help select absolute return funds by sourcing funds, interviewing managers, and visiting managers on-site to assess the front- and back-offices.

- *Addressing headline risk* (the risk of an absolute return fund attracting negative media attention leading to investors redeeming). Return dispersion and concentration in a niche strategy or concentration in a small number of investments (the risk of any manager's particular strategy not working as in past periods), event risk (the risk of a sizeable investment loss due to a market event, personnel loss, or regulatory issue), are all part of the due diligence and monitoring process and partly mitigated by guidelines and expectations for diversification across managers, strategies, geographies, and industries.

- *Monthly*: Staff will leverage the consultant's monitoring process, a process that entails frequent contact with the absolute return managers. The consultant typically reviews each absolute return fund's investor communications and calls the absolute return managers monthly to discuss the fund's organization, strategy, investment process, portfolio characteristics, and performance drivers. Staff will supplement this review process by analyzing the performance and risk of the individual absolute return managers and the overall absolute return portfolio, and reviewing absolute return fund investor communications and the consultant monthly reports.

- *Quarterly:* The consultant will produce supplemental quarterly reports that contain performance and risk statistics for the individual absolute return funds and the absolute return portfolio, and portfolio characteristics, including strategy allocations, geographic allocations, and leverage, for the individual absolute return funds and the overall absolute return portfolio.

- *Annually:* The consultant will conduct periodic onsite visits at each absolute return manager's office, but no less frequently than annually, or through a web conferencing platform (i.e., Zoom) if an onsite visit is not feasible. Individual absolute return funds will be re-evaluated annually from both an investment and operational perspective and there will be updated due diligence reports issued. There will be a review of individual absolute return funds' annual audited financial statements. Staff will conduct conference calls/web conferencing calls with managers and/or conduct on site due diligence at least annually.

- *Other:* The consultant assigns ratings to all absolute return funds as part of its monthly monitoring process. These ratings include placing funds on a "Watch List" where serious organizational or performance concerns exist and the recommendation to terminate a relationship. These investments are not necessarily expected to lose money over their life, but in the opinion of the consultant there is a more likely chance that returns will fall short of expectations. Watch List funds are subject to more intense scrutiny. The consultant will provide Staff with a Watch List report for any absolute return placed on the Watch List. As a final step, the consultant may recommend that SCERS exit (redeem) from the fund investment. Absolute return funds can have redemption features that require notification months in advance or limitations such as gates, penalties, and side pocket restrictions. The consultant will assist Staff in developing an exit strategy. A final recourse would be to seek a secondary sale if redeeming is not possible.

E. POLICY HISTORY

Date	Description
10-20-2011	Board adopted Hedge Fund asset class investment policy statement
07-10-2014	Board adopted Fixed Income asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Diversifying asset category investment policy statement
03-20-2019	Amended Diversifying asset category investment policy statement
03-18-2020	Amended Diversifying asset category investment policy statement
06-15-2022	Amended Diversifying asset category investment policy statement
08-20-2025	Amended Diversifying asset category investment policy statement

SCERS REAL RETURN ASSET CATEGORY INVESTMENT POLICY STATEMENT

~~June 15, 2022~~August 20, 2025

Contents

A. REAL RETURN ASSET CATEGORY INVESTMENT OBJECTIVE

The Real Return asset category and its underlying asset classes seek to achieve the following investment objectives:

- Attractive returns on a real (net of inflation) basis and a hedge against inflation risk.
- Moderate income and cash flow generation.
- Diversification for SCERS' portfolio, including low or negative correlation to equities and nominal bonds.
- Greater consistency in the return distribution and muted downside risk.

Asset classes within the Real Return asset category include:

- Real Estate, including both Core and Non-Core exposures
- Real Assets, including infrastructure, energy and power, and agriculture/timber
- Liquid Real Return

Asset class target weights within Real Return are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Real Estate	6%	**8%**	10%
Real Assets	5%	**7%**	9%
Liquid Real Return	0%	**1%**	3%
Real Return Asset Category		***16%***	

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Asset Class	Minimum	Target Allocation	Maximum
Real Estate	7%	**9%**	11%
Real Assets	5%	**7%**	9%
Liquid Real Return	0%	**2%**	3%
Real Return Asset Category		***18%***	

B. BENCHMARKS

The Real Return asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Real Return asset class benchmarks are as follows:

Real Estate:

Real Estate	Target Weight	Real Estate Policy Index Benchmark (custom blend of benchmarks below)
Core Real Estate	**60%**	NFI-ODCE
Non-Core Real Estate	**40%**	NFI-ODCE + 1%

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- Performance of core and core plus real estate investments are expected to exceed the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE), net of fees.

- Performance of non-core real estate investments are expected to exceed the NFI-ODCE by 100 basis points, net of fees.

- Performance of the Total Real Estate program is expected to exceed a blended benchmark which consists of the following components: 60% core (NFI-ODCE) and 40% non-core (NFI-ODCE + 100 basis points). This blended benchmark with serve as the Policy Index for SCERS' Real Estate asset class.

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- A customized secondary benchmark will be used to measure performance of SCERS' global exposures. The secondary benchmark will include a customized blend of U.S. and non-U.S. exposure, with the non-U.S. component using the Global Real Estate Fund Index (GREFI) with SCERS' weighting to each geographic location. The secondary benchmark will be a 'floating' benchmark based on SCERS' average capital invested in each region, measured each quarter.

Real Assets:

- ~~Over the medium-term,~~The performance of the Real Assets asset class is expected to exceed the following weighted benchmark return, net of fees, which will serve as SCERS' Policy Index:

SCERS Real Assets Portfolio	Target Weight	Real Assets Policy Index Benchmark (custom blend of benchmarks below)
Infrastructure	**65%**	Cambridge Associates Private Infrastructure Index
Energy and Power	**35%**	Cambridge Associates Private Energy Index

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~~Real Assets~~	~~Target Weight~~	~~Real Assets Policy Index Benchmark (custom blend of benchmarks below)~~
~~Infrastructure~~	~~**60%**~~	~~Cambridge Associates Private Infrastructure Index~~
~~Energy and Power~~	~~**30%**~~	~~Cambridge Associates Private Energy Index~~
~~Agriculture, Timber, Other~~	~~**10%**~~	~~NCREIF Farmland Index~~

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❖ Performance of each sub-asset class will be benchmarked individually by the underlying asset:

- ➢ Performance of infrastructure investment strategies are expected to exceed the Cambridge Associates Private Infrastructure Index pooled IRR.
- ➢ Performance of energy and power investment strategies are expected to exceed the Cambridge Associates Energy Index pooled IRR.
- ➢ Performance of agriculture, timber, and other investment strategies are expected to exceed the NCREIF Farmland Index.

❖ Over the long-term~~, (5-10 years),~~ performance of the Real Assets asset class is expected to exceed CPI-U (headline inflation) by 5%.

Liquid Real Return:

❖ Performance of the Liquid Real Return portfolio is expected to exceed a blended benchmark which consists of the following components:

Liquid Real	Target Weight	Liquid Real Return Policy Index Benchmark (custom blend of benchmarks below)
Global Real Estate (REITs)	**15%**	FTSE EPRA/NAREIT Developed Liquid Index
Global Infrastructure Equity	**25%**	S&P Global Infrastructure Index
Global Natural Resources	**10%**	S&P Global Large Mid Cap Commodity and Resources Index
Commodities	**10%**	Bloomberg Roll Select Commodity Index
US Intermediate TIPS	**30%**	Bloomberg Barclays 1-10 Year US TIPS Index
Floating Rate Notes	**10%**	Bloomberg Barclays US Dollar Floating Rate Note < 5 Years Index

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C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Real Estate Investments:
Investments in real estate can be made across a broad array of investment strategies:

❖ *Core and Core Plus Real Estate.*

- ➢ Core and core plus real estate will typically possess a lower risk and return profile than non-core value-add or opportunistic investments due to attributes that can include a higher level of cash yield and income generation; a lower level of capital appreciation potential; location in a primary metropolitan area; greater occupancy levels; and a lower level of leverage.

- Core and core plus real estate include investments in operating and substantially leased properties of institutional quality, consisting primarily of investments in traditional property types (office, industrial, retail, and for-rent multifamily). Core investments have moderate levels of associated leverage (generally below 40%).

- Core plus real estate investments offer the opportunity to enhance returns by: (1) alleviating an identifiable deficiency (in an asset's capital structure, in an asset's physical structure, in an asset's operation, etc.); and/or (2) benefitting from market inefficiency. These investments may use slightly more leverage than core real estate investments to improve returns and may include some non-traditional property types.

- *Non-Core (Value-Add and Opportunistic) Real Estate.*
  - In addition to some of the characteristics of core real estate outlined above, non-core investments offer the opportunity to enhance returns through factors that can include: (1) investing in assets with greater deficiencies (such as substantial vacancy, the need for substantial renovation, etc.); (2) accepting different types of risks (such as development risk, redevelopment risk, repositioning, etc.); (3) focusing more on non-traditional property types that may have greater operating risks (such as hotels); (4) accepting greater capital market risk (for example, by acquiring assets with complex capital structures that may be difficult to unwind); and (5) seeking areas of greater market inefficiency.

  - Value-add and opportunistic real estate will typically possess a higher risk and return profile compared to core real estate due to considerations that can include a lower level of cash yield and income generation; a higher level of capital appreciation potential; location in a secondary market; lower occupancy levels; and an increased level of leverage. In many cases non-core real estate investments attempt to capitalize on an enhanced level of distress in specific properties or wider market dislocation. These characteristics can magnify the risk and return of value-add and opportunistic investments throughout the business and real estate cycles.

- *Debt Investments with Underlying Real Estate Exposure.*
  - Debt investments may be classified by SCERS' investment staff and consultant as falling into one of the traditional core/core plus or non-core investment strategies based on the composition of the underlying collateral.

- *Global Real Estate.*
  - Investments in global real estate (ex-U.S.) are permissible in order to improve diversification and enhance returns on a relative value basis.

Accordingly, SCERS' Real Estate program (core, core plus and non-core real estate) may target exposure to investments outside the United States, with a permissible range of 0% to 35%.

- In addition to the same risks as investing in domestic real estate, investing in global real estate may carry other risks, including:

  - Macroeconomic risks that differ by country and geopolitical landscape (changes in interest rates, inflation, GDP growth, unemployment).
  - Currency differences, which can provide diversification to SCERS' total fund, but may have periods of fluctuations against the U.S. dollar that can impact investment returns.
  - Market transparency may differ across countries and in comparison to the U.S.
  - There is a higher dispersion of returns associated with non-U.S. real estate investments, which presents opportunities for active managers to add value, but can also present greater volatility.

- Careful selection of managers and countries through a thorough investment process is critical in order to benefit from global real estate opportunities while also mitigating these risks.

- While a range of 0%-35% for the global real estate component allows SCERS to seek out better relative value and specific global investment themes and opportunities, it is important to note that it is not a required allocation, but rather, provides the flexibility to invest in markets outside the U.S. when the risk and return profile is superior. It is anticipated that global real estate opportunities will arise that are both core and non-core (value-add and opportunistic).

Real Assets Investments:

Investments in Real Assets can be made through investments in both public and private securities and can include equity and debt investments. Private investments primarily involve the purchase of unlisted, illiquid common and preferred stock, and to a lesser degree, can include subordinated and senior debt of companies that are typically privately held. Underlying real asset investments can include infrastructure, energy, power, timber, agriculture, or other natural resources related investments. Investment is authorized in a broad array of sub-asset classes and strategies including:

- Infrastructure - Investments include ownership interests in physical structures, facilities, companies, or operating platforms that provide essential services to a community. Underlying investments can include:
  - Economic Infrastructure
    - Transportation

        - Toll Roads; bridges; tunnels; airports; parking facilities; sea ports; freight rails; trucking trailers; and logistics services.
    - Utilities
        - Gas and electricity transmission and distribution; district heating and cooling; water; and wastewater/sewage treatment.
    - Energy
        - Oil and gas production; midstream oil and gas pipelines and processing; electricity networks; power generation; storage; and renewable energy.
    - Communications and Digital Infrastructure
        - Communications towers; satellites; data centers; and fiber-optic networks.
  - Social Infrastructure
    - Education facilities; healthcare facilities; judicial buildings (courthouses and police stations); correctional facilities; housing; and public transportation.

- Energy and Power - Investments include ownership interests in businesses and operating platforms involved in the exploration, production, processing, transportation, or distribution of conventional and renewable energy and power, or energy- and power-related resources, including technology and services businesses related to such activities.
  - Upstream (oil and gas)
  - Midstream (oil and gas)
  - Downstream and Field Services (hydrocarbons and renewables)
  - Energy Transition:
    - Renewables (wind, solar, biogas, hydro, etc.)
    - De-carbonization (software and hardware technologies)
    - Renewables adjacent (energy storage, grid efficiency, digitization, etc.)
    - Etc. (future technologies, such as hydrogen and miniature/modular nuclear)

- Agriculture - Investments include ownership interests in farmland and agricultural businesses involved in the acquisition, production, processing, and management of row and permanent crops. Other agriculture investments may include agriculture-related storage, transportation, irrigation, agribusinesses, and bio-technology services.

- Timber - Investments include ownership interests in properties where the majority value of the property is derived from income-producing timber.

- Other natural resources - Investments include ownership interests in businesses and operating platforms involved in the mining and/or processing of metals, carbon capture and sequestration, and other natural resources.

Liquid Real Return Investments:
Investments in a diversified series of liquid publicly traded real return exposures that complement the broader objectives of the Real Return asset category, to (1) protect against inflation; (2) generate cash flow; and (3) provide further portfolio diversification. Underlying investments include global real estate investment trusts (global REITS), global infrastructure equities, real asset debt, commodities, Treasury inflation protected securities (TIPS), global natural resource equities, REIT preferreds, master limited partnerships (MLPs), and floating rate notes.

2. ~~Risk and Diversification~~Asset Class Construction:

- ~~***Diversification by investment strategy and geography, including target allocation and ranges.***~~

The construction of the Real Return portfolio is important because a well-developed portfolio can reduce risk and serve as a diversifier, lowering the overall volatility of the total fund, as well as protecting against inflation. Distinguishing characteristics of the Real Return asset category are: (1) a wide range of assets in both the public markets (liquid) and private markets (illiquid); (2) a number of differing investment strategies; and, (3) a variety of asset classes. While not all investments included in this scope will diversify SCERS' fund, it is the combination and construction of the overall portfolio that results in diversification.

The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Real Estate and Real Assets form the largest allocations due to their capabilities to fulfill the majority of goals and overall investment objective.

Real Estate:
The Real Estate program will be diversified across investment strategies and geographies. The Real Estate program has a target allocation of 8~~9~~%, with a permissible range of ~~7~~6% to ~~11~~10%. The Real Estate program targets an allocation of 60% to core and 40% to non-core investments, with the permissible ranges as displayed below. The non-U.S. target is 0%, with a range between 0% and 35%.

The table below highlights the target allocation and permissible ranges for core and non-core real estate, as well as for geographic exposure.

SCERS Real Estate Portfolio Construction			
	Minimum	Target	Maximum
Total Real Estate Portfolio	6%	8%	10%
Sub-Strategy			
Core Real Estate	50%	60%	70%
Non-Core Real Estate	30%	40%	50%
Geography			
Non-U.S.	0%		35%

Within the core real estate portfolio, exposure will primarily be comprised of open-end commingled funds (OECF), which provide SCERS with diversified exposure to stabilized properties and an element of liquidity. The majority of non-core real estate exposure will be attained through closed-end fund vehicles.

For Real Estate, one single investment position shall be limited to 2.5% of the net asset value (NAV) of SCERS' total fund. SCERS will strive to maintain ongoing long-term relationships with an expected range of 10 to 20 investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Real Estate Asset Allocation Structure.

Real Assets:

The targeted and range of investment exposures to the identified Real Assets investment sub-asset classes and geographies are shown in the table below, and~~. These exposures should be~~ measured on a fair value basis.~~, once the Real Assets asset class is fully invested.~~ The Real Assets portfolio is expected to invest globally. Infrastructure investments are expected to be made primarily within developed market countries, such as North America, Europe, and Asia, but are also permitted within developing countries. Energy and Power investments are also expected to be made primarily within developed markets, but are also permitted in developing countries. Agriculture, Timber, and Other investments will also be global in nature, with a particular focus on investments within developed market countries and a few emerging market countries.

SCERS Real Assets Portfolio Construction			
	Minimum	Target	Maximum

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Total Real Assets Portfolio	5%	7%	9%
Sub-Strategy:			
Infrastructure	50%	65%	80%
Energy and Power	20%	35%	50%
Agriculture, Timber, Other	0%	0%	20%

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SCERS Real Assets Portfolio Construction			
	Minimum	**Target**	**Maximum**
Total Real Assets Portfolio	5%	7%	9%
Sub-Strategy			
Infrastructure	45%	60%	75%
Energy and Power	15%	30%	45%
Agriculture, Timber, Other	0%	10%	20%

SCERS will allocate approximately 5%-20% of the total Real Assets target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 15 real assets managers with an expected range of 10-20 manager relationships. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Real Assets Asset Allocation Structure.

Liquid Real Return:

Liquid Real Return is given a ~~2~~1% target allocation with a 0% to 3% range. While the Liquid Real Return allocation is a strategic allocation, it also ~~a segment of it~~ serves as a rebalancing proxy for the Overlay Program that will rebalance the overall Real Return asset category to its target allocation. The Overlay proxy allocation is not included in the 0% to 3% range.

3. Asset Class Specific Risk Considerations:

Real Estate:

Within the Real Estate asset class, investment risk will be addressed through diversification by region, type of property, lease renewal terms, maximum leverage, and debt renewal terms.

- *Diversification by region, property type, and geography*.
  - SCERS will endeavor to limit the potential for any concentration in a real estate property type (office, industrial, apartment, retail, and other) or geography (South, West, Midwest, North, and non-U.S.) to negatively impact long-term returns by investing across regions and strategies. This will involve monitoring SCERS' U.S. real estate portfolio against the allocation of property types and regions in the NFI-ODCE Index.

  - SCERS' Real Estate program will maintain diversification by geography and property type. The U.S. core and non-core real estate portfolio will target weightings by geography to be similar to the NFI-ODCE Index. The maximum allocation to any of the main property types (office, industrial, apartment, and retail) is 40%, or the NFI-ODCE Index weight + 10% (whichever is greater), and 30%~~25%~~ collectively to any of the 'Other' property types (as defined by NFI-ODCE).

  - Exceptions may exist at different points in the market cycle, particularly with respect to targeted investments in the non-core real estate space, and will be monitored by Staff and consultant and reported to the Board in the quarterly performance report for real estate. An explicit exception is the non-U.S. real estate exposure, which may range from 0%-35%. When investments are made internationally, SCERS' Real Estate portfolio will potentially deviate from its primary real estate benchmark.

- *Diversification by lease and debt renewal terms.*
  - SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results by investing in underlying properties that, in aggregate, spread the risk of lease renewals and debt renewals across a number of years in the business cycle.

- *Real Estate leverage.*
  - Leverage on the Real Estate program can magnify both returns and losses. However, adding a moderate level of debt to a long-term real estate strategy has shown that it can be additive to returns over the long-term. Therefore, allowing flexibility to add debt during the expansionary phase of the cycle subject to a maximum limit will help ensure that a

debt strategy will be accretive to returns. With this in mind, the loan-to-value (LTV) limits for the Real Estate program are as follows:

- 40% maximum LTV for total core real estate program
- 75% maximum LTV for total non-core real estate program

These limits should provide adequate flexibility for the Real Estate program to operate through the real estate cycle, taking advantage of expansionary periods, but at the same time not increasing leverage beyond a point that will cause significant losses in a downturn in the cycle. However, if conditions warrant, Staff and consultant will approach the Board for approval of any exceptions to these debt guidelines.

Private Investments:

Private investments (e.g. real assets and real estate), like investments in most asset classes, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from the return and amounts expected. The expected volatility of private investments in aggregate is high among major asset classes. The investment risk associated with private investments shall be addressed in several ways:

- *Diversification by geography and investment strategy*. SCERS will endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Real Return asset category by investing across regions and strategies.

- *Diversification by vintage year.* SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results of the Real Return asset category by investing across business cycles and vintage years. It is anticipated that SCERS will commit to real assets and real estate funds over multiple years, whereby the aggregate amount will be spread across the entire business cycle. This will serve to limit the exposure or risk to investing and relying on the performance of real return funds in any given year of the business cycle. The Board will determine with Staff and consultant the funding allocation for the private segments of Real Return each year in conjunction with its annual review of the Asset Allocation Structure and Annual Investment Plan for asset classes such as Real Assets and Real Estate.

- *Diversification by industry or business sector.* SCERS will attempt to limit the potential for any one industry or business sector to negatively impact the long-term results by investing across a variety of industries.

- *Diversification by investment manager and general partner.* SCERS will endeavor to invest across a number of investment managers and limited partnerships to mitigate the potential negative impact of a concentrated portfolio of investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will vary with time and will be evaluated as part of the Real Return asset allocation structure.

4. Investment Vehicles: The vehicles for investments within the Real Return asset category reflect the broad scope of investments.

Private Real Estate and Real Assets investments generally take the form of open-end commingled funds and closed-end commingled funds, including commingled vehicles such as limited partnerships, limited liability companies, or offshore corporations.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to physical assets such as properties, limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in partnerships on a discretionary basis. FoFs will own the underlying partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

Periodically, an existing general partner (GP) will present existing investors/limited partners (LPs) with the option to roll their investment in an underlying fund company or a group of companies into a new fund that the GP controls, generally known as a Continuation Vehicle (CV). The creation of a CV by a GP is typically the result of the GP believing there is more potential value in the underlying company; however, more time is needed to realize that value. Generally, the GP offers LPs the option to take liquidity by selling their stake in an underlying company or rolling their position by making a commitment into a new fund/CV controlled by the same GP. The decision to take liquidity or roll into the new fund will be made based on the implementation protocol for alternative assets/private market investments.

Real Estate:
Specific to Real Estate, the majority of SCERS' core real estate exposure will be attained through open-ended core funds (OECFs), while the majority of SCERS' non-core real estate exposure will be attained through closed-end commingled funds (CECFs), generally through limited partnerships.

Investments in core real estate can also be made through core separate account (CSA) relationships established with fiduciary oversight managers.

These managers make commitments to physical assets such as properties, limited partnerships, or other entities such as limited liability companies or offshore corporations. SCERS does not expect to utilize CSAs within the Real Estate program.

Liquid Real Return:
Investment vehicle options for investing in the Liquid Real Return asset class include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships and institutionally investor-focused mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, transparency, and whether a commingled fund's investment guidelines are consistent with SCERS' investment objective.

5. Secondary Investments and Co-investments: Secondary investments are made when an investor purchases the limited partnership interest of another investor in an existing fund. Secondary investments also include sales of stakes in existing funds from one investor to another. A co-investment is a direct investment in an underlying portfolio company or asset where a manager offers investors the opportunity to invest directly in an underlying company or asset alongside the fund investment. Investments may be made in companies or assets that are either U.S. or non-U.S. domiciled.

Neither secondary investments nor co-investments are considered separate investment strategies within Real Return. ~~For example, a secondary or co-investment could be in any of the asset classes, but will be most prevalent within the Real Estate and Real Assets asset classes. Therefore, secondary and co-investments will be categorized according to the underlying strategy and geography and will conform to the guidelines outlined in the above section on risk and diversification.~~ SCERS will seek to allocate to secondary investments and co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Real Return asset category, if any.

Secondary sales will serve as a portfolio management and rebalancing tool for the Real Estate and Real Assets asset classes. ~~, and a~~Any secondary sales will be considered on a standalone basis. Secondary investments (both purchases and sales) and co-investments will be implemented according to the alternative assets/private markets implementation protocol. If a sale of assets is considered, Staff will keep the Board informed throughout the process.. ~~Secondary investments (both purchases and sales) and co-investments will be implemented according to the implementation protocols of the asset class in which it resides.~~

6. Investment Vehicle Concentration:

~~**Real Estate and Real Assets:**~~
~~SCERS will not typically comprise more than 20% of any one investment vehicle at the initiation of the investment that is a limited partnership, limited liability company, or offshore corporation. An exception to this guideline is an investment in a FoF or a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.~~

~~**Liquid Real Return:**~~
SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment, or for private market investments 20% of any one investment vehicle such as a limited partnership, limited liability company, or offshore corporation. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account or fund of one, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

7. Liquidity:

Overall, the Real Return asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Liquid Real Return is anticipated to be very liquid; however, will offer varying degrees of liquidity depending on sector, region, and market capitalization for equities.

Investments in pooled vehicles such as fund-of-funds and open-end commingled funds (i.e., core real estate and segments of infrastructure, agriculture, and timber) are generally more liquid than closed-end funds (i.e., non-core real estate and segments of infrastructure, energy and power, agriculture, and timber), but less liquid in nature than publicly traded investments (i.e., stocks and REITs). Liquidity is generally based on fund specific redemption schedules, which are typically monthly and quarterly, subject to lock-up periods and investor-level gates. Real estate separate accounts properties generally have less liquidity and can require a price discount to be sold.

Investments in closed-end funds have limited liquidity. These vehicles have long expected holding periods such as 5-15 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private real return investments. If liquidity is needed within private markets an option is through a secondary sale as discussed in the Secondary Investments and Co-Investments section. Secondary sales can incur discounts in pricing relative to Net Asset Value (NAV).

8. **Distributed Securities:** SCERS shall avoid the direct receipt of distributed securities from individual real return funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

   Within Liquid Real Return, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS' custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

9. **Performance Evaluation:**
   a. Performance of the Real Return asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

   b. Individual investment vehicle performance will be evaluated on a quarterly basis compared to the performance of respective peer universes and vintage years (where applicable).

   c. It is recognized that immature private investments within closed-end investment vehicles will ordinarily have a 'J-curve effect' whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

10. **Investment period to ramp-up:** It is recognized that it can take multiple years for segments of the Real Return asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the real assets and non-core real estate asset class ramp-up periods, exposures can be estimated using percentages of committed capital. During the ramp-up period for the Real Return asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Real Return asset category to the target allocation, using the designated Real Return overlay proxy within the investment guidelines for the Overlay Program.

11. Rebalancing to guidelines: It is anticipated that the majority of changes to rebalance the Real Return asset category will be made on a long-term basis due to: (1) the general illiquidity of the private investments, which often have investment horizons of 10-15 years; and (2) the potential for discounts that can be applied if and when private holdings are liquidated in the secondary market. Accordingly, when these guidelines are exceeded, it is anticipated that reducing exposures will be carried out within a long-term time-frame and over a period that is as soon as practical to reflect the illiquidity of many real return investment vehicles.

SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Real Return asset category. Rebalancing occurs quarterly, unless upper and lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Real Return asset category's, and its underlying asset class's, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Real Return asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Real Return asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Real Return asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

E. POLICY HISTORY

Date	*Description*
07-19-2017	Board adopted Real Estate asset class investment policy statement
08-16-2017	Board adopted Real Assets asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Real Return asset category investment policy statement
03-20-2019	Amended Real Return asset category investment policy statement
03-18-2020	Amended Real Return asset category investment policy statement
06-15-2022	Amended Real Return asset category investment policy statement
08-20-2025	Amended Real Return asset category investment policy statement

MASTER INVESTMENT POLICY STATEMENT

1. Introduction

Investment Policy for the Sacramento County Employee's Retirement System is documented in a Master Investment Policy Statement (IPS) and supported by individual asset class policy documents. The Master IPS is designed to establish broad policies that will guide SCERS' investment program (Investment Program), including Investment Philosophies, Investment Objectives, Plan Governance, Investment Strategy, Risk Management and Portfolio Monitoring.

The Sacramento County Employees' Retirement System (SCERS or the System) was created on July 1, 1941, by Sacramento County Ordinance #283 as adopted by the Board of Supervisors on April 30, 1941, pursuant to the County Employees' Retirement Law of 1937. SCERS provides retirement, disability, and death benefits for qualified employees of Sacramento County and eleven participating special districts.

A nine-member Board of Retirement (Board) governs SCERS. The Board has the sole and exclusive responsibility to administer SCERS in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. See California Constitution at Articles XVI Section 17.

In administering the System, SCERS will value open communication, transparency, and the consideration of different points of view. It will also follow the highest ethical standards in meeting its fiduciary duties of prudence and loyalty to the System's participants and beneficiaries, and will act solely in the interest of, and for the exclusive purpose of providing benefits and related services to participants and their beneficiaries.

2. Master IPS Purpose

The Master IPS is a principles based document that establishes broad policies that will guide SCERS' Investment Program. It is intended to provide guidance to the Board, Staff, Stakeholders, and third party professionals.

The System's individual asset categories have their own dedicated investment policy statements that include detailed information specific to the asset categories and underlying asset classes. Individual asset category IPSs contain objectives, investment guidelines, ranges, permissible investments, benchmarks, and monitoring specific to the asset categories and underlying asset classes. The individual asset category IPSs are included as supporting documents to the Master IPS.

3. Investment Philosophies

The Investment Philosophies represent the System's principles on which the Investment Program is based. All investment decisions for the System are made within the context of these philosophies, which include:

◊ Strategic asset allocation has the greatest impact on long-term investment returns and volatility. Using quantitative asset/liability modeling coupled with qualitative evaluation, an appropriate strategic (long-term) asset mix target is determined and serves as the guide for the investment allocation throughout market cycles. The qualitative evaluation emphasizes the long-term sustainability of the system, mitigation of large drawdown risk, and the ability to achieve long term funding goals.

◊ The strategic asset allocation target is a well-diversified portfolio across asset categories and asset classes. However, it is recognized that the portfolio's risk exposure is heavily influenced by equity risk, which historically has been favorably correlated with the ability to achieve long term funding objectives.

◊ While it is essential to hold to the Investment Program's strategic asset allocation throughout market cycles, the ranges around the targeted asset class allocations allow for marginal adjustments as market opportunities arise. Under normal market conditions, asset category and asset class exposures will be rebalanced to target periodically to enforce a "buy low/sell high" approach across the portfolio.

◊ An allocation to low-cost investment strategies, including passive strategies, will be used in the most efficient asset classes. Active management strategies, and the fees associated with active management, are acceptable when the expected excess return over the strategy benchmark compensates the System for the active risk taken, and the fee incentives align with the System's interests.

◊ Given the long-term nature of the System, investments that offer an illiquidity premium in return for a longer holding or lock-up period will be utilized to the extent that overall liquidity is not imperiled.

◊ The strategic asset allocation should generate sufficient levels of cash flow to support the System in meeting its benefit payment obligations.

4. Investment Objectives

A. The primary and over-arching goals of the System are to:

- Provide for current and future benefit payments, i.e. sustain the plan through its useful life.
- Diversify plan assets as its main defense against large market drawdowns, while maintaining reasonable risk exposure to meet return requirements.
- Preserve a degree of liquidity ample to meet benefit payments and capital calls, without incurring substantial transaction costs or "fire sales" of illiquid holdings.
- Incur costs that are reasonable and consistent with industry standards.
- Achieve funding goals, including the maintenance of funded status, and manageable, consistent contribution rates.

B. Investment performance objectives include:

- Returns in excess of policy benchmarks at the total fund and asset class levels over rolling three-year periods.
    - The System's total fund performance is evaluated by applying the investment performance of the asset class benchmarks to the Investment Program's strategic asset allocation target (Policy Index). The Policy Index permits the Board to compare the Investment Program's actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence.
- Achieve real (after inflation) returns at the total fund level that are at or above the actuarial real return (assumed return less per capita pay growth) over complete market cycles.
- For asset classes and actively managed portfolios, achieve net returns that exceed policy benchmarks, and rank in the top half of a competitive, after-fee universe.

5. Investment Program Governance

A. ROLES AND RESPONSIBILITIES

I. Board

With the authority noted above, the organizational structure of SCERS focuses the attention of the Board on governance and policy and not on the management of the System. The Board's primary responsibility is to set and direct investment policies set forth in this document, set and direct the strategic direction of the System, and guide its progress in achieving its goals and objectives. The Board has fiduciary responsibility for the System and the Investment Program.

While the Board may delegate certain responsibilities under the Investment Program for purposes of implementation, administrative efficiency and expertise, the following areas are the primary responsibilities of the Board, which may not be delegated:

◊ The governance model of the Investment Program

◊ Establishing and maintaining investment policy, including:

  - Investment philosophy
  - This Investment Policy Statement (IPS)
  - Investment objectives
  - Strategic asset allocation
  - Allocation-level performance benchmarks
  - Risk philosophy

◊ Engaging Board consultants and service providers

◊ Monitoring the Investment Program

II. Investment Staff

The Chief Executive Officer (CEO) is responsible for the overall management and administration of the System under the Board's direction. The Chief Investment Officer (CIO) and other Investment Staff, along with the CEO, are responsible for the implementation and maintenance of the Investment Program. The Investment Staff shall exercise the same fiduciary responsibility under applicable law as the Board. Staff shall act reasonably as custodians of the public trust, and shall recognize that the Investment Program is subject to public review and evaluation. The overall management of the System's Investment Program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

Key responsibilities of the Investment Staff include:

- Implementation and oversight of the System's Investment Program, including policies, structures, investment mandates, systems, service providers, and cash flows.
- Assisting the Board in the formulation and evaluation of investment policies and strategy, the development of the strategic asset allocation and asset class structures, and the risk management framework.
- Development and recommendations regarding investment mandates, service providers, and investment management tools and systems.

III. General Consultant

General Consultant responsibilities include, but are not limited to, providing the Board guidance on strategic asset allocation and interim market tactics, selection and monitoring of plan and manager performance, assisting with documentation, and guiding Board education.

The General Consultant is and shall agree to be a fiduciary to the System under California law. The General Consultant works with Investment Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The General Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the General Consultant are contained in an Agreement for Investment Consulting Services, and generally include providing advice with respect to:

- ◊ Investment strategy development and implementation
- ◊ Investment policy development
- ◊ Asset allocation among asset classes and subclasses
- ◊ Investment manager selection, evaluation and termination
- ◊ Investment performance monitoring
- ◊ Investment risk monitoring
- ◊ Capital markets projections
- ◊ Coordination with the System's actuary in conducting periodic asset/liability studies and other required reporting
- ◊ Board education
- ◊ Collaboration with Investment Staff on maintaining an investment manager Watch List

IV. Alternative Assets Consultants

The Alternative Assets Consultants are and shall agree to be a fiduciary to the System under California law. The Alternative Assets Consultants work with Investment Staff in the development of recommendations while recognizing their fiduciary duties are to provide prudent investment advice to the Board. The Alternative Assets Consultants provide advice without discretionary authority to execute on their advice. The specific duties of the Alternative Assets Consultants are contained in an Agreement for Investment Consulting Services.

Responsibilities of the Alternative Assets Consultants include, but are not limited to, developing and maintaining strategic plans for the System's Absolute Return, Private Equity, Credit, Real Assets and Real Estate Investments. This includes manager selection, monitoring and due diligence, maintaining liquidity and pacing projections, and Board education.

V. Investment Managers

A. Investment Managers of Custodied Assets

Subject to this IPS and their specific contractual obligations to the System, Investment Managers are responsible for making investment decisions on a discretionary basis (unless stated otherwise within their investment contract) regarding assets placed under their jurisdiction, and will be accountable for achieving their investment objectives. Decisions include the purchase, sale, and holding of investments in amounts and proportions that are reflective of the stated investment mandate. Investment managers shall maintain (1) errors and omissions insurance, (2) directors and officers liability insurance, (3) cybercrime insurance, and (4) fidelity bond (financial crime), in a commercially reasonable amount not under $5 million each. Staff may, in its reasonable discretion and for good cause, require or accept insurance coverage and/or levels that deviate from those in the foregoing sentence. In addition, SCERS' investment managers agree to notify the Board Chairman, SCERS' CEO, and/or Investment Staff, in writing, if they are unable to continue acting in the capacity of a fiduciary or investment advisor. Investment managers are expected to act as prudent experts in the management of account(s) for SCERS, and agree to be fiduciaries to the System. In fulfilling their roles, investment managers will continually educate the Board about capital market developments that pertain to their area of investment expertise.

B. Fund Managers and General Partners

Managers and General Partners of commingled funds in which SCERS is a limited partner have the responsibilities and duties set forth in their respective limited partnership agreements and side letters. With respect to such fund managers and general partners, SCERS will strive to obtain their contractual agreement to a fiduciary duty of care, in accordance with and subject to the provisions of the Alternative Asset Investment Standard of Care Policy.

VI. Custodian Bank

The System's Custodian Bank is responsible for the safekeeping of assets, trade reconciliation and settlement, income collection, short-term investing, securities lending, commission recapture, and compliance monitoring.

The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of the System's assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the custodial agreement. The Custodian Bank, per the custodial bank agreement/ contract, may be authorized to conduct a securities lending program within liquidity and risk constraints as authorized by the custodial agreement.

B. IMPLEMENTATION PROTOCOLS

I. Investment Manager Procurement

The following implementation protocols describes the allocation of investment authority and responsibilities between SCERS' Board, Staff, and consultants. Overall, the implementation protocols delegates the most time intensive elements of the process to Staff and consultant, while preserving the Board's oversight of the overall asset categories and their underlying asset classes.

The Board will approve the long-term Asset Allocation Structure for the individual asset classes within the asset categories, as developed and presented by Staff and Consultant. The long-term Asset Allocation Structure for underlying asset classes will articulate the long-term direction and objectives of each asset class including elements such as: (1) asset allocation targets and ranges by strategy, geography and style, and types of investment vehicles; and (2) for alternative assets/private markets asset classes, a target range for the number of investment managers, and the role of Fund of Funds and strategic partners.

On an annual basis, the Board will approve the Annual Investment Plan for the individual asset classes within the asset categories. The Annual Investment Plan will articulate the direction over the next year in taking the necessary steps to achieve the above objectives of the long-term Asset Allocation Structure of the underlying asset classes.

The execution of the long-term Asset Allocation Structure and Annual Investment Plan will vary between that of traditional assets/public markets investments and alternative assets/private markets investments.

Traditional assets/public markets investments include:

- Global Equity
- Fixed Income
- Liquid Real Return

Alternative assets/private markets investments include:

- Absolute Return
- Private Equity
- Credit
- Real Estate
- Real Assets

The primary difference between the traditional assets/public markets and alternative assets/private markets implementation process is as follows. For alternative assets/private markets investments, the selection of investment managers is delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant during the investment protocol process. For traditional assets/public markets investments, the Board makes the final decision at a Board meeting after a presentation by the candidate recommended by Staff and the consultant.

a. *Traditional Assets/Public Markets:*

Overall, the traditional assets/public markets implementation protocol delegates the most time intensive elements of the process to Staff and consultant, including the screening and evaluation leading to the recommendation to engage or terminate a particular investment manager. The Board provides oversight of the overall traditional assets/public markets programs and makes the final decision regarding engagement or termination of investment managers.

The key features of the traditional assets/public markets implementation protocol are as follows:

- ❖ If Staff and the consultant believe that a change is necessary to the manager structure in order to obtain optimal performance from the asset class, Staff and the consultant will present the Board with a report outlining the basis for their conclusion including how the change under consideration would fit within: (a) the allocation model for the asset class approved by the Board; and (b) the annual investment plan approved by the Board.

- ❖ Staff and the consultant will then identify the most qualified candidates to bring into the manager structure based on the full range of relevant factors regarding the manager, its investment team, and strategy. Staff will prepare a report for the Board outlining why the manager(s) in question have been identified for closer evaluation for a possible commitment. The consultant will also provide investment strategy and operational due diligence reports.

- ❖ Staff and the consultant will pursue more extensive due diligence on the manager candidate(s), including conducting extended interviews with the portfolio managers and other key members of the investment team. Legal counsel will begin reviewing the documentation for the possible engagement and preliminary negotiation of deal terms will take place.

- ❖ If/When: (a) the due diligence process is completed; (b) deal terms have been determined; (c) Staff and the consultant have determined which manager(s) to recommend to the Board; then (d) Staff will prepare a report to the Board outlining the basis for the decision, the proposed commitment amount, and the target date for closing on the commitment.

- ❖ At any point in the process, questions or concerns by a Board member regarding a proposed investment or proposed manager can be communicated to the CEO. The CEO will be responsible for assuring that a prompt response is provided.

The CEO will also provide the full Board with the response. If the Board member is not satisfied with the response, the Board member can request that the matter be brought to the full Board for consideration. In such a case, the CEO will refer the matter to the Board President who will determine whether the manager search process should be suspended until the matter is resolved. As a general rule, it is anticipated that the process of identifying and vetting a proposed investment will take place over a period of time sufficient to allow, if necessary, for full Board consideration of questions or concerns before a recommendation is finalized.

❖ The manager(s) being recommended for the engagement will make a presentation to the Board. At that time the Board can address any questions or concerns regarding the recommended candidate as well as any previously raised questions or concerns regarding another candidate or candidates. The Board can (a) approve engagement of the recommended manager; (b) direct that one or more alternative candidates be brought forward for consideration; (c) request further information regarding a candidate or candidates; or (d) take any other action the Board deems appropriate.

❖ If the new investment manager(s) engagement also involves the recommended termination of an existing manager(s), Staff and the consultant will develop and report to the Board on the reasons (as listed in the Investment Manager Termination section below), timeline, and plan for terminating the existing engagement, and transitioning the assets from the outgoing manager to the incoming manager. The Board will take action on the recommended termination.

❖ If Staff and the consultant determine that it would be advisable to physically re-balance the portfolio at the same time as making the investment manager structure changes, Staff and consultant will prepare a report for the Board outlining the recommended physical re-balancing and why it is necessary and appropriate. The Board will take action on the recommended physical re-balancing.

❖ Upon approval by the Board: (a) an investment agreement for the new investment engagement will be negotiated, and the necessary documentation executed; (b) the engagement with the outgoing manager will be terminated; and (c) the transition plan, and any necessary physical re-balancing, will be implemented.

❖ SCERS' Board President or CEO are authorized to execute any and all documents which may reasonably be required to complete a new investment engagement, to terminate an engagement with an outgoing manager, and to effectuate a transition of assets on behalf of SCERS.

❖ Staff and the consultant will report to the Board when the manager structure changes and any necessary re-balancing have been completed, along with an analysis of the costs associated with the transition.

- ❖ For traditional assets/public market investments, SCERS' Board President or CEO are authorized to execute amended agreements and other documents that may be reasonably necessary, advantageous to SCERS, or are technical in nature, including but not limited to changes in management/performance fees, investment guidelines, and Most Favored Nation provisions. Any amendments will be reported to the Board prior to execution.

b. *Alternative Assets/Private Markets:*

For the alternative assets/private markets asset classes, the execution of the long-term Asset Allocation Structure and Annual Investment Plan including the selection of investment managers will be delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant during the investment protocol process.

The key features of the alternative assets/private markets investment protocol are as follows:

- ❖ Staff and consultant will identify the most qualified candidates for a prospective Absolute Return, Private Equity, Credit, Real Estate, or Real Assets investment commitment based on: (a) the Asset Allocation Structure for the underlying asset classes approved by the Board; and (b) the Annual Investment Plan for the underlying asset classes approved by the Board (which takes into account SCERS' investments and prioritizes and targets optimal new investment opportunities that complement those investments, and in the case of private markets investments, are expected to come to market in the next twelve months).

- ❖ When a particular manager candidate is identified, Staff and consultant will pursue extensive due diligence on the manager candidate, including conducting extended interviews with the portfolio managers and other key members of the investment team.

- ❖ The consultant will complete its investment strategy and operations due diligence reports, if they have not done so already. Legal counsel will begin reviewing the documentation for the possible commitment/investment amount, and preliminary negotiation of deal terms will take place.

- ❖ Staff will prepare a detailed Initial Report for the Board outlining the basis for the potential commitment/investment, the contemplated commitment/investment amount, the target date for closing on the commitment/investment, and an assessment of the fit within SCERS' portfolio. The Initial Report will include an evaluation of the organization, investment strategy, considerations and risks, and track-record, as well as an operational assessment and a review of the investment's terms.

- If/When: (a) the due diligence process is completed; (b) deal terms have been determined and fund documents have been negotiated; (c) Staff and consultant have concluded that a commitment/investment should be made; then (d) Staff will prepare a Final Report for the Board outlining the basis for the decision, the proposed commitment/investment amount, and the target date for closing on the commitment/investment. The Final Report will summarize the due diligence items that have been completed in order to move forward with a commitment/investment, as well as any considerations that have arisen since the issuance of the Initial Reports by Staff and the consultant.

- At any point in the process, questions or concerns by any trustee regarding a proposed investment or proposed manager will be communicated to the CEO. The CEO will be responsible for assuring that a prompt response is provided. The CEO will also provide the full Board with the response. If a Board member is not satisfied with the response, the Board member can request that the matter be brought to the full Board for consideration. In such a case, the CEO will refer the matter to the Board President who will determine whether the manager search process should be suspended until the matter is resolved. As a general rule, it is anticipated that the process of identifying and vetting a proposed investment will take place over a period of time sufficient to allow, if necessary, for full Board consideration of questions or concerns before a commitment is finalized.

- Absent questions or concerns by the Board, the proposed investment will be finalized and the necessary documentation executed, and in the case of Absolute Return, funds placed with the manager.

- SCERS' Board President or CEO are authorized to execute any and all documents which may reasonably be required to complete any Absolute Return, Private Equity, Credit, Real Estate, or Real Assets investment on behalf of SCERS.

- Staff and consultant will confirm that the commitment/investment has been made, and the amount allocated to SCERS, at a subsequent Board meeting.

- With private market funds, periodically an existing general partner (GP) will present existing investors/limited partners (LPs) with the option to roll their investment in an underlying fund company or a group of companies into a new fund that the GP controls, generally known as a Continuation Vehicle (CV). The creation of a CV by a GP is typically the result of the GP believing there is more potential value in the underlying company; however, more time is needed to realize that value. Generally, the GP offers LPs the option to take liquidity by selling their stake in an underlying company or rolling their position by making a commitment into a new fund/CV controlled by the same GP. The timeline for an LP to decide to take liquidity or roll into the new CV is typically short, and therefore this decision will be delegated to Staff, subject to the Board's ability to review, discuss, and object to the recommendations of Staff and consultant, similar to the process with primary fund investments. Staff and consultant will provide the Board with reporting during the process.

- ❖ Because management of the aggregate Absolute Return portfolio is dynamic and ongoing, Staff and the consultant will also have authority to make adjustments to the Absolute Return portfolio in order to assure that the portfolio is optimally aligned to achieve the objectives of the asset class. This includes, but is not limited to the authority to: (1) trim or add to existing investment mandates; (2) terminate and/or replace an existing manager; (3) submit redemption requests; (4) determine the appropriate sources for funding a new mandate or adding to an existing mandate; and (5) determine the appropriate application of any returned capital.

- ❖ If and when Staff and consultant determine that such actions are necessary, a timely report will be prepared outlining why the action is/was deemed necessary and how it impacts SCERS' Absolute Return portfolio. Notice will be promptly provided to the Board regarding the action and the report will be put on the secure Board website.

c. *Cash:*

- ❖ Staff and General Consultant will determine the most effective approach toward implementation of cash, and recommend any changes to the Board for approval.
- ❖ Examples of approaches toward cash implementation include short-term investment funds (STIF), short duration government bonds, and a demand deposit account (DDA) that pays an interest rate tied to overnight SOFR rates.

II. Investment Manager Termination

a. General Termination

From time to time it will be necessary for the System to terminate a contractual relationship with an investment manager. The Board has established the following criteria to assist in making termination decisions. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the System.

Any action to terminate an investment manager may be based on one or more but not limited to, the following primary criteria:

- Significant changes in firm ownership and/or structure

- Loss of one or more key personnel
- Significant loss of clients and or/assets under management
- Shifts in the firm's investment philosophy or process
- Significant and persistent lack of responsiveness to client requests
- Changes in SCERS' investment strategy eliminating the need for a particular style or strategy
- Persistent violations of the strategy's investment guidelines
- Investment performance that has fallen below policy benchmarks and SCERS' expectations
- Accusations of theft or fraud by a regulatory agency or other government body
- Any other issue or situation of which Investment Staff and/or Consultant become aware that is deemed material

The ability to terminate an investment manager is defined within the contractual agreement with each investment manager. Within the traditional assets/public markets, most of SCERS' separate account mandates are structured with immediate termination rights, while most commingled funds have specific redemption schedules, varying from daily to quarterly.

Within the alternative assets/private markets asset classes, the ability to terminate an investment manager is defined within the contractual agreement with the manager. Open- end funds, including Absolute Return and Real Estate investments, typically have monthly and quarterly termination rights, subject to lock-up periods and investor level gates. Closed-end funds within the private markets, including Private Equity, Credit, Real Assets and Real Estate, are generally illiquid structures with five to fifteen year holding periods. Any early liquidity within closed-end funds is typically achieved through the dissolving of the fund, by either the limited partners or the general partner prior to the end of a fund's term, or selling a limited partner stake in a fund in the secondary market.

b. Emergency Termination – traditional assets/public markets

In the case of an emergency within the traditional/liquid asset classes, SCERS may immediately terminate an investment manager for any reason without prior notice, subject to the termination language within the investment contract with the manager, and subject to liquidity provisions of the investment strategy. In most cases, any action to terminate a manager should be taken by the Board upon the recommendation for termination by Staff, with the concurrence of the Investment Consultant at either a regularly scheduled or specially called Board meeting. If the CEO and the CIO determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board

President or one or more Vice-Presidents if the President is not available, that: (1) it is necessary to immediately terminate an investment manager in order to protect the assets under the control of the investment manager; (2) it is not feasible to convene a meeting of the Retirement Board for that purpose in a timely manner; and (3) delay could result in detrimental impact to SCERS' assets or interests, the CEO or the CIO may terminate the agreement with the investment manager. The CEO or the CIO shall immediately report such termination to the Board, along with a report of the circumstances that prompted such action.

Whenever the CEO or the CIO exercise the authority to terminate an agreement with an investment manager as provided above, he or she may also take whatever actions he or she may determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, are reasonable and necessary to transition the assets under the control of the investment manager to alternate management, including, without limitation: (1) temporarily assigning the assets to another existing contracted investment manager; (2) identifying and engaging an alternate investment manager to manage the assets until a permanent replacement for the terminated manager can be engaged; or (3) contracting for the services of a transition manager to facilitate an efficient and cost effective transition of the assets between the former and interim manager. The CEO, or in his or her absence, the CIO, may execute any and all agreements reasonably necessary to facilitate an orderly and efficient transition of the affected assets, so that they will be managed and protected until they are assigned to one or more alternate investment managers. The CEO, or in his or her absence the CIO, shall immediately report any and all steps taken to transition the assets and to protect the interests of SCERS to the Board.

III. Portfolio Rebalancing – Overlay Program and Physical

On a quarterly basis, the Investment Staff will report all rebalancing activity, either physical or via the Overlay Program.

a. Overlay Program

- The Overlay Program, which is managed by an external investment manager, is utilized to monitor and rebalance the asset allocation to policy targets, and to invest available cash.
- Under the supervision of the CIO and working with Consultants, quarterly rebalancing, primarily using derivatives, will occur in order to maintain exposures within defined bands and approaching long-term targets.
- The rebalancing frequency, rebalancing methodology, and overlay proxies are defined within the Investment Management Agreement for the Overlay Program.

b. Physical Rebalancing

- When a physical rebalancing is appropriate, as determined by the CIO, it will be directed by the CIO, who will determine the most cost effective approach. Any physical rebalancing will be reported, along with associated costs, at the subsequent Board meeting.

6. Investment Strategy

An important component of the System's investment strategy is to view risk exposures through multiple lenses, including functional and common factor exposures, in order to manage and maintain allocations that are aligned with its investment philosophy and objectives. The multiple lens approach allows the System to better understand the sources of its returns and risks and to make informed adjustments to exposures when appropriate. Appendix One shows the Board approved desired functional asset category and asset class (Policy Index) exposures. Common factor exposure will be included in the performance reviews.

The Board will conduct periodic reviews (at least every five years) of its strategic asset allocation linked with projected liability behavior.

7. Asset Allocation

A. Growth Asset Category

The Growth asset category includes assets that are exposed to equity and credit risk factors. They tend to perform best when economic growth is average or above and/or rising, and inflation is moderate and/or falling. Asset classes within the Growth asset category include:

◊ Global Equity

◊ Private Equity, including Buyout, Venture Capital, and Growth Equity strategies

◊ Credit, including Illiquid and Liquid strategies

B. Diversifying Asset Category

The Diversifying asset category includes assets that are expected to help preserve capital in periods of market distress, particularly in periods of low and falling growth. In such periods, diversifying assets may experience negative returns but are expected to perform better than growth assets, and are expected to enhance diversification by exhibiting low or negative correlation with both equity and credit markets. Diversifying assets are expected to have a positive return profile over market cycles. Asset classes within the Diversifying asset category include:

◊ Fixed Income, including US Treasuries and Core and Core-Plus strategies
◊ Absolute Return, including absolute return strategies that have low to negative correlation and low beta to equity and credit markets
◊ Cash - the dedicated 2% cash allocation is included in Diversifying asset category and serves as a liquidity tool. It is intended to close the gap between annual benefit payments and total contributions in an environment where investment earnings fall short of the targeted assumed rate of return, and is used as a source of liquidity prior to other Plan assets during a stressed liquidity environment.

C. Real Return Asset Category

The Real Return asset category includes assets that should perform well in periods of unexpectedly rising inflation while producing positive net real returns over complete market cycles. The category should also provide moderate levels of income and cash flow generation. Additionally, Real Return assets should enhance diversification by exhibiting low or negative correlation with both equities and nominal bonds. Asset classes within the Real Return asset category include:

◊ Real Estate, including both Core and Non-Core strategies
◊ Real Assets, including Infrastructure, Energy and Power, and Agriculture/Timber strategies
◊ Liquid Real Return

8. Risk Management

Risk is inherent in a defined benefit pension plan's investment portfolio, putting a high premium on maintaining the appropriate risk level throughout market cycles. However, the System recognizes that there may be infrequent periods when risk levels become extreme and expected risk premia do not justify the exposure. While the System's primary risk management approach is broad diversification and disciplined rebalancing, the System will assign ranges around exposures to accommodate asset preservation during periods of market unrest, allowing for the ability to increase liquid defensive positions (i.e. Treasuries) and reduce liquid growth exposures (i.e. Equities and Credit). The System views risk through multiple lenses in order to address the following circumstances:

◊ Large drawdowns
◊ Maintenance of real actuarial earnings expectation and purchasing power
◊ Ability to meet benefit payments and capital calls (i.e. liquidity)
◊ Avoid large volatility in contribution rates

In periodic performance reports, the System will monitor the following characteristics to keep track of various portfolio risks:

- ◊ Actual allocations vs. target allocations
- ◊ Risk Factors, including exposure to equity, credit, inflation, interest rates, and currencies
- ◊ Exposures and liquidity/pacing provisions in private market asset classes
- ◊ Longer-term volatility (standard deviation) relative to policy

9. Portfolio Monitoring

A. Reporting

I. Quarterly Reporting

The Board will receive quarterly performance and exposure reports from its General and Alternative Assets Consultants. The reports will generally include performance results and comparisons to benchmarks and peers, as well as asset class and risk exposure relative to policy allocations.

II. Annual Reporting

On an annual basis, Staff, with assistance from the Investment Consultants, will provide an 'Investment Year in Review' for the Board. This report and presentation will highlight investment activity for the total fund and individual asset categories and asset classes during the prior calendar year, and preview anticipated investment objectives and expected activity for the upcoming calendar year. The report will also present new investment/commitment budgets within the alternative/private market asset classes for the Board to approve.

B. Portfolio and Compliance Monitoring

Monitoring of compliance with manager investment guidelines will be performed monthly by the CIO and Investment Staff relying on data provided by the custodian, consultants, and investment managers. In addition, the CIO and Investment Staff will monitor portfolio exposures, risk, performance, and attribution characteristics. On an annual basis, the CIO and Investment Staff will request and review each manager's form ADV Part II and will inform the Board of significant changes and apparent conflicts of interest.

C. Watch List

The Watch List status will be determined and monitored by the Investment Staff and Consultants, focusing on relative performance and organizational instability. Decisions to add or remove an investment manager to/from the Watch List will be less rules-based and more a function of analyzing both quantitative and qualitative factors related to the investment manager. Investment managers on the Watch List will be subject to enhanced scrutiny and are subject to termination upon Board approval of Staff recommendation.

Investment manager additions and removals from the Watch List will be communicated to SCERS' Board prior to any action being taken, and a report on any managers on the Watch List will be presented quarterly to the Board.

D. Manager Due Diligence

The Investment Staff and Investment Consultants will monitor individual investment managers' performance quarterly and annually. The Investment Staff and Consultants will meet with all investment managers periodically. Typically, these meetings will occur in the SCERS'/ Consultants' office or through a web conferencing platform (i.e., Zoom). However, manager on-site meetings may be scheduled for existing managers, Watch Listed managers, and as a part of new investment manager due diligence.

10. Other Investment Considerations

SCERS recognizes that corporate business practices associated with an underlying investment or investment firm, including approaches to environmental or ethically responsible strategies—commonly referred to as "ESG" (environmental, social, governance)—may present financial risks or opportunities for the System. SCERS will identify, evaluate, and manage material and financially relevant factors in its investment process to safeguard and enhance System performance. Consideration of these factors shall be conducted in conjunction with other relevant factors in a manner that helps SCERS achieve its strategic objectives.

If the Legislature, by statute, prohibits any investments by boards operating under the County Employees Retirement Law of 1937 (CERL) under the authority of section (g) of article XVI, section 17 of the California Constitution, then the SCERS Board will undertake an independent investment analysis to determine whether such a prohibition satisfies the standards of fiduciary care and loyalty required of the SCERS Board pursuant to the California Constitution and Government Code sections 31594 and 31595 of CERL.

11. Limited Partner Advisory Committees

General partners often invite SCERS, as a limited partner in an investment fund, to serve as a voting member or observer (through Investment Staff) on a Limited Partner Advisory Committee (LPAC). Serving on an LPAC can provide value to SCERS through a better understanding of the general partner, fund issues, and the market in general. Subject to approval of the CEO, and General Counsel where appropriate, the decision to serve on an LPAC is delegated to the CIO, who shall consider no fewer than the following factors to determine whether Staff and SCERS should serve on an LPAC:

◊ Staff experience as an institutional investor committing capital to private market investments (i.e., whether Staff understands the peculiarities of private markets at an institutional level);

◊ Staff's length of service with SCERS (i.e., whether Staff understands important SCERS issues such as personal identifiable information or reporting requirements);

◊ Public pension plan representation (i.e., whether other public pension plans' membership in the LPAC can adequately protect SCERS' interests);

◊ Institutional maturity of the market opportunity and the general partner's track record, (i.e., whether the nature of the investment or the general partner's history justifies additional attention from SCERS); and

◊ Potential risk to SCERS through participation (i.e., whether SCERS and Staff are insured or indemnified for LPAC activities)

No individual Staff member may serve on more than five (5) LPACs at any given time. The CIO will advise the Board of any LPAC participation at his or her earliest opportunity.

History

Amended August 20, 2025

Amended February 21, 2024

Amended June 21, 2023

Amended June 15, 2022

Amended March 17, 2021

Amended September 18, 2019

Amended on March 20, 2019

Restated on July 19, 2017 as "SCERS Master Investment Policy Statement"

Amended on February 18, 2010

Amended on December 18, 2008

Adopted on January 17, 2008 as "SCERS Investment Policy & Objectives"

Appendix

Appendix I - SCERS' Asset Allocation Policy

Asset Category	Asset Class	Minimum Allocation	Target Allocation	Maximum Allocation	Policy Benchmark
Growth			59%		
	Global Equity	35%	39%	43%	MSCI ACWI IMI
	Private Equity	8%	11%	14%	Cambridge Associates PE/VC Index
	Credit	6%	9%	12%	Cambridge Associates Private Credit Index
Diversifying			25%		
	Fixed Income	12%	16%	20%	75% Bloomberg Barclays Aggregate Index/25% Bloomberg US Treasury Index
	Absolute Return	5%	7%	9%	HFRI FoF Conservative Index
	Cash	0%	2%	3%	Overnight SOFR
Real Return			16%		
	Real Estate	6%	8%	10%	60% NFI-ODCE/40% NFI-ODCE + 1%
	Real Assets	5%	7%	9%	Real Assets Custom Blend*
	Liquid Real Return	0%	1%	3%	SSGA Real Return Overlay Proxy**
			100.0%		

*Real Assets Custom Blend: 65% Cambridge Associates Private Infrastructure Index, 35% Cambridge Associates Private Energy Index.

**SSGA Real Return Overlay Policy: 15% FTSE EPRA/NAREIT Developed Liquid Index, 25% S&P Global Infrastructure Index, 10% S&P Global Large Mid Cap Commodity and Resources Index, 10% Bloomberg Roll select Commodity Index, 30% Bloomberg Barclays 1-10 year US TIPS Index, and 10% Bloomberg Barclays US Dollar Floating Rate <5 Year Index.

SCERS GROWTH ASSET CATEGORY INVESTMENT POLICY STATEMENT

August 20, 2025

Contents

A. <u>GROWTH ASSET CATEGORY INVESTMENT OBJECTIVE</u>

The Growth asset category seeks to achieve the following investment objectives:

- Attractive returns that tend to be generated during a high growth and low/moderate inflationary environment, and which tend to be correlated to equity and credit risk factors.
- A combination of capital appreciation, income, and cash flow generation.
- Moderate levels of diversification within the asset category.

Asset classes within the Growth asset category include:

- Global Equity
- Private Equity
- Credit

Asset class target weights within the Growth asset category are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Global Equity	35%	39%	43%
Private Equity	8%	11%	14%
Credit	6%	9%	12%
Growth Asset Category		***59%***	

<u>Global Equity:</u>
The investment objective of the Global Equity portfolio is to enhance total fund performance by investing in a diversified portfolio of publicly traded domestic and international equity securities across investment styles and market capitalizations, and through the use of passive and active externally managed strategies. The Global Equity asset class will strive to earn net returns in excess of the MSCI ACWI IMI global equity benchmark, primarily from the selection of investment managers. SCERS shall seek to maintain reasonable levels of aggregate risk, as measured through standard deviation and tracking error.

<u>Private Equity:</u>
The investment objective of the Private Equity portfolio is to enhance the total fund performance through investments in non-publicly traded securities. Private equity investments are illiquid and long-term in nature. To compensate for the illiquidity and the higher risks of the private equity market, the Private Equity portfolio is expected to generate a rate of return that exceeds the return of publicly traded equities over the long-term. Along with earning this ‘illiquidity premium’, SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.

<u>Credit:</u>
The investment objective of the Credit portfolio is to produce attractive risk-adjusted returns and generate current cash flow through illiquid/private non-exchange traded lending and special situations strategies, as well as through

liquid/publicly traded credit strategies through flexible mandates that can touch multiple points within the credit universe. To compensate for the general illiquidity of the asset class, the Credit portfolio is expected to generate a rate of return that exceeds the return of exchange traded bank loans over the long-term. Along with earning this 'illiquidity premium', SCERS shall strive to achieve additional excess returns primarily from the selection of investment managers.

B. BENCHMARKS

The Growth asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Growth asset class benchmarks are as follows:

Global Equity:

❖ Performance of the Global Equity asset class will be evaluated against the MSCI ACWI IMI. The underlying sub-asset classes and segments, will be evaluated and compared against the following benchmarks. The Global Equity portfolio, sub-asset classes, and most of the underlying segments are expected to outperform their respective benchmarks over a period of greater than three years.

Sub-Asset Class	Benchmark
Domestic Equity	Russell 3000 Index
Domestic Equity Large Cap	Russell 1000 Index
Large Cap Passive	Russell 1000 Index
Large Cap Active	Russell 1000 Index
Domestic Small Cap	Russell 2000 Index
Small Cap Active	Russell 2000 Index

Sub-Asset Class	Benchmark
International Equity	MSCI ACWI ex-US Index
International Equity Developed Markets	MSCI World ex-US Index
Developed Markets Large Cap Active	MSCI World ex-US Index
International Developed Small Cap Active	MSCI World ex-US Small Cap Index
International Equity Emerging Markets	MSCI Emerging Markets Index
Emerging Markets Active	MSCI Emerging Markets Index

Sub-Asset Class	Benchmark
Global/Unconstrained Equity	MSCI ACWI IMI

Private Equity:

SCERS Private Equity Portfolio	Benchmark
Policy Index Benchmark	Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR
Long-Term Objective	MSCI ACWI IMI Index + 3%

- ❖ The performance of the Private Equity portfolio is expected to exceed the return of the Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR for the respective vintage years. The Cambridge Associates LLC Global Private Equity & Venture Capital Pooled IRR will also serve as SCERS' Policy Index.

- ❖ Over the long-term, the objective of the Private Equity asset class is to exceed the MSCI ACWI IMI Index by 3%, net of fees and expenses.

- ❖ Individual partnerships will be compared to the appropriate Cambridge Associates Universe category, adjusted for vintage year.

Credit:

SCERS Credit Portfolio	Benchmark
Policy Index Benchmark	Cambridge Associates Private Credit Index
Long-Term Objective	Credit Suisse Leveraged Loan Index + 2%

- ❖ The performance of the Credit portfolio is expected to exceed the return of the Cambridge Associates Private Credit Index for the respective vintage years. The Cambridge Associates Private Credit Index will also serve as SCERS' Policy Index.

- ❖ Over the long-term, the objective of the Credit asset class is to exceed the Credit Suisse Leveraged Loan Index + 2%, net of fees and expenses.

C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Global Equity:
Global Equity investments shall include equity securities purchased on listed U.S. stock exchanges, non-U.S. listed stock exchanges, over-the-counter (OTC) markets (including NASDAQ), and also includes equity securities of foreign companies traded on registered U.S. stock exchanges. Eligible

investments shall include publicly-traded common stock and preferred stock. Eligible investments are also listed in the Investment Guidelines of the Investment Management Agreements (IMAs) of externally managed investment manager mandates.

Equity investments are managed through external investment manager strategies. SCERS' equity asset class exposures are diversified across a variety of styles, factors, and capitalizations:

- *Value Stocks:* Stocks that trade at a lower price relative to their fundamentals and are considered undervalued by investors. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and/or low price-to-equity ratio.

- *Growth Stocks:* Stocks of companies whose revenues and earnings are expected to grow at an above-average rate relative to the broad equity market. Growth stocks typically pay smaller dividends, as a growth company would prefer to re-invest retained earnings back into the company.

- *Core Stocks:* Stocks of companies that are reliable and consistent growers, with predictable earnings that pay moderate levels of dividends. Core companies are financially healthy, and typically generate meaningful free cash flow.

- *Other Style Factors:* Includes factors outside of growth, value, and core, including quality, momentum, market sentiment, and idiosyncratic factors specific to a company.

- *Large Capitalization Stocks:* Stocks of companies with a market capitalization value generally in the range of companies within the Russell 1000 Index. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

- *Small Capitalization Stocks:* Stocks of companies with a market capitalization value generally in the range of companies within the Russell 2000 Index. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Private Equity Investments:
Private equity investments primarily involve the purchase of unlisted, illiquid common and preferred equity, and to a lesser degree, subordinated and senior debt of companies that are typically privately held. Investment is authorized in vehicles and investment strategies that invest in a broad array of various securities, including but not limited to:

- ❖ *Buyout Investments* - Investments include acquisitions, recovery investments, and distressed for control investments (debt positions that are often converted to equity typically during a bankruptcy reorganization process). Investments are made across the market capitalization spectrum and typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company and may include the use of leverage in the form of debt. Investments are typically made in years one through six and returns typically occur in years three through ten. The potential for fund term extensions of up to three years is typically structured into most buyout funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- ❖ *Venture Capital Investments* - Investments include companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage, but with a heavier focus on companies in their earlier stage of development. Investments are typically made in years one through six and returns typically occur in years four through ten. The potential for fund term extensions of up to three years is typically structured into most venture capital funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- ❖ *Growth Equity Investments* – Investments with properties and features of both buyouts and venture capital, and which falls between each on the risk-return spectrum. Includes minority investments in more mature and profitable companies looking to further accelerate growth by expanding operations or funding an acquisition. Investments are typically made in years one through six and returns typically occur in years four through ten. The potential for fund term extensions of up to three years is typically structured into most venture capital funds. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

Credit:

Illiquid Credit

The bulk of Illiquid Credit is comprised of private lending-oriented strategies (Direct Lending and Opportunistic Lending), which are illiquid strategies focused on private loans to performing companies. Private lending strategies include primarily debt investments, where an investor expects to receive principal and interest, with the majority of returns being generated from cash flow yield. Private lending strategies are typically structured with floating rate loans, with a spread over a benchmark rate like SOFR, so cash flow income increases as interest rates increase, but can also include fixed rate loans. The Illiquid Credit sub-strategy also includes a small allocation to Special Situations.

- ❖ *Direct Lending* - Direct lending investments are directly originated, non-traded, performing loans made to primarily middle market companies. Direct lending investments primarily are comprised of senior secured debt, which can be secured by general corporate collateral or by a company's specific collateral. Equity participation can be structured into the loan, typically through warrants, but this is generally a small component of the strategy. Direct lending investments often utilize leverage (typically in the range of 0.5 to 2.5 times) at the fund level. Direct lending investments also have broadly diversified sector exposure and include a combination of sponsored (private equity backed companies) and non-sponsored borrowers, as well as purchases of loans in the secondary market. Non-sponsored loans will typically have higher yields and stronger covenants than sponsored loans. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.

- *Opportunistic Lending* - Opportunistic lending investments are also performing loans like direct lending (not distressed), but represent a broader range of investment types. Opportunistic lending includes mostly senior secured structures, but can also include subordinated debt structures, convertible debt, and structured equity. Opportunistic lending is often designated as an asset-backed lending strategy, where collateral comes in the form of specific assets such as receivables, inventory, or royalty streams. Opportunistic lending investments can have meaningful equity participation, depending on the structure. This is often in the form of warrants and convertible bonds, but can also include direct equity participation. Opportunistic lending investments typically utilize little to no leverage. Opportunistic lending funds can have a targeted sector focus, which can often include only one sector, and generally are targeted toward non-sponsor borrowers. Opportunistic lending investments can also include acquisition and leasing strategies that produce income and cash flows, such as aircraft leasing and entertainment royalties. Investments will primarily be made in U.S. domiciled companies; however, non-U.S. domiciled companies can also be included.

- *Special Situations* - Special Situations are opportunistic investments in a broad category of assets, typically related to corporate or market dislocations. Specific examples of Special Situations investments include sub- and non-performing loans, secondary debt purchases, new originations of debt instruments including rescue financings, and structured credit. Special Situations primarily include debt investments, although it can include investments with equity participation. Special Situations investments can include investments in companies that are facing financial or operational stress. Special situations is expected to make up a small portion of the Illiquid Credit sub-strategy (around 10%).

Liquid Credit

Liquid Credit strategies primarily invest in liquid/publicly traded credit though flexible mandates that can touch multiple points within the liquid credit universe.

Liquid Credit investments typically generate moderate income and also serve as a source of return enhancement. Eligible investments for Liquid Credit are broad and include but are not limited to below investment grade high yield corporate bonds and bank loans, investment grade corporate bonds, derivatives, structured credit, agency and non-agency backed mortgage-backed securities, commercial mortgage backed securities (CMBS), collateralized loan obligations (CLOs) and collateralized debt obligations (CDOs), asset-backed securities, stressed/distressed corporate credit, government bonds, agencies, agency and non-agency mortgage-backed securities, international non-dollar fixed income securities, emerging markets debt, equity securities, and cash. Some strategies can potentially own equity-like securities. While Liquid Credit strategies mostly invest in liquid/publicly traded markets, strategies can also include hybrid credit strategies that invest opportunistically across both public and private markets. Liquid Credit investments are made within an opportunistic framework, where potential investments are expected to earn a return in line or greater than Illiquid Credit strategies to be considered for investment.

2. Asset Class Construction:

The expected volatility of the Growth asset category investments is often higher than in other parts of the SCERS portfolio. The asset category is diversified by investment strategy and geography. The expected portfolio construction parameters for the Growth asset category investments are reflected in the target allocations and ranges below.

Distinguishing characteristics of the Growth asset category are: (1) a wide range of assets in both the public markets (liquid) and private markets (illiquid); (2) and a number of differing investment strategies across several underlying asset classes. It is anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Global Equity
Target allocations and ranges for the Domestic Equity, International Equity, and Global/Unconstrained sub-asset classes are provided below:

Sub-Asset Class	Target Allocation	Target Allocation
Domestic Equity	**19.0%**	
Domestic Equity Large Cap	90.0%	
Large Cap Passive		50.0%
Large Cap Active		40.0%
Domestic Small Cap	10.0%	
Small Cap Active		10.0%

The Domestic Equity sub-asset class contains a combination of passive and active mandates and is separated between the large capitalization and small capitalization segments, with the objective to maintain diversification across investment styles (i.e., growth, value, core), sectors, and industries.

Sub-Asset Class	Target Allocation	Target Allocation
International Equity	**14.0%**	
International Equity Developed Markets	70.0%	
Developed Markets Large Cap Active		60.0%
International Developed Small Cap Active		10.0%
International Equity Emerging Markets	30.0%	
Emerging Markets Active		30.0%

The International Equity sub-asset class contains 100% active mandates, without any passive allocations, and is separated between developed markets and emerging markets segments. The developed markets are further broken out between large capitalization and small capitalization segments. The emerging markets allocation is diversified across capitalization and styles. The International Equity sub-asset class seeks to maintain diversification across investment styles (i.e., growth, value, core), sectors, and industries.

Sub-Asset Class	**Target Allocation**	**Sub-Asset Class Target Allocation**
Global/Unconstrained Equity	**6.0%**	
Global Equity		>/= 50%
Non Beta 1 (Long/Short)		</= 25%
Niche or Country/Sector Concentrated		</= 25%

The Global/Unconstrained sub-asset class contains a broad range of strategies with greater flexibility to generate excess returns above the broad Global Equity asset class benchmark (MSCI ACWI IMI). The primary allocation within the sub-asset class (at least 50%) is comprised of a 'Global Equity' segment that has the flexibility to allocate across a wide range of global equity markets, including U.S., developed international, and emerging markets.

The Global/Unconstrained sub-asset class also contains an 'Unconstrained' segment, comprised of strategies that are more benchmark agnostic compared to traditional public equity investments. Examples include sector and country specific strategies, and non-beta 1 strategies that are comprised of long and short exposures. 'Unconstrained' strategies are expected to predominantly invest in publicly traded equities, but can opportunistically allocate to other market segments (such as credit) if the manager believes it can earn equity like returns with less risk at certain points in a cycle. 'Unconstrained' strategies do not have a target allocation, but can comprise up to 50% of the Global/Unconstrained sub-asset class's target allocation.

<u>Private Equity:</u>

For the Private Equity asset class, the targeted and range of investment exposures to the various private equity investment sub-strategies and geographies are shown in the table below. These exposures are measured on a fair value basis. SCERS shall endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Private Equity asset class by adhering to these targets and ranges. It is expected that the non-U.S. investments will be further diversified across different regions.

SCERS Private Equity Portfolio Construction	Minimum	Target	Maximum
Total Private Equity Portfolio	8%	11%	14%
Sub-Strategy:			
Buyout	40%	65%	80%
Venture Capital	10%	20%	40%
Growth Equity	10%	15%	35%
Geography:			
U.S.	70%	80%	90%
Non-U.S.	10%	20%	30%

SCERS will favor a diversified approach by allocating approximately 2%-6% of the total Private Equity target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 25 private equity managers with an expected range of 20-30 manager relationships. No single investment manager will exceed 10% of SCERS' total active commitment level, unless the vehicle is a fund of funds or separate account advisory relationship. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Private Equity Asset Allocation Structure.

<u>Credit:</u>

For the Credit asset class, the targeted and range of investment exposures to the various credit investment sub-strategies and geographies are shown in the table below. These exposures are measured on a fair value basis. SCERS shall endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Credit asset class by adhering to these ranges. It is expected that the non-U.S. investments will be further diversified across different regions.

The Credit sub-strategies include Illiquid and Liquid Credit. There are not specific targets to the sub-strategies, but rather ranges, to allow for greater flexibility in implementation. Illiquid Credit will make up the bulk of the Credit asset class, with a range of 60% to 100%, meaning that SCERS' allocation to Illiquid Credit strategies will be at least 60% of the overall Credit portfolio. Liquid Credit strategies will be allocated on a more opportunistic basis toward strategies that are capable of generating returns in line with those of Illiquid Credit strategies. The range for Liquid Credit strategies is 0% to 40%. The Illiquid sub-strategy is comprised of the Direct Lending, Opportunistic Credit, and Special Situations segments. While these segments do not have specific targets and ranges, Direct Lending is expected to make up the majority of the allocation, followed by Opportunistic Credit, and to a lesser extent Special Situations.

SCERS Credit Portfolio Construction	Minimum	Target	Maximum
Total Credit Portfolio	6%	9%	12%
Sub-Strategy:			
Illiquid Credit	60%	-	100%
Direct Lending			
Opportunistic Lending			
Special Situations			
Liquid Credit	0%	-	40%
Geography:			
U.S.	75%	-	100%
Non-U.S.	0%	-	25%

SCERS will favor a concentrated approach within the Credit asset class and will strive to maintain ongoing long-term relationships with approximately 10-15 Illiquid Credit managers and 0-5 Liquid Credit managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Credit Asset Allocation Structure.

3. Asset Class Specific Risk Considerations:

Global Equity:

With public equity investments, there is an inherent risk that the actual returns will vary significantly from expected returns. Publicly traded equities generate significant levels of volatility (measured by standard deviation), and emerging markets tends to exhibit higher volatility than developed markets. Public equity investments also expose investors to high levels of equity market beta and the equity risk premium (ERP). Investment returns and risks within SCERS' Global Equity portfolio shall be measured according to all or some of the following measures:

- *Standard Deviation:* A measure of volatility which calculates the dispersion of returns from an average rate of return.

- *Sharpe Ratio:* A ratio that measures risk-adjusted performance. In particular, it measures a portfolio's excess returns over the risk free rate, and divides the result by the standard deviation of the portfolio returns.

- *Tracking Error:* The standard deviation, or volatility, of excess returns generated between a portfolio and that of a benchmark.

- *Information Ratio:* A risk-adjusted performance measure which calculates a portfolio's excess returns above a benchmark, and divides the result by the tracking error, or volatility of the excess returns.

- *Beta:* A measure of the sensitivity of a security or portfolio in comparison to the market as a whole. Beta measures the tendency of a security's or a portfolio's return to swings in the market.

The investment risks associated with the Global Equity portfolio shall be addressed in several ways:

- *Diversification by geography:* SCERS shall maintain a Global Equity portfolio that is diversified across geographies. Global equities shall encapsulate the domestic equity markets and the international equity markets, including both developed and emerging markets. SCERS' Global Equity portfolio, which is comprised of the domestic equity, international equity, and global/unconstrained sub-asset classes, will benchmark itself against the MSCI AWI IMI, which is diversified across global geographies.

- *Diversification across style:* SCERS' Global Equity portfolio shall seek to maintain style neutrality across the sub-asset classes. This includes an approximate equal weight across both the value and growth styles, and/or to core strategies that will inherently be style neutral across a market cycle.

- *Diversification across market capitalization:* SCERS' Global Equity portfolio invests across the large-capitalization and small-capitalization spaces. While the portfolio does not consist of any dedicated mid-capitalization mandates, exposure to mid-cap stocks is provided by SCERS' large and small capitalization strategies

- *Diversification across externally managed active investment mandates and passive investment mandates:* A key variable in the decision to use active mandates over passive mandates is the probability of active equity managers generating consistent excess returns over the benchmark in aggregate. The ability to generate excess returns depends on the region, market capitalization, and style that an investor has exposure to. Within domestic equities, domestic small cap has historically produced a higher probability of excess returns versus domestic large cap. International developed and emerging market equities have historically produced a higher probability of excess returns. Global/unconstrained strategies are expected to generate excess returns over the MSCI ACWI IMI.

- *Diversification by investment manager:* SCERS' Global Equity portfolio will seek to allocate capital to a variety of external investment managers in order to ensure diversification by sub-asset class, style, sector, and region, and to avoid concentration of capital to any specific manager or factor exposure. However, SCERS will seek to avoid manager redundancies through over-diversification to external investment managers. This will be accomplished by keeping track of portfolio characteristics and exposure levels of investment managers, including unnecessary overlap of individual security positions among managers.

- *Diversification by sector and industry:* SCERS' Global Equity portfolio shall achieve diversification across sectors and industries among its equity investment managers, and across the sub-asset classes. Individual investment manager guidelines shall call for the prudent allocation of assets across sectors and industries, to avoid over-concentration to any sector or industry. Individual strategies within the global/unconstrained sub-asset class can contain greater concentration at the sector/industry level.

Private Investments:

Private investments, (e.g. private equity and private/illiquid credit), like investments in most asset classes, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from the return and amounts expected. The expected volatility of private investments in aggregate is high among major asset classes. The investment risk associated with private investments shall be addressed in several ways:

- *Diversification by geography and investment strategy*. SCERS will endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Growth asset category by investing across regions and strategies.

- *Diversification by vintage year.* SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results of the Growth asset category by investing across business cycles and vintage years. It is anticipated that SCERS will commit to private market funds (i.e., private equity and private credit) over multiple years, whereby the aggregate amount will be spread across the entire business cycle. This will serve to limit the exposure or risk to investing and relying on the performance of private funds in any given year of the business cycle. The Board will determine with SCERS' investment staff and consultant the funding allocation for the private segments of the Growth asset category each year in conjunction with its annual review of the Asset Allocation Structure and Annual Investment Plan for asset classes such as Private Equity and Private Credit.

- *Diversification by industry or business sector.* SCERS will attempt to limit the potential for any one industry or business sector to negatively impact the long-term results by investing across a variety of industries.

- *Diversification by investment manager and general partner.* SCERS will endeavor to invest across a number of investment managers and limited partnerships to mitigate the potential negative impact of a concentrated portfolio of investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will vary with time and will be evaluated as part of the Growth asset allocation structure.

4. Investment Vehicles: The vehicles for investments within the Growth asset category reflect the broad scope of investments held within this asset category.

Global Equity and Liquid Credit:
Investment vehicle options for investing in the Global Equity and Liquid Credit segments include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships and institutionally investor-focused mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, transparency, and whether a commingled fund's investment guidelines are consistent with SCERS' investment objective.

Private Equity:
Investment vehicles for private equity investments are often commingled funds, structured as private limited partnerships, but may also include other entities such as limited liability companies or offshore corporations. Private equity limited partnerships are drawdown structures with management fees and carried interest. It is anticipated that the majority of SCERS' Private Equity

investments will be made through direct investments into private equity limited partnerships.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in private equity partnerships on a discretionary basis. FoFs will own the underlying private equity partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to private equity limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

Periodically, an existing general partner (GP) will present existing investors/limited partners (LPs) with the option to roll their investment in an underlying fund company or a group of companies into a new fund that the GP controls, generally known as a Continuation Vehicle (CV). The creation of a CV by a GP is typically the result of the GP believing there is more potential value in the underlying company; however, more time is needed to realize that value. Generally, the GP offers LPs the option to take liquidity by selling their stake in an underlying company or rolling their position by making a commitment into a new fund/CV controlled by the same GP. The decision to take liquidity or roll into the new fund will be made based on the implementation protocol for alternative assets/private market investments.

Illiquid Credit (i.e. Private Credit):

A common investment vehicle for private credit investments is a commingled fund, structured as a limited partnership. Private credit limited partnerships are drawdown structures with management fees, and typically carried interest. Direct lending strategies generally have lower fees and carried interest than other private market strategies, and often only charge management fees on invested capital, not committed capital. Opportunistic and special situations funds can have higher management fees and carried interest given their higher return targets.

Separate accounts or fund of ones are also vehicles that can be used to invest in private credit. These vehicles are larger and customizable accounts with investment managers that have greater flexibility in the guidelines, greater input from Staff and consultant, and may have lower fees. Separate accounts and fund of ones generally have a size of $100 million or greater.

Another investment vehicle that is common in private credit is private business development companies (BDCs). Private BDCs have similar investment strategies as a private commingled fund, but have a differing structure. These vehicles can have lower fees, lower yields, and the potential to earn a return premium by going public through the IPO markets.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in private credit partnerships on a discretionary basis. FoFs will own the underlying private credit partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

Illiquid Private Credit investments may also encounter CVs as a portfolio matures. These investments will have similar characteristics and follow a similar pattern to CVs in Private Equity.

5. Secondary Investments and Co-investments: Secondary investments are made when an investor purchases the limited partnership interest of another investor in an existing fund. Secondary investments also include sales of stakes in existing funds from one investor to another. A co-investment is a direct investment in an underlying portfolio company where a manager offers investors the opportunity to invest directly in an underlying company alongside the fund investment. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

   Neither secondary investments nor co-investments are considered separate investment strategies within the Growth asset category. SCERS will seek to allocate to secondary investments and co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Growth asset category, and any underlying asset class, if any.

   Secondary sales will serve as a portfolio management and rebalancing tool for the Private Equity and Illiquid Credit segments. Any secondary sales will be considered on a standalone basis. Secondary investments (both purchases and sales) and co-investments will be implemented according to the alternative assets/private markets implementation protocol. If a sale of assets is considered, Staff will keep the Board informed throughout the process.

6. Investment Vehicle Concentration:

   SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment, or for private market investments 20% of any one investment vehicle such as a limited partnership, limited liability company, or offshore corporation. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account or fund of one whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

7. Liquidity: Overall, the Growth asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Global Equity and Liquid Credit:
Investments in public equity and liquid credit markets offer varying degrees of liquidity depending on region, market capitalization for equities, and bond sector; however, liquidity is generally high relative to other asset classes. In public equities, larger capitalization stocks generally have higher average daily volumes and a greater number of trading intermediaries, and therefore offer higher liquidity levels than smaller capitalization stocks.

Among investment vehicles, investing through separate accounts typically offer the highest liquidity, as the underlying assets are owned by SCERS, and are held at SCERS' custodian. While the underlying assets of commingled funds offer high liquidity, there is the potential for less immediate liquidity when redeeming assets from a commingled fund. This liquidity can vary from immediate to monthly liquidity, depending on the structure of the fund.

Private Equity and Illiquid/Private Credit:
Private equity investments are illiquid and typically have long expected holding periods such as 10-13 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value.

Private credit investments are illiquid and typically have long expected holding periods such as 5-12 years. While the majority of investments are tied to coupon payments and cash distributions are returned to investors on a quarterly basis, most investments are held until maturity or full repayment and selling an interest in a fund prior to maturity may result in realizing a sales price that reflects a discount to fair market value.

Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits, or lowering asset allocation targets to private equity or private credit investments. In order to better assess liquidity needs, a capital budget and cash flow forecast will be developed over a ten-year horizon and updated as necessary. The assumptions of this forecast are stress tested in the context of the total fund to assess the effect of worst case liquidity scenarios. If liquidity is needed within private markets an option is through a secondary sale as discussed in the Secondary Investments and Co-Investments section. Secondary sales can incur discounts in pricing relative to Net Asset Value (NAV).

8. Distributed Securities: Within the Global Equity asset class, SCERS shall typically seek receipt of distributed securities from investment managers.

For separate accounts, assets are custodied at SCERS' custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

SCERS shall avoid the direct receipt of distributed securities from individual private equity and illiquid/private credit funds, and most liquid credit funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

9. Performance Evaluation:

- ❖ Performance of the Growth asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

- ❖ Individual investment vehicle performance will be evaluated on a monthly basis for Global Equity, and on a quarterly basis for Private Equity and Credit, compared to the performance of respective peer universes and vintage years (where applicable).

- ❖ It is recognized that immature private investments within closed-end investment vehicles will ordinarily have a 'J-curve effect' whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

10. Investment period to ramp-up: It is recognized that it can take multiple years for segments of the Growth asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the Private Equity and Credit asset class ramp-up periods, exposures can be estimated using percentages of committed capital. During the ramp-up period for the Growth asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Growth asset category to the target allocation, using the designated Growth overlay proxy within the investment guidelines for the Overlay Program.

11. Rebalancing to guidelines: It is anticipated that the majority of changes to rebalance the private market components of the Growth asset category will be made on a long-term basis due to: (1) the general illiquidity of the private investments, which often have investment horizons of 10-15 years; and (2) the potential for discounts that can be applied if and when private holdings are liquidated in the secondary market. Accordingly, when these guidelines are exceeded, it is anticipated that reducing exposures will be carried out within a long-term time-frame and over a period that is as soon as practical to reflect the illiquidity of many Growth investment vehicles.

SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Growth asset category. Rebalancing occurs quarterly, unless upper or lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Growth asset category's, and its underlying asset classes, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Growth asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Growth asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Growth asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

E. POLICY HISTORY

Date	***Description***
10-20-2011	Board adopted Hedge Fund asset class investment policy statement
07-10-2014	Board adopted Equity asset class investment policy statement
07-10-2014	Board adopted Fixed Income asset class investment policy statement
04-19-2017	Board adopted Private Equity asset class investment policy statement
06-21-2017	Board adopted Private Credit asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Growth asset category investment policy statement
03-20-2019	Amended Growth asset category investment policy statement
03-18-2020	Amended Growth asset category investment policy statement
06-15-2022	Amended Growth asset category investment policy statement
08-20-2025	Amended Growth asset category investment policy statement

SCERS DIVERSIFYING ASSET CATEGORY INVESTMENT POLICY STATEMENT

August 20, 2025

Contents

A. DIVERSIFYING ASSET CATEGORY INVESTMENT OBJECTIVE

The Diversifying asset category seeks to achieve the following investment objectives:

- Help preserve capital in periods of market distress, particularly in periods of low and falling growth.
- Enhance diversification by exhibiting low or negative correlation with both equity and credit markets.
- Maintain a positive return profile over time.

Asset classes within the Diversifying asset category include:

- Fixed Income
  - Core Plus Fixed Income
  - U.S. Treasury
- Absolute Return
- Cash

Asset class target weights within the Diversifying asset category are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Fixed Income	12%	**16%**	20%
Absolute Return	5%	**7%**	9%
Cash	0%	**2%**	3%
Diversifying Asset Category		**25%**	

Fixed Income:

The Fixed Income portfolio seeks to achieve multiple investment objectives as outlined below:

- Moderate income and cash flow generation.
- Diversification for SCERS' portfolio, and in particular, as an "anchor to safety" in periods such as a recession, when growth/risk assets fall.
- A source of return enhancement.
- Liquidity.

The Fixed Income portfolio is unique because accomplishing the investment objectives will not be based on one singular investment strategy or underlying asset, but rather by virtue of the construction of the Fixed Income portfolio and the sum of its components. As an example, credit investments achieve some of the objectives such as moderate income generation and a source of return enhancement, but may detract from objectives of diversification and liquidity. U.S Treasuries on the other hand, lack return enhancement; however, they provide meaningfully toward the objectives of diversification and liquidity for SCERS' overall portfolio.

Absolute Return:
The investment objective of the Absolute Return portfolio is to emphasize a lower sensitivity to broad market performance (i.e., less correlated returns), while still generating a positive absolute return profile over time. Absolute return strategies within the Diversifying asset category tend to have less long-biased equity and credit exposures, with lower standard deviations, lower equity and credit beta, and lower correlations than more growth oriented absolute return strategies.

Cash:
SCERS maintains a dedicated 2% cash allocation that is part of the strategic asset allocation. The dedicated cash allocation serves as an additional liquidity tool, to help ensure liquidity is available to meet SCERS' pension obligations, particularly in a stressed market environment. SCERS, like many public pension plans, is a mature plan with negative cash flows, meaning member benefit payments going out are greater than employer and employee contributions coming in on an annual basis. The dedicated cash allocation assists in closing the gap between annual benefit payments and contributions in an environment where investment earnings fall short of the assumed rate of return.

SCERS also has additional cash within the portfolio that is separate from the dedicated cash allocation. The 'other' cash is not part of the strategic asset allocation, and is comprised mostly of the pre-funded annual employer contribution that funds monthly benefit payments, capital used to fund private market capital calls, investment management fees, and other plan expenses. SCERS' Overlay Program eliminates cash drag by investing the 'other' portfolio cash into positions that replicates SCERS' target portfolio. In contrast, SCERS' dedicated cash allocation is not invested by the Overlay Program.

B. BENCHMARKS

The Diversifying asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Diversifying asset class benchmarks are as follows:

Fixed Income:

❖ Performance of the Fixed Income portfolio is expected to exceed the weighted average return of the benchmarks for the underlying Fixed Income sub-asset classes as outlined below:

Fixed Income Segments	Benchmark	Weighting (relative to total Fixed Income
Core Plus Fixed Income	Bloomberg Barclays Aggregate Index	75%
U.S. Treasury	Bloomberg Barclays US Treasury Index	25%

- ❖ Performance of each segment within the Fixed Income Portfolio will be benchmarked as follows:
  - ➢ Performance of the Core Plus Fixed Income investment strategies are expected to exceed the Bloomberg Barclays Aggregate Bond Index.
  - ➢ Performance of the U.S. Treasury segment is expected to perform in-line with the Bloomberg Barclays United States Treasury Index.

Absolute Return:

Absolute Return Asset Class	Benchmark
Policy Index Benchmark	HFRI FoF Conservative Index, net of fees and expenses
Long-Term Objective	90-day T-Bills + 2%, net of fees and expenses

- ❖ The performance of the Absolute Return portfolio is expected to exceed the HFRI FoF Conservative Index, net of fees and expenses. The HFRI FoF Conservative Index will also serve as SCERS' Policy Index.

- ❖ Over the long-term, the objective of the Absolute Return portfolio is to exceed the 90-day T-Bills plus 2%, net of fees and expenses.

Cash:

Asset Class	Benchmark
Cash	Overnight SOFR

Performance of the dedicated cash allocation is benchmarked against the Secured Overnight Financing Rate (SOFR), which is the benchmark interest rate for dollar-denominated derivatives and loans.

C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Fixed Income:
Investments within the Fixed Income portfolio are authorized in a broad array of sub-asset classes and strategies including, but not limited to the following:
- ❖ Cash and cash equivalents
- ❖ Treasuries
- ❖ Agencies
- ❖ Agency and Non-Agency Mortgage-Backed Securities
- ❖ CMBS
- ❖ Asset-Backed Securities
- ❖ CLO's and CDO's
- ❖ TIPS or other inflation-linked securities
- ❖ Investment Grade Debt

- Municipal securities
- High Yield Debt
- Bank Loans
- 144A and Reg S securities
- IO's and PO's
- Hybrid and Capital securities such as preferred equity and trust preferreds
- International / non-dollar fixed income securities
- Emerging Markets Debt
- Foreign exchange

The key segments of the Fixed Income portfolio are described below:

- *Core Plus Fixed Income:*
  Core plus bond strategies allow for greater flexibility including: (1) ability to invest in a broader set of exposures across 'plus' segments that are higher yielding and diversifying bond sectors such as high yield, bank loans, non-agency MBS/structured credit, and non-U.S. securities; (2) ability to increase/decrease exposures between 'core' and 'plus' bond segments in order to increase/decrease exposure to sources of yield or safety, as well as; (3) focus on managing interest rate risk with greater flexibility to adjust duration. Since the security holdings and risk characteristics tend to have deviations with the benchmark (Bloomberg Barclays Aggregate Bond Index) within set limits, core plus bond strategies help to provide some diversification to equities and fulfill the roles of an "anchor to safety" and liquidity, while attempting to balance more capability to generate moderate income. The addition of the 'plus' sectors provide for greater diversification across sources of yield, but may detract from the strategy's ability to be a diversifier to equities as the 'plus' sectors are more correlated to equities and the business cycle.

- *U.S. Treasury*
  U.S Treasuries are considered "anchor to safety" assets, and one of the most diversifying components of a portfolio, often generating positive returns when equity returns are negative. Historically when equity assets have been down significantly, investors have tended to gravitate toward safe haven assets such as government bonds, and particularly U.S. Treasuries. Another advantage of having Treasury exposure is that it is one of the most liquid segments of the markets, providing a source of liquidity for SCERS' overall portfolio. U.S. Treasuries will tend to underperform in a rising interest rate environment.

Absolute Return:

SCERS' Absolute Return asset class has a target allocation of 7%. Absolute return strategies tend to emphasize a lower sensitivity to broad market performance, particularly equity markets (i.e., less correlated returns), while still generating a positive absolute return profile over time. Absolute return strategies also tend to have less long-biased equity and credit exposures, and lower standard deviations and correlations than more growth oriented absolute return strategies.

SCERS' alternative assets consultant breaks the absolute return universe into the following investment strategies. A well-diversified absolute return portfolio will contain allocations to each of these strategies at varying target weights.

- *Equity Long/Short* - Strategies where there is a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates.

- *Event Driven* - Strategies such as activist equity, risk arbitrage, merger arbitrage, distressed debt, credit, and other event-driven strategies.

- *Credit/Distressed* - Strategies that typically utilize fundamental credit analysis to invest in below investment grade, stressed, or distressed corporate and asset-backed credit. Managers may take long and short positions in mispriced debt instruments and may become actively involved in a restructuring process.

- *Market Neutral* - Strategies such as equity market neutral, fixed income arbitrage, and convertible bond arbitrage.

- *Global Macro* - Strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies, or other specialty strategies.

- *Multi-Strategy* - Strategies where absolute return funds invest using a combination of previously described strategies.

Examples of the more diversifying and uncorrelated absolute return strategies that typically reside within SCERS' Absolute Return portfolio include market neutral, global macro, and multi-strategy strategies, but can also include the other strategies such as equity long/short, event driven, and credit/distressed strategies. However, in practice SCERS will categorize individual strategies based upon each fund's expected characteristics, including risk, market sensitivity and market exposure, not by a fund's stated strategy, so each absolute return segment could include a variety of fund strategies.

Cash:

The Cash allocation can be invested in a variety of investment vehicles, including, but not limited to the following:

- Investment instruments that offer a risk-free rate of return.
  - Short duration government bonds (i.e., 90-day Treasury Bills).

- ➢ Demand deposit account (DDA) that pegs itself to overnight SOFR.
- ❖ Cash management funds.
  - ➢ Have the potential to generate marginally higher yields than the risk free rate, but also contain exposure to market risks including duration, interest rate, and credit risk.

2. Asset Class Construction:

The construction of the Diversifying asset category is important because a well-developed portfolio can add diversification to the overall SCERS investment portfolio, which is heavily weighted to assets that have higher return and volatility expectations within the Growth asset category. Distinguishing characteristics of the Diversifying asset category are: (1) a wide range of investment strategies across several underlying segments, mostly within the publicly traded markets; and (2) exposure to diversifying absolute return investment strategies with higher levels of leverage in the form of total notional gross exposure.

The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Fixed Income

The Fixed Income portfolio is constructed in a way to achieve multiple objectives, with each allocation helping to fulfill the different roles and objectives including: (1) moderate income generation; (2) diversifier to growth assets; (3) a source of return enhancement; and (4) liquidity. Allocations across the strategies are also designed to provide sufficient diversification by sources of yield, by bond segment, and by geographic region. Accordingly, the asset allocation within the Fixed Income portfolio is targeted to be significantly diversified across fixed income bond strategies as outlined below:

SCERS Fixed Income Portfolio Construction			
Asset Class	Minimum	Target Allocation	Maximum
Total Fixed Income	12%	**16%**	20%
Core Plus Fixed Income	9%	**12%**	15%
U.S. Treasury	3%	**4%**	5%

Absolute Return:

Absolute return funds represent a distinctive investment style that is different from traditional, long-only funds. A fundamental difference is that absolute return fund managers emphasize absolute, rather than relative returns, and they may also use a wider range of investment techniques, such as leverage, short selling, and derivatives to achieve their objectives. This greater level of investing flexibility results in a wide range of strategies that produce different risk and return characteristics between the strategies and provides the opportunity to diversify risk.

SCERS shall strive to invest in a sufficient number of managers and set constraints on the size of each absolute return manager compared to the Absolute Return portfolio and the total portfolio. This will provide some protection and spread the unique risks of absolute return funds across a larger base. These risks include operational risk, headline risk, event risk, liquidity risk, counterparty risk, leverage risk, and reduced transparency.

Accordingly, investing in a large number of funds and strategies across the aggregate Absolute Return asset class can assist in achieving the Absolute Return portfolio's objective of emphasizing a lower sensitivity to broad market performance (i.e., less correlated returns), while still generating a positive absolute return profile over time. For the Absolute Return portfolio, the target number and range of funds, and targeted geographic ranges are shown in the table below.

	Diversifying Strategies
Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Target Allocation	7% of total assets
Allocation Range	5% to 9% of total assets
Number of Funds	Target 13 funds with a range of 10 to 16
Non-U.S. Exposure	Expect 20% to 50% non-U.S. exposure

Within these guidelines, Staff and consultant will allocate funds within each investment style in a manner that, in their judgment, enhances SCERS' ability to achieve the investment objectives of the Absolute Return portfolio over the long term. In the event exposure to an absolute return style becomes overly concentrated, Staff is authorized to rebalance assets in a manner consistent with the implementation protocol for Absolute Return as described within SCERS' Master Investment Policy Statement.

- *Diversification by selection of individual funds:* SCERS will strive to select individual absolute return funds based on their ability to diversify SCERS' total fund:

    - Low correlation to equities.
    - Uncorrelated alpha sources.

- Low beta compared to equities.
- Low kurtosis in the return distribution (smaller extreme returns both positive and negative).
- Positive skew in the return distribution (larger and more frequent occurrences of positive returns versus negative).
- Ability to be up or exhibit significantly less downside in declining equity markets.
- Capability to manage tail risk.

- *Diversification across geographies, business sectors, and asset classes*: It is expected that absolute return managers will actively, and oftentimes quickly, change the composition of portfolios to take advantage of opportunities in the markets. Accordingly, it will be important to actively monitor and understand the dynamic absolute return environment relative to more general objectives, making portfolio changes when necessary rather than reacting to rigid guidelines. This should allow SCERS to capture the benefits of allowing absolute return managers to execute their strategies without compromising the objectives of SCERS' aggregate fund or total portfolio. These general objectives include:

  - Geographic diversification in non-U.S. regions.
  - Diversification across sectors and industries.
  - Diversification across asset classes.

- *Minimum size of absolute return managers:* Requirements for absolute return funds to register with the SEC and provide greater shareholder transparency and reporting have increased, along with operating costs, benefitting larger funds with the in-house capabilities to manage these issues. However, small and mid-sized funds can often perform better, particularly during the phase when the absolute return partners are more focused on generating returns to build initial wealth. To balance these considerations, SCERS will invest in absolute return funds with minimum assets under management greater than $250 million.

- *Absolute Return Risk Considerations:*

  There are several risk considerations specific to the Absolute Return portfolio:

	Asset Class Characteristics
Portfolio Objective	Positive absolute return profile over time with limited sensitivity to broad market performance
Risk Target	Standard Deviation < 25% of global equities
Market Sensitivity	Target an equity beta <0.2 Target equity correlation <0.5
Market Exposure	Total notional gross exposure < 750%

- *Absolute Return Risk Targets:* Absolute return portfolio risk is often measured by standard deviation. The target standard deviation for Absolute Return is less than 25% of the MSCI ACWI Index.

- *Market Sensitivity:* Common measures for market sensitivity for an absolute return portfolio are beta and correlation. The equity beta target for the Absolute Return portfolio is < 0.2, and the equity correlation target is < 0.5.

- *Market Exposure/Leverage:* Within absolute return, leverage may be utilized by underlying absolute return managers as part of their strategies, but it will not be employed at the total portfolio level.

  Leverage at the total Absolute Return portfolio level is the aggregated amount from SCERS' underlying managers and will be defined as the total notional gross exposure, which is equal to the sum of gross long notional exposure plus gross short notional exposure, expressed as a percentage of total invested capital. Total leverage for the Absolute Return portfolio will not exceed 750%.

  In addition, leverage utilization will be monitored within each individual hedge fund and investment manager to ensure appropriateness given the respective strategy.

3. Investment Vehicles: The vehicles for investments within the Diversifying asset category reflect the broad scope of investments.

<u>Fixed Income:</u>
Investment vehicle options for investing in the Fixed Income portfolio include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships, limited liability companies, offshore corporations and mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability

of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, and transparency.

Absolute Return:

Investment vehicles for absolute return investments are typically separate accounts and/or a variety of commingled vehicles, such as limited partnerships, limited liability companies, or offshore corporations.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in absolute return partnerships on a discretionary basis. FoFs will own the underlying absolute return partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to absolute return limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

4. Co-investments: A co-investment is a direct investment in an underlying portfolio company where a manager offers investors the opportunity to invest directly in an underlying company alongside the fund investment. Investments may be made in companies that are either U.S. or non-U.S. domiciled. Co-investments are considered separate investment strategies within the Diversifying Asset Category. SCERS will seek to allocate to co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Diversifying asset category, and any underlying asset class, if any. Any co-investments will be implemented according to the implementation protocols of the asset class in which it resides.

5. Investment Vehicle Concentration:

SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment, or for absolute return investments 20% of any one investment vehicle such as a limited partnership, limited liability company, or offshore corporation. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

6. Liquidity: Overall, the Diversifying asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Fixed Income:
Investments in fixed income offers varying degrees of liquidity depending on region and bond sector, however, liquidity is generally high relative to other asset classes. Treasuries and core bond segments tend to offer the greatest liquidity, while credit-oriented investments and emerging market debt tend to offer less liquidity.

Among investment vehicles, investing through separate accounts typically offer the highest liquidity, as the underlying assets are owned by SCERS, and are held at SCERS' custodian. While the underlying assets of commingled funds offer high liquidity, there is the potential for less immediate liquidity when redeeming assets from a commingled fund. This liquidity can vary from immediate to monthly liquidity, depending on the structure of the fund.

Absolute Return:
Individual absolute return fund investments may have specified liquidity parameters defining lock-up periods and withdrawal frequency. Liquidity risk is managed by monitoring and maintaining a schedule of the liquidity of the individual absolute return funds and aggregating it at the total Absolute Return asset class level.

SCERS may want to take advantage of fee discounts that may be available for funds offering a longer lock-up period or a different share class under certain circumstances and dependent on the underlying characteristics of the absolute return fund. In addition, SCERS may want to invest with absolute return funds that possess strategies where a longer investment horizon is necessary and appropriately matches the illiquidity of the underlying assets invested. While SCERS may want to take advantage of investing in these opportunities, it is not appropriate for the Absolute Return program to consist entirely of illiquid vehicles. Accordingly, guidelines are outlined below to both capture the opportunity set and balance the need for liquidity.

SCERS may invest in absolute return funds that permit voluntary redemptions (Evergreen Portfolio Funds) and absolute return funds that do not permit voluntary redemptions (Self-Liquidating Portfolio Funds).

SCERS shall allocate a minimum of 50% of its capital (at market) to Evergreen Portfolio Funds with quarterly or more frequent liquidity (after applicable "lock ups" expire)

SCERS may not allocate more than 15% of its capital (at cost) to Self-Liquidating Portfolio Funds.

With regard to the capital allocated to Evergreen Portfolio Funds, SCERS may not allocate more than 25% of its Absolute Return capital (collectively, at market) to Evergreen Portfolio Funds that impose a “lock up” (determined either based on the date SCERS first invests in such Evergreen Portfolio Fund or with respect to each investment in such Evergreen Portfolio Fund by SCERS on an investment-by-investment basis, as applicable, and not from the time of any capital commitment to an Evergreen Portfolio Fund) of greater than or equal to 2 years. SCERS may not allocate to Evergreen Portfolio Funds that impose a “lock up” of greater than or equal to 3 years without the consent of SCERS' Board.

In order to facilitate liquidity, SCERS should reasonably limit a portfolio absolute return funds' ability to use side pockets. Side pocket investments should not exceed 10% of SCERS' total Absolute Return portfolio at fair market value.

Cash:
Cash offers the highest liquidity of any asset within the SCERS portfolio, and should typically be available daily.

7. Distributed Securities: Within the Fixed Income asset class, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS' custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

   SCERS shall avoid the direct receipt of distributed securities from individual absolute return funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

8. Performance Evaluation:
   - Performance of the Diversifying asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

   - Individual investment vehicle performance will be evaluated on a monthly and quarterly basis for Fixed Income and Absolute Return.

9. Investment period to ramp-up: It is recognized that it can take multiple years for segments of the Diversifying asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the ramp-up period for the Diversifying asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Diversifying asset category to the target allocation, using the

designated Diversifying overlay proxy within the investment guidelines for the Overlay Program.

10. Rebalancing to guidelines: It is anticipated that the majority of changes to rebalance the Diversifying asset category will be made on a long-term basis. SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Diversifying asset category. Rebalancing occurs quarterly, unless upper or lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Diversifying asset category's, and its underlying asset classes, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Diversifying asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Diversifying asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the

Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Diversifying asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

<u>Absolute Return Monitoring</u>

Monitoring risks specific to absolute return funds: Investing in absolute return funds brings additional risks, which will be managed and mitigated through a combination of factors including: (1) the asset allocation and guidelines set forth above (diversification across managers and strategies); (2) due diligence of Staff and consultant on individual funds; and, (3) ongoing monitoring and active investment management by Staff and consultant. This includes:

- *Addressing transparency risk*, or the reluctance of absolute return managers to report individual positions, particularly short positions. While absolute return funds may limit transparency at the position level, SCERS' consultant will hold conference calls to review individual absolute return portfolios on a monthly basis. In addition, both the consultant and Staff will be measuring and monitoring exposures in aggregate, e.g. at the level of investment strategy, regions, industries, countries, and portfolio. Leverage, net exposures, and counterparty risk are all monitored at the fund level and portfolio in aggregate.

- *Addressing counterparty risk*, specifically related to the counterparty/entity, including prime broker, that an absolute return manager selects to hold assets or execute investment transactions, and the risk that the absolute return manager will not be paid or able to reclaim assets held by the selected counterparty. Counterparty risk will be assessed in the due diligence and monitoring process by measuring and quantifying the level of exposures inherent in the absolute return investment strategy and operations, and evaluating the measures, processes and other risk controls of each absolute return fund by comparing funds to a set of industry best practices. As part of the assessment, it is important that SCERS understands where the absolute return manager's assets are held, understands the types of investment transactions being made and securities held by the absolute return manager, evaluates the measures being taken by the absolute return manager to mitigate and manage the risk exposure relative to the best practices of the investment industry, and have a monitoring process that will assure that the risk exposure continues to be within an acceptable range and that the absolute return manager is continuing to execute its risk mitigation and management program properly.

As part of the due diligence process for potential absolute return funds, Staff will provide a due diligence questionnaire (DDQ) to any absolute return manager that SCERS is considering for investment. The DDQ has a range of legal, business, and regulatory questions; however, for absolute return funds it also has several questions related specifically to counterparty risk. Monitoring and oversight of existing absolute return managers related to counterparty risk will include:

- *Contractually mandating transparency to the metrics necessary to gauge risk exposure.*
- *Regular reporting of risk exposure and risk management information.*
- *Periodic meetings with the manager to re-assess the risk mitigation and risk management program, and to discuss risk exposures and any recent developments*

➢ *Addressing liquidity risk*, or the inability to redeem immediately from a fund due to hard to value investments, side pockets, lock-ups, and gates. SCERS' consultant monitors the liquidity based on the days to redeem and the individual manager limited partnership agreements. These factors are incorporated into the due diligence process and part of the decision to invest in a particular fund.

➢ *Addressing operational risk*, or the risk of failure in operations outside of the investment strategy. SCERS' consultant has developed a specific in-house unit to assess a hedge fund's legal, financial statements/audits, compliance, custodian(s), prime broker(s) and other service vendors, operations, administration, trading functions, asset valuation, and conduct background checks. Alongside the consultant's due diligence, Staff will help select absolute return funds by sourcing funds, interviewing managers, and visiting managers on-site to assess the front- and back-offices.

➢ *Addressing headline risk* (the risk of an absolute return fund attracting negative media attention leading to investors redeeming). Return dispersion and concentration in a niche strategy or concentration in a small number of investments (the risk of any manager's particular strategy not working as in past periods), event risk (the risk of a sizeable investment loss due to a market event, personnel loss, or regulatory issue), are all part of the due diligence and monitoring process and partly mitigated by guidelines and expectations for diversification across managers, strategies, geographies, and industries.

➢ *Monthly***:** Staff will leverage the consultant's monitoring process, a process that entails frequent contact with the absolute return managers. The consultant typically reviews each absolute return fund's investor communications and calls the absolute return managers monthly to discuss the fund's organization, strategy, investment process, portfolio characteristics, and performance drivers. Staff will supplement this review process by analyzing the performance and risk of the individual absolute return managers and the overall absolute return portfolio, and reviewing absolute return fund investor communications and the consultant monthly reports.

- *Quarterly:* The consultant will produce supplemental quarterly reports that contain performance and risk statistics for the individual absolute return funds and the absolute return portfolio, and portfolio characteristics, including strategy allocations, geographic allocations, and leverage, for the individual absolute return funds and the overall absolute return portfolio.

- *Annually:* The consultant will conduct periodic onsite visits at each absolute return manager's office, but no less frequently than annually, or through a web conferencing platform (i.e., Zoom) if an onsite visit is not feasible. Individual absolute return funds will be re-evaluated annually from both an investment and operational perspective and there will be updated due diligence reports issued. There will be a review of individual absolute return funds' annual audited financial statements. Staff will conduct conference calls/web conferencing calls with managers and/or conduct on site due diligence at least annually.

- *Other:* The consultant assigns ratings to all absolute return funds as part of its monthly monitoring process. These ratings include placing funds on a "Watch List" where serious organizational or performance concerns exist and the recommendation to terminate a relationship. These investments are not necessarily expected to lose money over their life, but in the opinion of the consultant there is a more likely chance that returns will fall short of expectations. Watch List funds are subject to more intense scrutiny. The consultant will provide Staff with a Watch List report for any absolute return placed on the Watch List. As a final step, the consultant may recommend that SCERS exit (redeem) from the fund investment. Absolute return funds can have redemption features that require notification months in advance or limitations such as gates, penalties, and side pocket restrictions. The consultant will assist Staff in developing an exit strategy. A final recourse would be to seek a secondary sale if redeeming is not possible.

E. POLICY HISTORY

Date	***Description***
10-20-2011	Board adopted Hedge Fund asset class investment policy statement

07-10-2014	Board adopted Fixed Income asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Diversifying asset category investment policy statement
03-20-2019	Amended Diversifying asset category investment policy statement
03-18-2020	Amended Diversifying asset category investment policy statement
06-15-2022	Amended Diversifying asset category investment policy statement
08-20-2025	Amended Diversifying asset category investment policy statement

SCERS REAL RETURN ASSET CATEGORY INVESTMENT POLICY STATEMENT

August 20, 2025

Contents

A. REAL RETURN ASSET CATEGORY INVESTMENT OBJECTIVE

The Real Return asset category and its underlying asset classes seek to achieve the following investment objectives:

- Attractive returns on a real (net of inflation) basis and a hedge against inflation risk.
- Moderate income and cash flow generation.
- Diversification for SCERS' portfolio, including low or negative correlation to equities and nominal bonds.
- Greater consistency in the return distribution and muted downside risk.

Asset classes within the Real Return asset category include:

- Real Estate, including both Core and Non-Core exposures
- Real Assets, including infrastructure, energy and power, and agriculture/timber
- Liquid Real Return

Asset class target weights within Real Return are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Real Estate	6%	**8%**	10%
Real Assets	5%	**7%**	9%
Liquid Real Return	0%	**1%**	3%
Real Return Asset Category		***16%***	

B. BENCHMARKS

The Real Return asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Real Return asset class benchmarks are as follows:

Real Estate:

Real Estate	Target Weight	Real Estate Policy Index Benchmark (custom blend of benchmarks below)
Core Real Estate	**60%**	NFI-ODCE
Non-Core Real Estate	**40%**	NFI-ODCE + 1%

❖ Performance of core and core plus real estate investments are expected to exceed the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE), net of fees.

- Performance of non-core real estate investments are expected to exceed the NFI-ODCE by 100 basis points, net of fees.

- Performance of the Total Real Estate program is expected to exceed a blended benchmark which consists of the following components: 60% core (NFI-ODCE) and 40% non-core (NFI-ODCE + 100 basis points). This blended benchmark with serve as the Policy Index for SCERS' Real Estate asset class.

- A customized secondary benchmark will be used to measure performance of SCERS' global exposures. The secondary benchmark will include a customized blend of U.S. and non-U.S. exposure, with the non-U.S. component using the Global Real Estate Fund Index (GREFI) with SCERS' weighting to each geographic location. The secondary benchmark will be a 'floating' benchmark based on SCERS' average capital invested in each region, measured each quarter.

Real Assets:

- The performance of the Real Assets asset class is expected to exceed the following weighted benchmark return, net of fees, which will serve as SCERS' Policy Index:

SCERS Real Assets Portfolio	Target Weight	Real Assets Policy Index Benchmark (custom blend of benchmarks below)
Infrastructure	**65%**	Cambridge Associates Private Infrastructure Index
Energy and Power	**35%**	Cambridge Associates Private Energy Index

- Performance of each sub-asset class will be benchmarked individually by the underlying asset:

  - Performance of infrastructure investment strategies are expected to exceed the Cambridge Associates Private Infrastructure Index pooled IRR.
  - Performance of energy and power investment strategies are expected to exceed the Cambridge Associates Energy Index pooled IRR.
  - Performance of agriculture, timber, and other investment strategies are expected to exceed the NCREIF Farmland Index.

- Over the long-term, performance of the Real Assets asset class is expected to exceed CPI-U (headline inflation) by 5%.

Liquid Real Return:

- Performance of the Liquid Real Return portfolio is expected to exceed a blended benchmark which consists of the following components:

Liquid Real	Target Weight	Liquid Real Return Policy Index Benchmark (custom blend of benchmarks below)
Global Real Estate (REITs)	**15%**	FTSE EPRA/NAREIT Developed Liquid Index
Global Infrastructure Equity	**25%**	S&P Global Infrastructure Index
Global Natural Resources	**10%**	S&P Global Large Mid Cap Commodity and Resources Index
Commodities	**10%**	Bloomberg Roll Select Commodity Index
US Intermediate TIPS	**30%**	Bloomberg Barclays 1-10 Year US TIPS Index
Floating Rate Notes	**10%**	Bloomberg Barclays US Dollar Floating Rate Note < 5 Years Index

C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Real Estate Investments:
Investments in real estate can be made across a broad array of investment strategies:

❖ *Core and Core Plus Real Estate.*
- Core and core plus real estate will typically possess a lower risk and return profile than non-core value-add or opportunistic investments due to attributes that can include a higher level of cash yield and income generation; a lower level of capital appreciation potential; location in a primary metropolitan area; greater occupancy levels; and a lower level of leverage.

- Core and core plus real estate include investments in operating and substantially leased properties of institutional quality, consisting primarily of investments in traditional property types (office, industrial, retail, and for-rent multifamily). Core investments have moderate levels of associated leverage (generally below 40%).

- Core plus real estate investments offer the opportunity to enhance returns by: (1) alleviating an identifiable deficiency (in an asset's capital structure, in an asset's physical structure, in an asset's operation, etc.); and/or (2) benefitting from market inefficiency. These investments may use slightly more leverage than core real estate investments to improve returns and may include some non-traditional property types.

❖ *Non-Core (Value-Add and Opportunistic) Real Estate.*
- In addition to some of the characteristics of core real estate outlined above, non-core investments offer the opportunity to enhance returns through factors that can include: (1) investing in assets with greater

deficiencies (such as substantial vacancy, the need for substantial renovation, etc.); (2) accepting different types of risks (such as development risk, redevelopment risk, repositioning, etc.); (3) focusing more on non-traditional property types that may have greater operating risks (such as hotels); (4) accepting greater capital market risk (for example, by acquiring assets with complex capital structures that may be difficult to unwind); and (5) seeking areas of greater market inefficiency.

- Value-add and opportunistic real estate will typically possess a higher risk and return profile compared to core real estate due to considerations that can include a lower level of cash yield and income generation; a higher level of capital appreciation potential; location in a secondary market; lower occupancy levels; and an increased level of leverage. In many cases non-core real estate investments attempt to capitalize on an enhanced level of distress in specific properties or wider market dislocation. These characteristics can magnify the risk and return of value-add and opportunistic investments throughout the business and real estate cycles.

- *Debt Investments with Underlying Real Estate Exposure.*
  - Debt investments may be classified by SCERS' investment staff and consultant as falling into one of the traditional core/core plus or non-core investment strategies based on the composition of the underlying collateral.

- *Global Real Estate.*
  - Investments in global real estate (ex-U.S.) are permissible in order to improve diversification and enhance returns on a relative value basis. Accordingly, SCERS' Real Estate program (core, core plus and non-core real estate) may target exposure to investments outside the United States, with a permissible range of 0% to 35%.

  - In addition to the same risks as investing in domestic real estate, investing in global real estate may carry other risks, including:

    - Macroeconomic risks that differ by country and geopolitical landscape (changes in interest rates, inflation, GDP growth, unemployment).
    - Currency differences, which can provide diversification to SCERS' total fund, but may have periods of fluctuations against the U.S. dollar that can impact investment returns.
    - Market transparency may differ across countries and in comparison to the U.S.
    - There is a higher dispersion of returns associated with non-U.S. real estate investments, which presents opportunities for active managers to add value, but can also present greater volatility.

- ➢ Careful selection of managers and countries through a thorough investment process is critical in order to benefit from global real estate opportunities while also mitigating these risks.

- ➢ While a range of 0%-35% for the global real estate component allows SCERS to seek out better relative value and specific global investment themes and opportunities, it is important to note that it is not a required allocation, but rather, provides the flexibility to invest in markets outside the U.S. when the risk and return profile is superior. It is anticipated that global real estate opportunities will arise that are both core and non-core (value-add and opportunistic).

Real Assets Investments:

Investments in Real Assets can be made through investments in both public and private securities and can include equity and debt investments. Private investments primarily involve the purchase of unlisted, illiquid common and preferred stock, and to a lesser degree, can include subordinated and senior debt of companies that are typically privately held. Underlying real asset investments can include infrastructure, energy, power, timber, agriculture, or other natural resources related investments. Investment is authorized in a broad array of sub-asset classes and strategies including:

- ❖ Infrastructure - Investments include ownership interests in physical structures, facilities, companies, or operating platforms that provide essential services to a community. Underlying investments can include:
  - ➢ Economic Infrastructure
    - ▪ Transportation
      - Toll Roads; bridges; tunnels; airports; parking facilities; sea ports; freight rails; trucking trailers; and logistics services.
    - ▪ Utilities
      - Gas and electricity transmission and distribution; district heating and cooling; water; and wastewater/sewage treatment.
    - ▪ Energy
      - Oil and gas production; midstream oil and gas pipelines and processing; electricity networks; power generation; storage; and renewable energy.
    - ▪ Communications and Digital Infrastructure
      - Communications towers; satellites; data centers; and fiber-optic networks.
  - ➢ Social Infrastructure
    - ▪ Education facilities; healthcare facilities; judicial buildings (courthouses and police stations); correctional facilities; housing; and public transportation.

- ❖ Energy and Power - Investments include ownership interests in businesses and operating platforms involved in the exploration, production, processing, transportation, or distribution of conventional and renewable energy and power, or energy- and power-related resources, including technology and services businesses related to such activities.
  - ➢ Upstream (oil and gas)
  - ➢ Midstream (oil and gas)
  - ➢ Downstream and Field Services (hydrocarbons and renewables)
  - ➢ Energy Transition:
    - Renewables (wind, solar, biogas, hydro, etc.)
    - De-carbonization (software and hardware technologies)
    - Renewables adjacent (energy storage, grid efficiency, digitization, etc.)
    - Etc. (future technologies, such as hydrogen and miniature/modular nuclear)

- ❖ Agriculture - Investments include ownership interests in farmland and agricultural businesses involved in the acquisition, production, processing, and management of row and permanent crops. Other agriculture investments may include agriculture-related storage, transportation, irrigation, agribusinesses, and bio-technology services.

- ❖ Timber - Investments include ownership interests in properties where the majority value of the property is derived from income-producing timber.

- ❖ Other natural resources - Investments include ownership interests in businesses and operating platforms involved in the mining and/or processing of metals, carbon capture and sequestration, and other natural resources.

Liquid Real Return Investments:
Investments in a diversified series of liquid publicly traded real return exposures that complement the broader objectives of the Real Return asset category, to (1) protect against inflation; (2) generate cash flow; and (3) provide further portfolio diversification. Underlying investments include global real estate investment trusts (global REITS), global infrastructure equities, real asset debt, commodities, Treasury inflation protected securities (TIPS), global natural resource equities, REIT preferreds, master limited partnerships (MLPs), and floating rate notes.

2. Asset Class Construction:

The construction of the Real Return portfolio is important because a well-developed portfolio can reduce risk and serve as a diversifier, lowering the overall volatility of the total fund, as well as protecting against inflation. Distinguishing characteristics of the Real Return asset category are: (1) a wide range of assets in both the public markets (liquid) and private markets (illiquid); (2) a number of differing investment strategies; and, (3) a variety of asset classes. While not all investments included in this scope will diversify SCERS' fund, it is the combination and construction of the overall portfolio that results in diversification.

The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Real Estate and Real Assets form the largest allocations due to their capabilities to fulfill the majority of goals and overall investment objective.

Real Estate:

The Real Estate program will be diversified across investment strategies and geographies. The Real Estate program has a target allocation of 8%, with a permissible range of 6% to 10%. The Real Estate program targets an allocation of 60% to core and 40% to non-core investments, with the permissible ranges as displayed below. The non-U.S. target is 0%, with a range between 0% and 35%.

The table below highlights the target allocation and permissible ranges for core and non-core real estate, as well as for geographic exposure.

SCERS Real Estate Portfolio Construction			
	Minimum	**Target**	**Maximum**
Total Real Estate Portfolio	6%	8%	10%
Sub-Strategy			
Core Real Estate	50%	60%	70%
Non-Core Real Estate	30%	40%	50%
Geography			
Non-U.S.	0%		35%

Within the core real estate portfolio, exposure will primarily be comprised of open-end commingled funds (OECF), which provide SCERS with diversified exposure to stabilized properties and an element of liquidity. The majority of non-core real estate exposure will be attained through closed-end fund vehicles.

For Real Estate, one single investment position shall be limited to 2.5% of the net asset value (NAV) of SCERS' total fund. SCERS will strive to maintain ongoing long-term relationships with an expected range of 10 to 20 investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Real Estate Asset Allocation Structure.

Real Assets:

The targeted and range of investment exposures to the identified Real Assets investment sub-asset classes and geographies are shown in the table below, and measured on a fair value basis. The Real Assets portfolio is expected to invest globally. Infrastructure investments are expected to be made primarily within developed market countries, such as North America, Europe, and Asia, but are also permitted within developing countries. Energy and Power investments are also expected to be made primarily within developed markets, but are also permitted in developing countries. Agriculture, Timber, and Other investments will also be global in nature, with a particular focus on investments within developed market countries and a few emerging market countries.

SCERS Real Assets Portfolio Construction			
	Minimum	**Target**	**Maximum**
Total Real Assets Portfolio	5%	7%	9%
Sub-Strategy:			
Infrastructure	50%	65%	80%
Energy and Power	20%	35%	50%
Agriculture, Timber, Other	0%	0%	20%

SCERS will allocate approximately 5%-20% of the total Real Assets target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 15 real assets managers with an expected range of 10-20 manager relationships. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Real Assets Asset Allocation Structure.

Liquid Real Return:

Liquid Real Return is given a 1% target allocation with a 0% to 3% range. While the Liquid Real Return allocation is a strategic allocation, it also serves as a rebalancing proxy for the Overlay Program that will rebalance the overall Real Return asset category to its target allocation. The Overlay proxy allocation is not included in the 0% to 3% range.

3. Asset Class Specific Risk Considerations:

Real Estate:

Within the Real Estate asset class, investment risk will be addressed through diversification by region, type of property, lease renewal terms, maximum leverage, and debt renewal terms.

- *Diversification by region, property type, and geography*.
  - SCERS will endeavor to limit the potential for any concentration in a real estate property type (office, industrial, apartment, retail, and other) or geography (South, West, Midwest, North, and non-U.S.) to negatively impact long-term returns by investing across regions and strategies. This will involve monitoring SCERS' U.S. real estate portfolio against the allocation of property types and regions in the NFI-ODCE Index.

  - SCERS' Real Estate program will maintain diversification by geography and property type. The U.S. core and non-core real estate portfolio will target weightings by geography to be similar to the NFI-ODCE Index. The maximum allocation to any of the main property types (office, industrial, apartment, and retail) is 40%, or the NFI-ODCE Index weight + 10% (whichever is greater), and 30% collectively to any of the 'Other' property types (as defined by NFI-ODCE).

  - Exceptions may exist at different points in the market cycle, particularly with respect to targeted investments in the non-core real estate space, and will be monitored by Staff and consultant and reported to the Board in the quarterly performance report for real estate. An explicit exception is the non-U.S. real estate exposure, which may range from 0%-35%. When investments are made internationally, SCERS' Real Estate portfolio will potentially deviate from its primary real estate benchmark.

- *Diversification by lease and debt renewal terms.*
  - SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results by investing in underlying properties that, in aggregate, spread the risk of lease renewals and debt renewals across a number of years in the business cycle.

- *Real Estate leverage.*
  - Leverage on the Real Estate program can magnify both returns and losses. However, adding a moderate level of debt to a long-term real estate strategy has shown that it can be additive to returns over the long-term. Therefore, allowing flexibility to add debt during the expansionary phase of the cycle subject to a maximum limit will help ensure that a

debt strategy will be accretive to returns. With this in mind, the loan-to-value (LTV) limits for the Real Estate program are as follows:

- 40% maximum LTV for total core real estate program
- 75% maximum LTV for total non-core real estate program

These limits should provide adequate flexibility for the Real Estate program to operate through the real estate cycle, taking advantage of expansionary periods, but at the same time not increasing leverage beyond a point that will cause significant losses in a downturn in the cycle. However, if conditions warrant, Staff and consultant will approach the Board for approval of any exceptions to these debt guidelines.

Private Investments:
Private investments (e.g. real assets and real estate), like investments in most asset classes, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from the return and amounts expected. The expected volatility of private investments in aggregate is high among major asset classes. The investment risk associated with private investments shall be addressed in several ways:

❖ *Diversification by geography and investment strategy*. SCERS will endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Real Return asset category by investing across regions and strategies.

❖ *Diversification by vintage year.* SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results of the Real Return asset category by investing across business cycles and vintage years. It is anticipated that SCERS will commit to real assets and real estate funds over multiple years, whereby the aggregate amount will be spread across the entire business cycle. This will serve to limit the exposure or risk to investing and relying on the performance of real return funds in any given year of the business cycle. The Board will determine with Staff and consultant the funding allocation for the private segments of Real Return each year in conjunction with its annual review of the Asset Allocation Structure and Annual Investment Plan for asset classes such as Real Assets and Real Estate.

❖ *Diversification by industry or business sector.* SCERS will attempt to limit the potential for any one industry or business sector to negatively impact the long-term results by investing across a variety of industries.

❖ *Diversification by investment manager and general partner.* SCERS will endeavor to invest across a number of investment managers and limited partnerships to mitigate the potential negative impact of a concentrated portfolio of investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will vary with time and will be evaluated as part of the Real Return asset allocation structure.

4. Investment Vehicles: The vehicles for investments within the Real Return asset category reflect the broad scope of investments.

Private Real Estate and Real Assets investments generally take the form of open-end commingled funds and closed-end commingled funds, including commingled vehicles such as limited partnerships, limited liability companies, or offshore corporations.

SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to physical assets such as properties, limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in partnerships on a discretionary basis. FoFs will own the underlying partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

Periodically, an existing general partner (GP) will present existing investors/limited partners (LPs) with the option to roll their investment in an underlying fund company or a group of companies into a new fund that the GP controls, generally known as a Continuation Vehicle (CV). The creation of a CV by a GP is typically the result of the GP believing there is more potential value in the underlying company; however, more time is needed to realize that value. Generally, the GP offers LPs the option to take liquidity by selling their stake in an underlying company or rolling their position by making a commitment into a new fund/CV controlled by the same GP. The decision to take liquidity or roll into the new fund will be made based on the implementation protocol for alternative assets/private market investments.

Real Estate:
Specific to Real Estate, the majority of SCERS' core real estate exposure will be attained through open-ended core funds (OECFs), while the majority of SCERS' non-core real estate exposure will be attained through closed-end commingled funds (CECFs), generally through limited partnerships.

Investments in core real estate can also be made through core separate account (CSA) relationships established with fiduciary oversight managers. These managers make commitments to physical assets such as properties, limited partnerships, or other entities such as limited liability companies or offshore corporations. SCERS does not expect to utilize CSAs within the Real Estate program.

Liquid Real Return:
Investment vehicle options for investing in the Liquid Real Return asset class include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships and institutionally investor-focused mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, transparency, and whether a commingled fund's investment guidelines are consistent with SCERS' investment objective.

5. Secondary Investments and Co-investments: Secondary investments are made when an investor purchases the limited partnership interest of another investor in an existing fund. Secondary investments also include sales of stakes in existing funds from one investor to another. A co-investment is a direct investment in an underlying portfolio company or asset where a manager offers investors the opportunity to invest directly in an underlying company or asset alongside the fund investment. Investments may be made in companies or assets that are either U.S. or non-U.S. domiciled.

Neither secondary investments nor co-investments are considered separate investment strategies within Real Return. SCERS will seek to allocate to secondary investments and co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Real Return asset category, if any.

Secondary sales will serve as a portfolio management and rebalancing tool for the Real Estate and Real Assets asset classes. Any secondary sales will be considered on a standalone basis. Secondary investments (both purchases and sales) and co-investments will be implemented according to the alternative assets/private markets implementation protocol. If a sale of assets is considered, Staff will keep the Board informed throughout the process..

6. Investment Vehicle Concentration:

SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment, or for private market investments 20% of any one investment vehicle such as a limited partnership, limited liability company, or offshore corporation. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account or fund of one, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

7. Liquidity: Overall, the Real Return asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

   Liquid Real Return is anticipated to be very liquid; however, will offer varying degrees of liquidity depending on sector, region, and market capitalization for equities.

   Investments in pooled vehicles such as fund-of-funds and open-end commingled funds (i.e., core real estate and segments of infrastructure, agriculture, and timber) are generally more liquid than closed-end funds (i.e., non-core real estate and segments of infrastructure, energy and power, agriculture, and timber), but less liquid in nature than publicly traded investments (i.e., stocks and REITs). Liquidity is generally based on fund specific redemption schedules, which are typically monthly and quarterly, subject to lock-up periods and investor-level gates. Real estate separate accounts properties generally have less liquidity and can require a price discount to be sold.

   Investments in closed-end funds have limited liquidity. These vehicles have long expected holding periods such as 5-15 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private real return investments. If liquidity is needed within private markets an option is through a secondary sale as discussed in the Secondary Investments and Co-Investments section. Secondary sales can incur discounts in pricing relative to Net Asset Value (NAV).

8. Distributed Securities: SCERS shall avoid the direct receipt of distributed securities from individual real return funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

   Within Liquid Real Return, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS' custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

9. Performance Evaluation:

a. Performance of the Real Return asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

b. Individual investment vehicle performance will be evaluated on a quarterly basis compared to the performance of respective peer universes and vintage years (where applicable).

c. It is recognized that immature private investments within closed-end investment vehicles will ordinarily have a 'J-curve effect' whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

10. Investment period to ramp-up: It is recognized that it can take multiple years for segments of the Real Return asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the real assets and non-core real estate asset class ramp-up periods, exposures can be estimated using percentages of committed capital. During the ramp-up period for the Real Return asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Real Return asset category to the target allocation, using the designated Real Return overlay proxy within the investment guidelines for the Overlay Program.

11. Rebalancing to guidelines: It is anticipated that the majority of changes to rebalance the Real Return asset category will be made on a long-term basis due to: (1) the general illiquidity of the private investments, which often have investment horizons of 10-15 years; and (2) the potential for discounts that can be applied if and when private holdings are liquidated in the secondary market. Accordingly, when these guidelines are exceeded, it is anticipated that reducing exposures will be carried out within a long-term time-frame and over a period that is as soon as practical to reflect the illiquidity of many real return investment vehicles.

SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Real Return asset category. Rebalancing occurs quarterly, unless upper and lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Real Return asset category's, and its underlying asset class's, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Real Return asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Real Return asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Real Return asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

E. POLICY HISTORY

Date	Description
07-19-2017	Board adopted Real Estate asset class investment policy statement
08-16-2017	Board adopted Real Assets asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Real Return asset category investment policy statement
03-20-2019	Amended Real Return asset category investment policy statement
03-18-2020	Amended Real Return asset category investment policy statement
06-15-2022	Amended Real Return asset category investment policy statement
08-20-2025	Amended Real Return asset category investment policy statement