



**OKLAHOMA**  
Teachers' Retirement System

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# INVESTMENT POLICY STATEMENT

## AS OF JULY 2023



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## **I. INTRODUCTION AND STATEMENTS OF PURPOSE, PHILOSOPHY AND ETHICS**

The Board of Trustees of the Teachers' Retirement System of Oklahoma, as the governing body for the System, deems it prudent and necessary to maintain this Investment Policy Statement to act as the principal governing document for the investment of System assets.

### **A. Legal Authority and System Description**

The System is established by statute; the legal authority and description of the System are detailed below.

#### Constitutional Authority

Section 62 of Article 5 of the Oklahoma Constitution was added as a result of the passage of State Question 306 on July 14, 1942. This section reads:

“The Legislature may enact laws to provide for the retirement for meritorious service of teachers and other employees in the public schools, colleges and universities in this State supported wholly or in part by public funds, and may provide for payments to be made and accumulated from public funds, either of the State or of the several school districts. Payments from public funds shall be made in conformity to equality and uniformity within the same classifications according to duration of service and remuneration received during such service.”

#### Statutory Authority

As a result of the passage of State Question 306, the Legislature enacted House Bill 297 in the 1943 legislative session that created the Teachers' Retirement System of Oklahoma (“System”). The legislation has been changed substantially in the years since its creation and is currently codified in Oklahoma Statutes Title 70, Sections 17-101 et. seq. (NOTE: In the remainder of this document, statutory references will follow the notation O.S. 70 § 17-101 to reference Oklahoma Statutes Title 70, Section 17-101.)

#### Purpose of System

In O.S. 70 § 17-102, paragraph 1 creates the Teachers' Retirement System of Oklahoma and outlines the purpose of the System as follows:

“A retirement system is hereby established and placed under the management of the Board of Trustees for the purpose of providing retirement allowances and other benefits under the provisions of this act for teachers of the State of Oklahoma.”

#### Board of Trustees Powers

The second paragraph of O.S. 70 § 17-102 provides the broad terms of the powers entrusted to the Board of Trustees (“Board”):

“The Board of Trustees shall have the power and privileges of a corporation and shall be known as the "Board of Trustees of the Teachers' Retirement System of Oklahoma", and by such name all of its business shall be transacted, all of its funds invested, and all of its



cash and securities and other property held in trust for the purpose for which received.”

Further powers vested upon the Board are set forth in O.S. 70 § 17-106, in part:

“(1) The general administration and responsibility for the proper operation of the retirement system and for making effective the provisions of the act are hereby vested in a Board of Trustees which shall be known as the Board of Trustees and shall be organized immediately after a majority of the trustees provided for in this section shall have qualified and taken the oath of office.”

and:

“(9) Subject to the limitations of this act, the Board of Trustees shall, from time to time, establish rules and regulations for the administration of the funds created by this act and for the transaction of its business.

Finally, O.S. 70 § 17-106.1, in part, defines the duties of the Board in relation to investment of fund assets:

“A. The Board of Trustees of the Teachers’ Retirement System of Oklahoma shall discharge their duties with respect to the System solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:
  - a. providing benefits to participants and their beneficiaries, and
  - b. defraying reasonable expenses of administering the System;
2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
3. By diversifying the investments of the System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
4. In accordance with the laws, documents and instruments governing the System.”

and

D. The Board of Trustees may establish an investment committee. The investment committee shall be composed of not more than five (5) members of the Board of Trustees appointed by the chairman of the Board of Trustees. The committee shall make recommendations to the full Board of Trustees on all matters related to the choice of custodians and managers of the assets of the System, on the establishment of investment and fund management guidelines, and in planning future investment policy. The committee shall have no authority to act on behalf of the Board of Trustees in any circumstances whatsoever. No recommendation of the committee shall have effect as an action of the Board of Trustees nor take

effect without the approval of the Board of Trustees as provided by law.

and

E. The Board of Trustees may retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board of Trustees. Subject to the overall investment guidelines set by the Board of Trustees, the investment managers shall have full discretion in the management of those monies of the System allocated to the investment managers. The Board of Trustees shall manage those monies not specifically allocated to the investment managers. The monies of the System allocated to the investment managers shall be actively managed by the investment managers, which may include selling investments and realizing losses if such action is considered advantageous to longer term return maximization. Because of the total return objective, no distinction shall be made for management and performance evaluation purposes between realized and unrealized capital gains and losses.

## **B. Statement of Purpose**

A primary purpose of this investment policy statement is to guide fiduciaries, including the Board of Trustees, System staff, investment managers, consultants and others responsible for overseeing and investing the assets of the Fund. This policy also communicates foundational tenets underlying its formulation. This policy provides specific guidance regarding investment objectives, asset allocation, risk management and the means by which investment objectives are intended to be achieved. Additional specific guidance is given in defining roles, delegated duties and accountabilities of System fiduciaries as well as setting forth logical, disciplined procedures for making decisions.

## **C. Statement of Investment Philosophy**

Since this policy is a communication tool for System fiduciaries, interested stakeholders as well as other external parties, the Board recognizes that it is important to articulate the underlying beliefs that are foundational in its formulation. Key aspects of the Board's investment philosophy are summarized in the following statements.

1. The Fund has an infinite time horizon and the assets should be invested and managed accordingly.
2. A central tenet in investing is the tradeoff between risk and return, meaning that the pursuit of higher expected returns is accompanied with higher expected risk. Bearing some degree of investment risk is necessary in the pursuit of investment return objectives.



3. Investment risk comes in many forms. The most common risk is the volatility of periodic returns measured by the statistical term known as standard deviation. Additionally, there are a variety of other risks to be considered. A partial list of these risks would include the risk of permanent loss of capital, the risk of not meeting objectives, illiquidity risk, credit risk, interest rate risk, inflation risk, leverage risk, concentration risk and manager risk. A primary focus of this investment policy is to balance, manage and, to the extent possible, control these various risks.
4. Funds with long term investment horizons are able to pursue higher expected returns associated with higher risk portfolios because they are able to remain invested when periodic declines in market values occur.
5. The Fund will best contribute to the primary goal of providing benefits to participants and their beneficiaries by realizing high risk-adjusted net returns.
6. The Board acknowledges that while other institutions may make investment decisions to pursue various worthy causes that may be admirable in their own right, the Board's investment decisions are made to achieve the primary goal of providing benefits to participants and their beneficiaries and defraying reasonable expenses.
7. Long-term investing success is best accomplished by adhering to a long-term strategic asset allocation rather than engaging in short term tactical market timing among asset classes.
8. Diversification among asset classes and securities is the primary means of controlling the risk of an investment portfolio.
9. The primary factor determining portfolio risk and return is how the portfolio is allocated among asset classes.
10. The decision-making process for investments should be both disciplined and logical deriving support from current academic theory and the application of rigorous analysis.
11. In less efficient markets where the probabilities of achieving net-of-fee outperformance relative to a passive market index are higher, active management is preferred. In more efficient markets where the probabilities of achieving net-of-fee outperformance relative to a passive market index are lower, low-cost index management is preferred.
12. Certain asset classes are only accessible in the form of private market interests which have very limited liquidity and normally higher costs relative to public market instruments. Investing a portion of the Fund in these illiquid asset classes is reasonable to the extent that they offer some desirable combination of the following relative to available public market asset classes: higher expected net return and/or risk reduction through diversification.
13. All assets must be of institutional investment quality. Institutional quality will be determined via a comparative analysis conducted by the System's Investment Consultant of other prudent institutional investors in terms of sophistication, size, and complexity.

**D. Statement of Ethical Standards**

The Board of Trustees is committed to maintaining and promoting the highest ethical standards among Board members and among all parties involved in the administration of fund assets.

The Board expects all parties involved in the administration of fund assets, including all System fiduciaries, to conduct their activities according to the highest ethical standards adhering likewise to the principles expressed in the Board of Trustee Policy Manual Chapter 5 – Ethical and Fiduciary Conduct. Given the nature of fund management and investing, particular attention will be given to conflicts of interest. All parties involved in the administration of fund assets should be free of conflicts of interest to avoid even the appearance of not acting in the sole interests of System participants and their beneficiaries. Where any involved party becomes aware of an actual or potential conflict of interest it is their duty to disclose the conflict to the Board so that the Board may assess its seriousness.



## **II. STATEMENT OF DUTIES AND RESPONSIBILITIES**

### **A. Board of Trustees**

The Board of Trustees has the final decision-making authority for the System. The Investment Committee of the Board has the authority to make investment recommendations to the Board. The Board evaluates and decides whether or not to take action on recommendations from the Investment Committee. The Investment Committee's authority and responsibilities are set forth in the Investment Committee Charter contained in the Board of Trustees Policy Manual.

Trustee duties and responsibilities are listed in summary as follows:

1. Adopt, and when deemed necessary, amend this Investment Policy Statement.
2. Determine delegated duties to be performed by other qualified fiduciaries in order to ensure that the Fund is properly administered and regularly evaluated to assess progress towards achieving established objectives.
3. Receive and evaluate reports, presentations and other materials provided by investment consultant(s), staff, investment managers, and other retained advisors to monitor the administration of Fund assets in accordance with policy objectives and to regularly assess progress towards achieving the goals and objectives defined herein.
4. Select and contract with qualified professional advisory organizations to perform functions deemed necessary by the Board to manage the Fund in accordance with policy. Common professional advisory organizations would include investment consultant(s), investment managers, global custodians and securities lending agents.
5. Evaluating the performance of retained professional advisory organizations and staff to assess fulfillment of duties, achievement of goals and compliance with policy guidelines.
6. Annually conduct a formal review of the performance of Investment Consultant(s), normally to be performed in the month of April.
7. Terminating the contracts with any retained professional advisory organization when deemed necessary.
8. Review all costs of investment operations at least annually.

## **B. Investment Staff**

A summary of the duties and responsibilities of the Investment Staff is as follows:

1. Provide the Board and the Investment Committee with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities. The general content and focus of reporting from Investment Staff is further described in Section VI.
2. Serve as the primary liaison between the Board of Trustees and the investment consultant(s), investment managers, custodian, securities lending agent and transition manager(s).
3. Implement Board decisions regarding asset allocation, investment structure, portfolio rebalancing procedures and retention of investment consultant(s), investment managers, custodian and securities lending agent.
4. Coordinate the search, selection and evaluation processes for investment consultant(s), investment managers, custodian and securities lending agent on behalf of the Board of Trustees.
5. Monitor and review the performance of the total fund, asset class composites, and investment managers to evaluate achievement of objectives and compliance with policy guidelines.
6. Monitor and review all costs of investment operations including, but not limited to, fees paid to investment consultant(s), investment managers, and custodian, as well as portfolio transactions costs.
7. Manage the liquidity in the Total Portfolio as necessary to ensure timely payment of benefit payments, plan expenses and capital calls, etc. consistent with established asset allocation and portfolio rebalancing policies. The raising of cash amounts greater than two months' worth of benefit payments shall be subject to Board approval.
8. Conduct the search and selection of transition manager(s) in collaboration with the investment consultant(s) as directed by the Board.
9. Conduct due diligence in collaboration with the investment consultant(s) when investment managers fail to meet the expectations of the Board or are formally placed 'On Alert' or 'On Notice'.
10. Research and review innovative investment ideas and concepts in collaboration with the investment consultant(s) in an effort to identify potential modifications to improve the investment portfolio.
11. Monitor the performance of the total fund, asset class composites and investment managers to determine if any issues need to be addressed by the Investment Committee or the Board of Trustees.

**C. Investment Consultant**

A summary of the duties and responsibilities of the investment consultant(s) retained by the Board is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board and the Investment Committee with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities. The general content and focus of reporting from Investment Consultant is further described in Section VI.
3. Assist the Board in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies.
4. Assist the Board by monitoring compliance with this Investment Policy.
5. Provide assistance in investment performance evaluation, and analysis.
6. Provide assistance in investment manager searches and selection.
7. Provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board.
8. Monitor the System's investment managers and notify the Board and Investment staff of any material changes in the investment managers' organizational structure, their personnel or if there are performance issues.
9. Certify in writing to the Board on an annual basis as of the System's June 30 fiscal year end, the investment consultant's compliance with this Policy during the fiscal year period ending June 30.
10. Review with the Investment Staff the status and performance of current investment managers and determine if any issues need to be addressed by the Investment Staff or the Board of Trustees.
11. Provide assistance in the search and selection of transition manager(s) as directed by the Board.
12. Provide assistance in the conduct of due diligence when investment managers fail to meet the expectations of the Board or are placed 'On Alert' or 'On Notice'.
13. Explore, research, analyze and review new investment ideas and managers in collaboration with the Investment Staff in an effort to keep the system current with investment options.

#### **D. Investment Managers**

A summary of the duties and responsibilities of each separate account, public markets investment manager retained by the Board is listed below. Commingled account and private market investment managers whose investment activities are governed by subscription agreements or commingled trust documents should adhere to the duties and responsibilities contained herein to the extent possible and to the extent that they are not superseded by, or in conflict with, subscription agreements or commingled trust documents defining the relationship with the System.

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board, the Investment Committee, the staff and the investment consultant(s) with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities. The general content and focus of reporting from Investment Managers is further described in Section VI.
3. Manage the Fund's assets in accordance with the policy guidelines and objectives expressed herein.
4. Prudently select investments based on thorough evaluation of all risks applicable to stated mandate.
5. Work with the custodian and the investment consultant to verify monthly accounting and performance reports.
6. Certify in writing to the Board on an annual basis as of the System's June 30 fiscal year end, the Investment Manager's compliance with this Policy during the fiscal year period ending June 30.
7. Act as a fiduciary in adopting and adhering to proxy voting policies, acknowledging that its proxy voting policies may affect the value of their respective portfolio.
8. Seek to obtain best execution in all securities transactions to minimize the costs of trading.

#### **E. Custodian**

A summary of the duties and responsibilities of the custodian bank(s) retained by the System is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board, the Investment Committee, the staff and the investment consultant(s) with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities.



3. Accept daily instructions from designated staff.
4. Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
5. Safekeeping of securities.
6. Timely collection of interest and dividends.
7. Daily cash sweep of idle principal and income cash balances.
8. Process and maintain records of all investment manager transactions.
9. Collect proceeds from maturing securities.
10. Disburse all income or principal cash balances as directed.
11. Perform regular reconciliations of holdings and transactions with the System's retained investment managers on at least a monthly basis.
12. Work with the System's staff and the investment consultant to ensure accuracy in reporting.
13. Manage and administer the System's directed brokerage program.
14. Calculate the investment performance of the System's investment accounts and composites.
15. Providing required reports to assist the System's staff and vendors with compliance with the Governmental Accounting Standards Board, the Internal Revenue Service, the Securities and Exchange Commission, the Financial Industry Regulatory Authority and other regulatory agencies.
16. Monitor, file and report on securities class action lawsuits and collect and record settlement proceeds.
17. Process and file Foreign Tax Reclaims on behalf of the System.

**F. Securities Lending Agent**

A summary of the duties and responsibilities of the securities lending agent retained by the System is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide the Board, the Investment Committee, the staff and the investment consultant(s) with reports, presentations and any other materials to assist them in the fulfillment of their duties and responsibilities.



3. Arrange terms and conditions of securities loans.
4. Monitor the market value of the securities lent and mark to market at least daily and ensure that any necessary calls for additional collateral are made and that such collateral is obtained on a timely basis.
5. Direct the investment of cash received as collateral in accordance with direction from the Board, provided that such investments are consistent with guidelines provided in this document.
6. Notify the Board of any changes to the investment guidelines in the Securities and Exchange Commission's rule 2A7 for consideration by the Board.
7. Notify the System's staff in the event that a recalled security has not been returned by a borrowing party within 10 days of the request.

**G. Transition Manager**

The transition managers shall manage the transition of assets from one or more investment managers or asset categories to one or more other investment managers or asset categories. Transition managers shall be selected among those approved by the Board. Transition managers shall be utilized when such employment is likely to present significant opportunities for cost savings, technical efficiencies or other benefits to the System.

A summary of the duties and responsibilities of Transition Managers retained by the System is as follows:

1. Acknowledge status as a fiduciary to the System and remain in compliance both with this investment policy and with the current executed contract with the System.
2. Provide a pre-trade analysis, which will include, among other things, a trading liquidity analysis, portfolio sector analysis, volatility analysis, and estimated transaction costs.
3. Provide a detailed written plan of transition execution.
4. Provide a post-trade analysis, comparing the actual costs with the pre-trade estimates. The report will also include various trading statistics, benchmarking information, and detailed trade reports.
5. In all securities transactions, transition managers shall seek to obtain best execution to minimize the costs of trading.

### **III. PROCEDURES**

#### **A. Investment Policy Review**

In order to keep the Investment Policy current, the Board will, at least annually, review and modify as deemed necessary any portions of the policy. The annual review will consider, but not be limited to, the following: objectives and guidelines, the development of asset allocation strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies.

The Board, both upon their own initiative and upon consideration of the advice and recommendations of staff, consultants, the investment managers and other fund professionals involved with the assets, may amend policy guidelines. Proposed modifications should be documented in writing to the Board.

#### **B. Investment Manager Policy Exceptions**

Requests for an exception to invest in securities precluded by section V. A. or the applicable mandate's specific policies, should be submitted in writing to the System and include justification for such request as well as a requested time period, up to three years. Exception requests will undergo a reevaluation and approval process at the end of each term. Staff and investment consultant will determine the investment manager's process for providing quarterly reporting on attribution analysis of the contribution of the allowed exception.

#### **C. Third-Party Marketing and Referrals Disclosure Policy**

TRS requires transparency and full disclosure of all relationships with any third parties in proposed and committed investments. "Third party marketers" are those who represent an asset management firm, or any other type of investment services provider, as an independent contractor rather than as an employee of the firm for the purpose of making representations to or securing investment contracts with TRS on behalf of the firm or provider. This includes placement agents, finders, marketers, solicitors, lobbyists, and similar relationships.

Any such third-party marketer must disclose himself or herself in writing to TRS' General Counsel as a third-party marketer before or contemporaneously with contacting any member of the Board of Trustees, employee of TRS, or the outside investment consultant for TRS. Additionally, any promised or paid compensation, fees, benefits, or any other consideration given by any asset management firm, or any other type of investment or services provider, to such third-party marketer as it relates to investments of TRS shall be disclosed in writing to TRS' General Counsel.

In addition, firms submitting investment proposals for consideration by TRS (including any sub-managers or consultants engaged by such firms) are required to disclose in writing to TRS' General Counsel the identity of all third-party marketers and/or individuals referring the firm to TRS and shall disclose if such individuals are registered with the U.S. Securities and Exchange Commission and/or as a lobbyist for any state or national

government. This disclosure shall identify all entities or individuals that have been paid or promised compensation, fees, benefits, or any other consideration if a contract between the firm and TRS is secured. This includes any third-party sponsors of general partners or investment managers of private equity funds, real estate funds, hedge funds, and similar funds in which TRS may invest.

TRS shall not pay, absorb, or otherwise be responsible for any fees, compensation, benefits, or consideration paid or payable to any third-party marketer resulting from the third-party's relationship with any investment manager, firm, or provider. This includes a prohibition on said fees, compensation, benefits, or consideration being passed on to TRS via fund or investment fees. This includes placement agent fees, solicitation fees, referral fees, promotion fees, introduction or "matchmaker fees" or any similar fees. To the extent any such fees are paid by a fund in which TRS invests, or may invest, but are offset against the management fee, a full disclosure of such arrangement shall be made to TRS' General Counsel.

The disclosure requirements established by this Policy apply throughout the term of any contractual relationship TRS may have with any investment manager, firm, or service provider and represent a continuing obligation of disclosure. Upon request by TRS, investment managers, firms, and service providers are responsible for providing any documentation TRS deems pertinent relative to the third-party relationship.

This Policy becomes effective immediately and applies to all firms currently managing TRS assets. All firms submitting investment proposals must make the disclosures required by this Policy prior to any action being taken on the firm's investment proposal by the Board, as well as comply with the continuing obligation of disclosure. Failure to disclose may result in disqualification from ongoing TRS solicitations and all other remedies available to TRS by law.

#### **D. Investment Manager Selection Policy**

Noting the fiduciary obligation of the Board to the System, the goal of any investment manager selection is to obtain the best investment outcome on behalf of the members and beneficiaries of the System.

While TRS statutes provide that investment managers must be retained on a competitive bid basis pursuant to standards set by the Board, this process is not required to conform to the Oklahoma Central Purchasing Act.

70 O.S. § 17-106.1(E) provides "The Board of Trustees may retain qualified investment managers to provide for the investment of the monies of the System. The investment managers shall be chosen by a solicitation of proposals on a competitive bid basis pursuant to standards set by the Board of Trustees. [...]"

The Board sets forth the following standards which shall govern the investment manager selection process:

1. The Board shall approve all investment manager solicitations conducted by the System.



2. Subsequent to Board approval, solicitation of proposals shall be accomplished on an invitation to bid basis, and an invitation to bid notice will be posted publicly to the TRS website.
3. Invitation to bid notices will describe the investment management services sought and, if applicable, any qualifying minimum criteria, pertinent instructions, deadlines, etc. Minimum criteria, if any, will either be listed in the Invitation to Bid or delineated by way of reference to the most current version of the Investment Policy Statement. To enhance the competitiveness of solicitations conducted by the System, firms whose qualifying investment services are reflected and current in the Investment Consultant's commercially available or proprietary database will be considered as having bid and being in competition for System solicitations without further application.
4. Firms and qualifying investments shall initially be evaluated by the Investment Consultant and the Investment Staff. Due diligence shall be conducted on potential qualifying Firms and investments. The nature of the due diligence shall be recommended to the Board by the Investment Committee with the advice of the Investment Consultant, Chief Investment Officer, and Executive Director. Due diligence may include manager interviews, review of past performance, firm and personnel backgrounds, reference checks, fee structure, conflicts of interest, internal security controls, and any other research necessary to inform the decision of the Board. An evaluation report to identify potential managers shall be presented to the Investment Committee for recommendation to the Board.
5. The Board shall award contracts to the investment managers and qualifying investments most suitable to addressing the needs of the System for which the solicitation is being conducted. Competitive fee negotiations shall be conducted prior to the final contract being awarded. The award shall be made at a specified time and place which shall be open to the public pursuant to the Oklahoma Open Meetings Act.
6. Qualifying investment managers and funds shall be given due consideration. No investment manager shall be granted any advantage or disadvantage during the solicitation process.
7. There shall be no contact or communication between the applicant or bidder and Trustees concerning any matter material to the solicitation process unless the communication is expressly described in the invitation to bid, a part of due diligence, or as part of any Board meeting prior to the award of the contract. Any bidder who knowingly participates in such communication prohibited by this subsection shall be disqualified from the contract award.

#### **IV. INVESTMENT GOALS AND OBJECTIVES**

To fulfill the System's Mission Statement set forth in Chapter 2 of the Board of Trustees Policy Manual, the Board has a goal of earning a nominal, long-term, time-weighted, annualized, net total return of 7.5% on the investment portfolio while maintaining liquidity necessary to fund net benefits and operations.

To achieve the goal above the Board believes that several investment objectives need to be attained. In setting the objectives the Board follows the criteria as recommended in "A Primer for Investment Trustees" (Bailey, Jeffery, Jesse Phillips and Thomas Richards. *A Primer for Investment Trustees*. Charlottesville: Research Foundation of CFA Institute, 2011).

Specifically, investment objectives should be

- unambiguous and measurable,
- specified in advance,
- actionable and attainable,
- reflective of the Trustees' risk tolerance and consistent with the System's mission.

The Board has established several objectives for the investment portfolio that meet the criteria above. These objectives listed below are specified at the Total Fund, Asset Class Composite and individual mandate/Investment Account level.

##### **Total Fund Investment Objectives**

- Achieve or exceed on a three-year rolling basis, absolute and risk-adjusted, net excess returns relative to the Total Fund Policy Index as specified in Appendix A.
- On a three-year rolling basis, maintain relative risk levels equal to or below that of the Total Fund Policy Index.

##### **Asset Class Investment Objectives**

- Achieve or exceed on a three-year rolling basis, absolute and risk-adjusted, net excess returns relative to the Asset Class Index as specified in Appendix A.
- On a three-year rolling basis, maintain relative risk levels equal to or below that of the Asset Class Index.

##### **Investment Account Objectives**

- Achieve or exceed on a three-year rolling basis, absolute and risk-adjusted, net excess returns relative to the Investment Account Index as specified in Appendix A.
- On a three-year rolling basis, maintain relative risk levels equal to or below that of the Investment Account Index.

## **V. INVESTMENT GUIDELINES AND CONSTRAINTS**

The System maintains a diversified portfolio with investments in multiple asset classes as defined by its strategic asset allocation. Investments in some asset classes can be made through public securities markets while investments in other asset classes are only possible through private market investment vehicles.

Generally, the System's public market investments are held by the System's Custodian in separate accounts managed by retained investment management firms. For these public market investments in separate accounts at the System's custody bank, the System defines the parameters within which the retained investment managers can manage the portfolio. In addition to public market investments held in separate accounts the System may choose to invest in commingled or partnership structures alongside other institutional investors where the System does not define the investment management parameters but rather accepts the investment management parameters as specified in commingled trust documents or in partnership agreements.

With the above distinctions in mind, this section of the Policy covering guidelines and constraints is divided into two subsections and further grouped by asset class. The first subsection addresses public market investments held in separate accounts by the System's Custodian. It communicates to the investment management firms retained to manage these accounts the parameters within which they are permitted to manage the portfolio.

The second subsection addresses commingled and private market investments where the System accepts the investment parameters as defined in trust documents or partnership agreements and other associated legal documents. This subsection documents the rationale for choosing a commingled or partnership structure and the general boundaries within which the System will seek to structure its private markets investments.

### **A. Public Market Separate Account Investments**

#### **1. Discretion and Prohibited Investments**

Full discretion, within the parameters of these guidelines is granted to the investment managers regarding the allocation of their portfolios, the selection of securities, and the timing of transactions. Any exception requests to the guidelines listed herein should be communicated to the System's Investment staff and Investment Consultant. Due to the ever-expanding variety of financial instruments and financial engineering methods, the following list of ineligible investments is not considered to be exhaustive. Any instrument, to which these Investment Guidelines do not explicitly prohibit, that is not expressly allowed by the applicable mandate specific guidelines, should be requested through the exception process, detailed in section III. B, prior to investment.

- a. Privately placed or other non-marketable debt, except securities issued under Rule 144A.



- b. Securities denominated in non-US currency, unless provided in accordance with an applicable mandate.
- c. Lettered, legend or other so-called restricted stock
- d. Physical commodities and commodity derivatives
- e. Short sales and purchases on margin; leverage is not allowed unless the System has expressly given the right to lever to a manager.
- f. Direct investments in private placements, real estate, oil and gas and venture capital, unless provided in accordance with an applicable mandate.

## **2. Index Portfolios**

- a. All index portfolios characteristics and returns are expected to closely resemble the designated benchmark.
- b. Index managers may use both full replication and stratified sampling portfolio construction methodologies.

## **3. Cash Rule for Equity Portfolios**

- a. Investment managers of portfolios consisting of equity securities should seek to remain fully invested. Fully invested for the purposes of this document shall mean normally maintaining a portfolio allocation to cash investments of 5% or less. Should the investment manager desire to maintain cash investments at a level greater than 5% for an extended period of time, the investment manager shall provide advanced written notification and explanation to the Investment Staff and Investment Consultant.
- b. No violation shall be deemed to occur if cash investment levels exceed the 5% due to instructions received from the System. If cash investments breach the 5% threshold for ten consecutive business days or 7% for three consecutive business days, the manager shall submit a written notice and explanation of each such event to Investment Staff and Investment Consultant.

## **4. Derivatives**

- a. Investment managers may be permitted, under the terms of individual investment contracts, to use derivative instruments as set forth in each manager's investment guidelines. A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency or index. Some examples of derivatives for purposes of this Policy are (a) contracts such as forwards, futures, put and call options, and swaps and (b) non-traditional securities with embedded options such as collateralized mortgage obligations (CMOs) and structured note products. Traditional



securities with options such as convertible bonds and preferred stock are not considered derivatives under this policy, nor are warrants.

- b. Derivatives shall not be used to introduce leverage, that is, the notional value of derivatives positions cannot exceed the cash or securities values available from the System's assets. Derivatives may not be used to create levered exposure to the assets being managed. Derivatives may be used for the purpose of reducing effective cash exposure and for hedging currency risk and interest rate risk.
- c. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.
- d. Foreign exchange forward contracts or currency swaps are permitted for currency hedging purposes. Posting of a "margin" deposit for these contracts is permitted in connection with foreign exchange forward contracts or currency swaps as such a deposit is not considered to be "purchases on margin" or "leverage".

## **5. Domestic Equity**

- a. Domestic Equity portfolios will not concentrate more than the greater of a 2% benchmark-relative active weight or 7% of market value of funds under advisement in holdings of a single issuer.
- b. Domestic Equity portfolios will not hold greater than 5% of the outstanding shares of a single issuer.
- c. Domestic Equity portfolios will be limited to holdings of common stock, American Depository Receipts (ADRs) listed on a domestic exchange, non-midstream MLP units and any security type that is a constituent in the portfolio's benchmark index.
- d. Domestic Equity portfolios may hold, sell or exercise rights, warrants or other instruments received by virtue of corporate actions.
- e. Domestic Equity portfolios may purchase unlevered Exchange Traded Funds (ETFs) linked to the portfolio's benchmark index solely for the purpose of reducing temporarily high cash exposure.

## **1. International Equity**

- a. International Equity portfolios will not concentrate more than the greater of a 2% benchmark-relative active weight or 7% of market value of funds under advisement in holdings of a single issuer.
- b. International Equity portfolios will not hold greater than 5% of the outstanding shares of a single issuer.



- c. International Equity portfolios will not concentrate more than the greater of a 5% benchmark-relative active weight or 35% of the market value of funds under advisement in issuers from the UK or Japan and no more than 30% of the market value of funds under advisement in issuers from any other single country.
- d. International Equity portfolios will invest no less than 50% of the portfolio in companies located in developed markets as determined by MSCI.
- e. International Equity portfolios will be limited to holdings of common stock, American Depository Receipts (ADRs) listed on a domestic exchange and any other security type that is a constituent in the portfolio's benchmark index.
- f. International Equity portfolios may hold, sell or exercise rights, warrants or other instruments received by virtue of corporate actions.
- g. International Equity portfolios may purchase unlevered Exchange Traded Funds (ETFs) linked to the portfolio's benchmark index or country sub index solely for the purpose of reducing temporarily high cash exposure. International Equity portfolios may also hold commingled fund units to gain exposure to markets where individual company share purchases are either inefficient or not possible.

## **2. Fixed Income**

- a. Fixed Income portfolios will not concentrate greater than 5% of market value of funds under advisement in holdings of a single issuer. This restriction does not apply to sovereign issues.
- b. Fixed Income portfolios will not hold greater than 5% of the issued securities of a single issuer.
- c. Fixed Income portfolios will not concentrate greater than 20% in non-USD denominated obligations.
- d. Fixed Income portfolios will not concentrate greater than 10% in developing or emerging markets issuers as determined by MSCI.
- e. Fixed Income portfolios may hold shares of common stock converted from embedded corporate actions. At the time of conversion, managers should communicate issues converted into common shares to the System's Investment staff and Investment Consultant.
- f. **Core Plus Full Discretion Fixed Income**
  - i. Core Plus portfolios will not concentrate greater than 50% in issues which are rated Ba1 or lower by Moody's, or Moody's equivalent rating by an SEC registered NRSRO. If the ratings assigned to an instrument by an SEC registered NRSRO are not the same, the highest rating of these rating agencies will be used. If an instrument is not rated by an SEC registered



NRSRO, the equivalent rating determined by the Manager's internal rating system will be used.

- ii. Core Plus portfolios may hold up to 5% of the market value of the account in any combination of the following: issues which internally or externally are rated below Caa2 Moody's, or Moody's equivalent rating by an SEC registered NRSRO, common stock, preferred stock, closed-end funds or exchange-traded funds.
- iii. All holdings of unrated securities and securities subject to the 5% limitation above shall be subject to monthly reporting requirements as set forth in Section VI. 3. of this Policy.
- iv. The Core Plus portfolio manager may not invest more than 10% of the portfolio in unrated securities.

**g. Active Duration Fixed Income**

- i. Active duration portfolios may concentrate holdings up to 100% at any maturity along the U.S. Treasury term structure.
- ii. Active duration portfolio accounts are limited to holding securities backed by the full faith and credit of the U.S. government and units of the short-term investment fund of the System's custodial bank.

**h. Securities Lending Collateral Pool**

- i. The investments of the securities lending collateral are governed by a separate investment policy document therefore they are not addressed herein.

**B. Private Market Partnership Interests and Commingled Account Investments**

The System recognizes that private market investments and commingled fund investments are governed by subscription agreements, limited partnership agreements, trust documents and other related legal documents. Additionally, the System recognizes that in the event of a conflict between the aforementioned documents and this Investment Policy Statement, the subscription agreements, limited partnership agreement and other related legal documents shall take precedence in the governance of these investments.

The System determines how it will select and structure its private market and commingled fund investments; this section sets forth the guidelines the System will follow for structuring the portion of the portfolio invested in private market and commingled fund investments.



**1. Private Equity**

- a. Private Equity portfolios will be comprised of buyout funds, growth capital funds, turnaround funds venture capital funds and other primarily equity focused strategies approved by the System.
- b. In order to achieve a diversified private equity portfolio, the following sub-allocations shall be used as an overall target for commitment levels within the portfolio:

| <u>Segment</u>                 | <u>Long-Term Allocation Ranges</u> |
|--------------------------------|------------------------------------|
| Corporate Finance <sup>1</sup> | 80% - 100%                         |
| Venture Capital                | 0% - 20%                           |

<sup>1</sup> Includes buyout, turnaround and debt related strategies

| <u>Region</u>           | <u>Long-Term Allocation Ranges</u> |
|-------------------------|------------------------------------|
| U.S. and Western Europe | 80% - 100%                         |
| Other                   | 0% - 20%                           |

- i. The minimum Private Equity or Private Debt commitment is \$10 million.
- c. Commitments will not be made to a primary fund which exceeds an amount equal to 20% of the total amount raised for a proposed fund. For the purposes of this provision, primary fund is defined as a private partnership formed by a fund manager to invest in underlying operating companies and does not include fund of fund, secondary or co-investment vehicles.
- d. Aggregate commitments to a General Partner may not be greater than 25% of funds under advisement.
- e. For new commitments identified by a retained private markets consulting firm, the private markets consulting firm shall provide detailed information on the opportunity, including a final memorandum summarizing all due diligence performed, to the Staff, and the Investment Consultant.
- f. The System will not invest funds into opportunities that intend to purchase remaining assets from a previous fund.
- g. Funds that meet the following criteria will not be considered eligible for initial evaluation or potential funding commitments:
  - i. Vehicles which are not backed by accredited investors, as that term is defined in Section 2 of the Federal Securities Act of 1933, as amended, (15 U.S.C. Section 77(b)) and rules and regulations promulgated under that section.
  - ii. Investments representing direct equity ownership in individual companies or other business entities, without the benefit of an intermediate



partnership or other indirect ownership structure. However, this exception shall not include direct equity ownership which results from the distribution of securities from partnerships to the System. This rule does not restrict the possibility of a co-investment in Private Equity; contingent upon a third-party consultant providing the recommendation and vehicle for investment.

- iii. Investments which would violate resolutions passed by the System's Board.
- iv. Investments in which the General Partner has committed to invest no personal or firm assets.

## 2. Private Debt

- a. Private debt investments will initially be made using fund-of-one, separate accounts that focus on private debt direct investments, private debt co-investments and, where agreed upon, commitments to limited partnerships within the fund-of-one. Should the System choose at some point in the future to make private debt investments by commitments to limited partnerships outside of the initial fund-of-one, separate account structure, additional guidelines may be added.
- b. Private debt includes investments and strategies focused on direct lending and alternative credit. Direct lending is senior or unitranche lending directly to companies. The goal of direct lending investments is high current income and preservation of capital. Alternative credit may encompass a variety of diversifying investments including, but not limited to, mezzanine debt, credit opportunities, special situations, asset-backed and specialty finance investments.
- c. To achieve a diversified private debt portfolio, the following sub-allocations shall be used as an overall target for commitment levels within the portfolio:

| <u>Segment</u>     | <u>Long-Term Allocation Ranges<sup>1</sup></u> |
|--------------------|--|
| Direct Lending     | 60% - 100%                                     |
| Alternative Credit | 0% - 40%                                       |

<sup>1</sup> Initial short-term allocations may vary considerably during the initial ramp-up period.

| <u>Region</u> | <u>Long-Term Allocation Ranges</u> |
|---------------|------------------------------------|
| US & Canada   | 80% - 100%                         |
| Other         | 0% - 20%                           |

- d. For each private debt separate account, specific guidelines are individually negotiated and set forth in the governing documents and contracts between the System and the respective Manager.



- e. Private debt separate accounts have the advantage of being able to respond to changing market dynamics and the Managers are responsible for managing the day-to-day tactical and strategic investment decisions. Periodically (normally on a quarterly basis) the Manager will discuss with Investment Staff and Consultant their forward view and recommended portfolio positioning. Investment Staff and Consultant will confer to assess whether the portfolio as recommended maintains the strategically desired return and risk characteristics for which the account was designed. Upon joint concurrence of Investment Staff and Consultant regarding maintenance of desired return and risk characteristics, the Manager will proceed as proposed. If the Investment Staff and/or Investment Consultant believes that the proposed portfolio changes the strategically desired return and risk characteristics for which the account was designed, the proposed portfolio decision will be brought to the Board.

### **3. Real Estate**

- a. Real estate investments will be categorized as Core and Non-Core. The objectives of real estate investments are to provide diversification benefits to the overall portfolio, provide protection against inflation, generate stable income, produce attractive risk-adjusted return and preserve capital.
  - i. Core real estate (traditionally open-ended) funds will include investments that are operating and substantially leased, primarily invested in the four main property types including office, industrial, retail and multi-family. Other property types may be included to a lesser extent. Current income will comprise a majority of the total return over an investment cycle.
  - ii. Non-Core real estate (traditionally closed-ended) funds will include Value-add and Opportunistic investment strategies. Non-core funds may purchase and manage, in addition to the four main property types, other specialty properties that may require renovation, rehabilitation or development. Current income may comprise a minority and appreciation may represent the majority of the total return of these investments.
- b. The System's goal should be to have between 40% and 60% of its real estate asset class in Core investments. Non-Core opportunities, such as Value Added and Opportunistic real estate strategies, may provide better alpha generation but will be viewed tactically and have an operating allocation range of 40% to 60% of the real estate asset class.
- c. Real estate exposure shall be acquired primarily through comingled fund vehicles, both open-ended and closed-ended, and, to a lesser extent, joint venture limited partnerships and separate accounts.
- d. The real estate portfolio will be diversified by property type and geographic region (as defined by NFI-ODCE), as well as risk (as defined by leverage).



- e. The real estate portfolio will be diversified by property type and geographic region (as defined by NFI-ODCE), as well as risk (as defined by leverage).
- f. Real estate funds will not concentrate, in any single property, an amount exceeding 25% of the total Gross Asset Value (GAV) of the overall investment fund.
- g. To control investment manager exposure, the allocation to a single Real Asset manager is typically limited to 30% of The System's Real Estate target allocation.

#### **4. Opportunistic Private Market Investments**

- a. The Opportunistic Investment category describes investments that are not adequately classified within the other investment mandates. Allocations to opportunistic investments may range from 0% to 5% of total portfolio. The Board shall determine appropriate commitment levels subject to the constraints below.
- b. The Board shall not make commitments to a single portfolio greater than 20% of the total amount of the proposed portfolio.
- c. The Board shall not concentrate aggregate commitments to a single investment manager's firm greater than 25% of the firm's total assets under management.

## **VI. EVALUATION AND REVIEW**

### **A. Investment Staff Reporting Requirements**

The Investment Staff will at regular periodic Board and Investment Committee meetings report as needed on the following: asset class and manager account variances relative to targets, updates regarding changes within the portfolio including transition events, portfolio risk exposures, asset class structure reviews, special project reports and any other areas of investment portfolio analysis as directed by the Board. Any rebalancing events necessitated by policy will be reported to the Investment Committee upon occurrence.

### **B. Investment Consultant Reporting Requirements**

The Investment Consultant will report on investment portfolio performance at regular periodic Board and Investment Committee meetings. These reports will cover the following: recent capital markets developments and consequent impacts on investment portfolio performance both gross and net of fees, asset allocation, return attribution, multi-period analyses of the performance of all investment portfolio accounts and composites relative to benchmarks and comparable universes, analyses of the risks of investment portfolio accounts and composites relative to benchmarks.

In addition to reporting on investment portfolio performance, the Investment Consultant will report to the Board any material recent organizational or personnel developments at the investment firms retained by the System. The Investment Consultant will also report to the Board regarding the investment firms retained by the System any significant changes in clients and assets under management.

To assist the Board in their annual review of the Investment Consultant, the Investment Consultant will provide a report covering material organizational or personnel developments at the firm as well as any significant changes in number of clients and/or assets under advisement. The Investment Consultant will also provide a certification signed by the investment consultant firm's Chief Compliance Officer or designee that the firm has for the fiscal year remained in compliance with all applicable elements of this Policy, the investment consulting agreement between the firm and the System and any other contractual instruments defining the relationship between the investment consultant and the System. The Investment Consultant will also provide any additional information or disclosures the Board determine necessary to conduct their annual review.

### **C. Investment Manager Reporting Requirements**

Each Investment Manager will timely report to Investment Staff and Investment Consultant any material organizational or personnel developments at their firm as well as any significant changes in number of clients and/or assets under management either for the mandate in which the System is invested or for the entire firm.

In addition to the requirements stated herein, each investment manager will provide any reports as may be required in the investment management agreement or subscription agreement between the firm and the System and any other contractual instruments defining the relationship between the investment manager and the System.

On a quarterly basis each Investment Manager will provide to Investment Staff and Investment Consultant performance, transaction and market value data as requested in electronic or hardcopy form to assist Staff and the Investment Consultant in their roles of monitoring the investment portfolio on behalf of the Board. The data requested will be designed by Staff and Investment Consultant to correspond with the Investment Manager's particular asset class assignment. In their regular quarterly reporting, Core Plus Full Discretion Fixed Income managers will provide a line-item holdings report for unrated securities and investments subject to the 5% limitation as referenced in Section V. A. 7. f. iii.

On a yearly basis for the System's June 30 fiscal year each Investment Manager shall provide the Staff and the Investment Consultant an annual report consisting of the following:

1. A certification signed by the investment management firm's Chief Compliance Officer or designee that the firm has for the fiscal year remained in compliance with all applicable elements of this Policy, and any investment guidelines within the investment management agreement or subscription agreement and any other contractual instruments defining the relationship between the investment manager and the System.
2. For firms that cast proxy votes on behalf of the System, a summary of the firm's philosophy with respect to voting proxies along with a detailed report showing all proxy votes cast during the fiscal year.
3. A detailed report showing investment management fees and expenses charged by the firm to the System whether invoiced or deducted during the fiscal year.
4. A disclosure of any payments, monetary or otherwise, to System fiduciaries including Staff, Investment Consultant or Trustees.
5. A review of the Investment Manager's investment philosophy and process as well as a June 30 fiscal year summary of any material organizational or personnel developments at the firm as well as any significant changes in number of clients and/or assets under management either for the mandate in which the System is invested or for the entire firm during the fiscal year.
6. Each investment manager is required to report to the System's Investment Staff and Investment Consultant the types of derivative instruments used along with a narrative explanation of the rationale for using such instruments in their portfolio management process during the past year highlighting risks mitigated and or efficiencies achieved.

## APPENDIX A - PERFORMANCE BENCHMARKS

| <b>Asset Class or Composite</b> | <b>Benchmark</b>                                    |
|---------------------------------|---|
| Total Portfolio                 | Policy Benchmark*                                   |
| U.S. Equities                   | Russell 3000  |
| International Equities          | MSCI ACWI ex.US                                     |
| Fixed Income                    | Core Plus Fixed Income**                            |
| Real Estate                     | Custom Real Estate Benchmark***                     |
| Private Equity                  | 85% Russell 3000 / 15% MSCI ACWI ex-U.S. + 2.5%**** |
| Private Debt                    | The S&P/LSTA Leveraged Loan 100 Index + 3%****      |

\*The Policy Benchmark is a composite benchmark composed of the monthly asset class benchmark returns weighted by their respective strategic asset allocation targets.

\*\* The Core Plus Fixed Income benchmark is a composite benchmark composed of 70% Bloomberg Barclays U.S. Aggregate Index and 30% ICE BofA US High Yield Constrained Index.

\*\*\*50% NFI-ODCE / 50% NFI-ODCE + 1.0% annually. The Real Estate benchmark will be included on a one-quarter lagged basis.

\*\*\*\*The Private Equity and Private Debt benchmarks will be included on a one-quarter lagged basis.

Policy Benchmark: Due to the nature of Private Market investing (real estate, private equity, private debt) it can take time to reach the long-term strategic asset allocation. Due to the potential mismatch between current and target allocations and the potential impact on relative performance evaluation, any uninvested portion of the real estate, private equity and private debt allocation will be invested pro-rata across public equity. The policy benchmark will move in 50bp increments and will be updated on a quarterly basis.

A current listing of the System's investment managers, accounts and benchmarks can be found on the System's website [here](#).

## **APPENDIX B - STRATEGIC ASSET ALLOCATION**

The assets of the Plan shall be invested with a focus on meeting long-term objectives in order to fulfill the System's Mission Statement. Recognizing the goals and objectives of the System, the following strategic asset allocation target has been adopted:

### **Strategic asset allocation effective February 1, 2022:**

|                             |              |
|-----------------------------|--------------|
| <b>U.S. Equity</b>          | <b>38.3%</b> |
| <b>International Equity</b> | <b>16.7%</b> |
| <b>Fixed Income</b>         | <b>22.0%</b> |
| <b>Real Estate</b>          | <b>10.0%</b> |
| <b>Private Equity</b>       | <b>8.0%</b>  |
| <b>Private Debt</b>         | <b>5.0%</b>  |
| <b>Cash</b>                 | <b>0.0%</b>  |

While the Board of Trustees has adopted the strategic asset allocation above and the rebalancing policy below, the number of investment managers or mandates used is not specifically set forth by policy. The number and type of investment managers to be hired within an asset class shall be determined by the Board of Trustees based upon periodic analyses of asset class portfolio structures.

## APPENDIX C - REBALANCING POLICY

The purpose of rebalancing is to minimize unintended drift from the System's strategic asset allocation, thus ensuring compliance with policy and reducing portfolio tracking error relative to the policy benchmark. Systematic rebalancing should reduce volatility and increase portfolio returns over the long-term.

TRS maintains a defined and disciplined rebalancing process, whereby target allocations to asset classes will not exceed certain rebalancing ranges as outlined in the following table.

|                      | Minimum | Target | Maximum |
|----------------------|---------|--------|---------|
| U.S. Equity          | 33.3%   | 38.3%  | 43.3%   |
| International Equity | 11.7%   | 16.7%  | 21.7%   |
| Fixed Income         | 17.0%   | 22.0%  | 27.0%   |
| Real Estate          | N/A     | 10.0%  | N/A     |
| Private Equity       | N/A     | 8.0%   | N/A     |
| Private Debt         | N/A     | 5.0%   | N/A     |

The adopted rebalancing ranges take into consideration the trade-off between the portfolio tracking error relative to its strategic allocation and the transaction costs of rebalancing.

The Board delegates to Staff the responsibility and authority to:

- Monitor market values against the target allocations.
- Determine whether or not the allocation to any asset class(es) are outside of rebalancing ranges.
- Instruct relevant investment managers to liquidate the appropriate dollar value of securities and reallocate cash in a manner so as to maintain allocations within rebalancing ranges.
- Evaluate and direct portfolio cash flows so as to maintain allocations within rebalancing ranges.
- Utilize low-cost passive indices where appropriate, in lieu of existing portfolio managers, to maintain asset class exposure within rebalancing ranges.

When the allocation to an asset class falls outside the range specified in the IPS, a rebalancing plan shall be formulated and transactions shall be initiated to bring the asset class weight within the range, keeping in mind liquidity, costs, tracking error, the targeted percentage allocations and other risks. Allocation percentages will be based upon the audited month-end values from the custodial bank. Cash held in short-term investments with the Custodian shall be considered as domestic fixed income for rebalancing purposes. Public market asset classes will generally be rebalanced to the midpoint between target and the edge of the closest rebalancing range in an effort to reduce costs associated with rebalancing all the way back to target.

Less liquid private assets such as real estate and private equity will not be managed within rebalancing ranges but will instead be managed to target over time through the annual strategic plans, periodic pacing studies, distributions, and strategic new investments.





It may take several years to reach the long-term asset allocation noted in the table above. In the interim, the System may be outside policy ranges due to the time it takes to build diversified private market portfolios.

This rebalancing policy was developed in conjunction with, and is supported by, the general investment consultant.



## **APPENDIX D - INVESTMENT MANAGER EXCEPTIONS TO INVESTMENT GUIDELINES**

**Any exception requests subsequent to the approval of these guidelines should be submitted according to the framework established in Section III, B.**

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**Requesting firm:** *Wellington Management International Small Cap Equity*

**Exception requested:** *Section V.A.6.c.; Increase the maximum portfolio exposure in Japan from 35% to 40%.*

**Proposition for attribution:** *When the portfolio exposure in Japan exceeds 35%, provide quarterly reporting illustrating the contribution to total return.*

**Requested term:** *12/31/2024*