



INVESTMENT POLICY

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I. About

The Illinois State Board of Investment (“ISBI”), including its Board of Trustees (the “Board”), and staff members (the “Staff”) are responsible for managing, investing and reinvesting the assets of certain Illinois bodies, as set forth in Article 5/22A of the Illinois Pension Code. (40 ILCS 5/22A *et seq.*) The Board and Staff have fiduciary responsibilities for managing and investing assets belonging to the State Employees’ Retirement System of Illinois, the Judges’ Retirement System of Illinois and the General Assembly Retirement System of Illinois, (collectively, the “Retirement Systems”), as well as assets of the Illinois Power Agency (collectively with the assets of the Retirement Systems, the “Fund”).

II. Purpose of the Investment Policy

The purpose of this Investment Policy is to formalize ISBI’s investment objectives, policies and procedures, as well as to provide broad operational direction to the Board, Staff, agents and representatives of ISBI with respect to the management of ISBI’s Defined Benefit Plan.

III. Investment Objectives

The investment strategy of the Fund seeks to maximize the likelihood of meeting long-term return objectives, while (i) maintaining prudent risk exposure, (ii) controlling fees and expenses related to managing the Fund and (iii) complying with the governing provisions of the Illinois Pension Code (40 ILCS 5/1 *et seq.*) and other applicable laws and regulations. Long-term return objectives are based on assumed rates of return set forth by the individual Retirement Systems (each, an “Assumed Rate of Return”).

The Fund is managed with a long-term investment horizon, as a going concern, and endeavors to maintain sufficient liquidity, as projected by Staff and the Retirement Systems, to meet disbursement needs.

IV. Investment Philosophy

ISBI invests for the long-term value of its beneficiaries and, therefore, does not evaluate managers or its portfolio using short-term (less than three years) performance metrics. The Board and Staff recognize that the diversification of funds across asset classes is the primary determinant of the Fund meeting its risk-adjusted return objective over time. Therefore, the Board, with input from Staff and investment service providers, sets target allocations (the “Targets”) for the various asset classes and the portfolio is periodically rebalanced to continue to meet those Targets (the “Strategic Asset Allocation”). ISBI will seek to maintain a consistent commitment pacing model within the private markets portfolio to ensure appropriate vintage year diversification.

While certain pockets of market inefficiencies may exist, public securities markets tend to be efficient. Therefore, when making investment decisions, ISBI defaults to low-fee, passive strategies. ISBI utilizes at least one passive option for each public asset class (as investable).

ISBI will seek to maintain two-thirds of the portfolio invested in passive and passive-equivalent strategies. (Passive-equivalent strategies attempt to replicate successful passive strategies.) The remaining one-third of the portfolio will be utilized to seek out alpha generating active managers.

Active investment managers are considered when ISBI's retained investment professionals and Staff can (i) demonstrably show that within a given asset class, active investment managers have been able to persistently add value (net of all fees) relative to passive options and the applicable benchmark; and (ii) demonstrate an ability to consistently identify suitable active investment managers on a going-forward basis.

ISBI utilizes strategic partnerships with investment advisory firms (the "Strategic Partners") to access best-in-class, active investment managers. The Board determines the asset classes and high-level investment guidelines (the "Investment Guidelines") pursuant to which the Strategic Partners may invest. Within the bounds set by the Board, the Strategic Partners have discretion over selection and appointment of underlying managers, subject to applicable law and fiduciary obligations to ISBI.

A. Strategic Asset Allocation

General. The Board, with input from Staff and investment service providers, sets the Strategic Asset Allocation. The Targets are to be reviewed and approved, at least, every five (5) years.

The Targets set forth in the Strategic Asset Allocation are expressed as a percentage of the Fund's overall market value, with ranges of permissible variations. It is permissible for certain asset classes within the overall Fund's Strategic Asset Allocation to deviate from the Targets during manager transitions, asset class restructurings and other temporary changes in the Fund's portfolio.

Consistent with academic research on the futility of market timing, the Targets will not be changed in response to current market conditions or short-term projections.

The Board will approve the public market funding source (passive benchmark) for any shortfalls to target allocations in private market asset classes.

Rebalancing. Daily market movements, cash flows to and from the Retirement Systems, and other factors may lead to deviations from the Targets set forth in the Strategic Asset Allocation. The Board recognizes that failing to rebalance the Fund in line with the Strategic Asset Allocation could change the Fund's risk exposure and expected return. Therefore, the Board accords Staff discretion, within a reasonable time and manner that Staff deems prudent, to take those rebalancing actions which, in the judgment of Staff, are consistent with this Investment Policy and in the best interest of the Fund. If Staff rebalances as a result of being outside of the permissible ranges, Staff will report the results of rebalancing activity to the Board at its next regularly scheduled meeting following such rebalancing.

Staff, in their discretion, will rebalance assets to reconcile asset levels within the permissible ranges or policy targets, primarily utilizing passive investment options. In rebalancing, Staff will consider (i) the cash flow needs of the Fund and Retirement Systems, (ii) relative proportion of overweight or underweight in a specific asset class, (iii) trading costs, (iv) market volatility, (v) market liquidity and (vi) commingled fund and private market valuations.

For more information about the current Strategic Asset Allocation, please refer to ISBI's website (<https://www.isbinvestment.com/tableau/>).

B. Performance Monitoring

Fund Level. The Board will evaluate the performance of the Fund relative to its return objectives, on at least a quarterly basis at its regularly scheduled meetings. Total Fund

performance will be evaluated relative to a “custom benchmark” using weights of the returns of available market indices based on the Strategic Asset Allocation and net of all applicable fees.

The Fund’s ranking relative to its applicable peer universe shall be evaluated with consideration given to the Fund’s risk relative to that of the applicable peer universe.

Staff will periodically arrange education sessions on specific asset classes to assist the Board in monitoring market conditions and portfolio performance.

Strategic Partnerships; Investment Managers. Staff and general consultant will monitor the Fund’s Strategic Partners’ performance and adherence to the Investment Guidelines.

General Consultant. The General Consultant shall act as a fiduciary to ISBI. Services will include, but not be limited to, assisting in the monitoring of the Fund’s Strategic Partners, reviewing and monitoring passive investment managers, conducting asset allocation studies, and providing investment reporting.

Benchmarking. Each Strategic Partner shall have an established benchmark(s) included in its Investment Guidelines, against which performance will be measured. Strategic Partners should compare underlying managers to specific benchmarks consistent with the underlying managers’ investments. Performance will be evaluated net of all applicable fees on a (i) five-year basis, (ii) shorter and longer-term basis as appropriate, and (iii) dollar-weighted basis.

If performance or other matters dictate, Strategic Partners may be added or removed from the Board’s Watch List at the Board’s discretion. For more information about the Watch List, please refer to ISBI’s website.

Each Strategic Partner will provide performance reports and other updates related to the underlying managers in its allocation. Such reports should contain, at minimum: (i) performance versus each manager’s applicable benchmark, (ii) pipeline of future investments, (iii) recent investments or commitments, (iv) material organizational matters affecting such managers, (v) amendments to governing agreements, and (vi) certification by the Strategic Partner that it is in full compliance with applicable provisions of the Illinois Pension Code. The Strategic Partners have discretion to retain or terminate underlying managers within their specific allocations subject to the Strategic Partners’ fiduciary duty to ISBI and other applicable law.

V. Risk Management

Investment Risk. In order to achieve the Assumed Rate of Return, the Fund must assume certain risks. The objective of the Fund’s risk management is not to eliminate risk, but to ensure that market-based, strategic and investment-specific risk is prudently managed across the Strategic Asset Allocation and appropriate benchmarks are assigned for each asset class’ investment strategy

Operational Risk. Staff complies with ISBI Internal Control Guidelines to minimize the risk of errors or fraud associated with transfers and to ensure financial reporting adheres to generally accepted accounting principles, or GAAP. Under the Guidelines, there is a two-

tiered process that implements and tests internal control structures at both the custodian and ISBI levels.

ISBI receives a SOC 1 Report (Systems and Organizational Controls Report) from its custodian on an annual basis. This report is based on a review of the entire control structure in place at the custodian. The review is performed by an external auditing firm. Any internal control weaknesses are identified and management's responses are documented in the SOC 1 Report.

ISBI's internal control processes in all areas of the organization are reviewed and updated on an annual basis. Internal control narratives are provided to external auditors as a part of the annual audit process, and the auditors test the controls by reviewing transactions in various areas. Any internal control weaknesses that are identified and management's responses are documented in ISBI's Annual Audit Report.

VI. Other

A. Statutory Requirements

The Fund shall be managed in accordance with the governing provisions of Illinois law. For current investment-related statutory requirements, please refer to 40 ILCS 5/1 and 40 ILCS 5/22A.

State and federal lawmakers have adopted laws directing the behavior of public investors, such as ISBI, and from time to time such lawmakers will amend those laws. ISBI acknowledges that fulfilling its fiduciary duty is contingent upon compliance with those laws.

B. Diversity

ISBI's Diversity Policy seeks to increase access and opportunities for managers and brokers owned by minorities, women and persons with a disability.

For specific details, including numeric goals for emerging service provider utilization and ISBI's process in monitoring these service providers' status as emerging, please refer to ISBI's Diversity Policy on ISBI's website (www.isbinvestment.com/reports-and-disclosures).

C. Procurement

ISBI established a Procurement Policy for the selection and appointment of investment services providers, including but not limited to Strategic Partners, consultants and managers (collectively, "Investment Service Providers"). For the current Procurement Policy, please refer to ISBI's website (https://www.isbinvestment.com/wp-content/uploads/2017/11/Procurement_Policy.pdf). For searches conducted by the Board and Staff related to Investment Service Providers, ISBI has a Request for Competitive Proposal ("RFP") process, which is substantially similar to the requirements under Article 35 of the Illinois Procurement Code. To see current and ongoing RFP's, please refer to ISBI's website (<https://www.isbinvestment.com/rfp/>).

D. Sustainability and Corporate Governance

Shareholder voting related to public equity securities held directly by ISBI is performed by ISBI's contracted proxy voting service provider. Votes are based on guidelines (the

“Proxy Voting Guidelines”) adopted by the Board. For the current version of ISBI’s Proxy Voting Guidelines, please refer to ISBI’s website (<https://www.isbinvestment.com/reports-and-disclosures/>). Staff monitors ISBI’s proxy votes and reports to the Board as necessary.

Pursuant to 40 ILCS 5/1-113.6 and 1-113.17, ISBI shall include material, relevant, and decision-useful sustainability factors that will be considered by the Board, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. These factors consist of but are not limited to:

- a. Corporate governance and leadership factors
- b. Environmental factors
- c. Social Capital factors
- d. Human capital factors
- e. Business model and innovation factors

In addition, ISBI’s efforts will include the following:

- i. Periodic evaluation of sustainability factors to ensure the factors are relevant to the ISBI’s investment portfolio and the evolving marketplace;
- ii. Periodic monitoring of investment managers to encourage implementation of the aforementioned factors.

E. Responsible Contractor

ISBI’s Responsible Contractor Policy seeks to guide, in a manner consistent with ISBI’s statutory standards of fiduciary responsibility and prudence in managing its investments, the selection of contractors who provide services to applicable investment properties. For specific details, please refer to ISBI’s Responsible Contractor Policy on ISBI’s website: (www.isbinvestment.com/reports-and-disclosures).

F. Transition Management

Transition services are most commonly utilized in the movement of securities within the public markets portfolio. ISBI’s Transition Management Policy sets forth the procedure for selecting, contracting with, and monitoring performance of transition management service providers. For the current Transition Management Policy, please refer to ISBI’s website (https://www.isbinvestment.com/wp-content/uploads/2017/11/Transition_Policy.pdf).

G. Reporting: Additional Information

For the net asset balances and other financial information regarding the Retirement Systems, please refer to ISBI’s most recent Financial Report on ISBI’s website (<https://www.isbinvestment.com/reports-and-disclosures/>).

For additional financial information, including the Assumed Rates of Return set forth by

each of the Retirement Systems, please refer to the Retirement Systems' and Illinois Power Trust's most recent Financial Reports on their respective websites:

SERS (www.srs.illinois.gov)

JERS (www.srs.illinois.gov/Judges/home_irs.htm)

GARS (www.srs.illinois.gov/GARS/home_gars.htm)

IPA (www.illinois.gov/sites/ipa/Pages/default.aspx)