



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 (“Staff”), is 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 the Fund.

III. Investment Objectives

The investment strategy of ISBI 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. ISBI also considers the assumed rates of return set forth by each of the Retirement Systems when developing its investment strategy.

The Fund is managed with a long-term investment horizon 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, focusing on performance metrics that span three or more years. The Board and Staff recognize that the Fund’s diversification across asset classes is the primary determinant of 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 generally seek to maintain two-thirds of the portfolio invested in passive and passive-equivalent strategies. Passive-equivalent strategies are generally low fee, broadly-diversified, core-oriented strategies (e.g. core fixed income and core real estate) that seek to outperform their respective benchmarks with low tracking error. The remainder of the portfolio will be utilized to seek out alpha generating active investment managers. ISBI recognizes that certain circumstances such as market movements, portfolio rebalancing, redemptions/allocations and changes in portfolio construction may result in a deviation from the active versus passive ratio.

Active management is 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 ("Strategic Partners") to access best-in-class active investment managers and/or implement passive/passive equivalent strategies. The Board determines the asset classes and high-level investment guidelines pursuant to which the Strategic Partners, as fiduciaries to ISBI, may invest. Within the specific allocations set by the Board and subject to the legal obligations owed to ISBI, certain Strategic Partners may have discretion to hire, retain, and/or terminate underlying investment managers.

For more information on ISBI's fund structure, please refer to [ISBI's website](#).

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 Strategic Asset Allocation to deviate from the Targets during 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](#).

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. Fund performance will be evaluated, net of fees, relative to a policy benchmark. This policy benchmark is calculated using the Target weights for each asset class multiplied by the returns of each asset class' respective market index.

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

Staff. With assistance from the General Consultant, Staff will monitor the Strategic Partners' performance, including adherence to their respective investment guidelines. Additionally, Staff may periodically arrange education sessions on specific asset classes to assist the Board in monitoring market conditions and portfolio performance.

General Consultant. The General Consultant shall act as a fiduciary to ISBI. Services will include, but not be limited to, assisting in the review and monitoring of the Strategic Partners, conducting asset allocation studies, offering Board and Staff education sessions, and providing investment reporting and analysis.

Strategic Partners. Each Strategic Partner will provide performance reports and other updates related to its firm and/or underlying investment managers in its allocation. Such reports should contain, at minimum, the following items as applicable: (i) performance, net of fees, versus its benchmark or each underlying investment manager's applicable benchmark, (ii) pipeline of future investments, (iii) recent investments or commitments, (iv) material organizational matters affecting its firm or its underlying investment managers, (v) amendments to governing agreements, and (vi) compliance-related matters. Applicability is determined by ISBI in its sole discretion.

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 investment managers to prudent benchmarks consistent with the underlying investment 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.

Watch List. 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](#).

V. Risk Management

Investment Risk. The intent of risk management is not to eliminate risk, but to ensure that market risk taken to achieve the return objective is prudently managed. ISBI recognizes that investors are rarely compensated for risks that can be eliminated through diversification. Risks will be a primary consideration throughout the investment process.

The Fund's asset allocation is the primary risk management tool used to calibrate the relationship between investment risk and return for the Fund. Asset allocation modeling incorporates measures of risk, return, and correlations between the various asset classes in which the Fund invests. Periodically, Staff, the General Consultant, and the Board conduct a thorough

assessment of the Fund's asset allocation and the Fund's overall risk profile including stress testing, scenario analysis, value at risk, tracking error reporting, and standard deviation of returns analysis.

In addition, Staff and the General Consultant regularly review each Strategic Partners' risks within the context of the overall asset classes they manage to ensure that there are no unintended risks being experienced at the aggregate asset class level.

Operational Risk. ISBI has established an Internal Control Policy to minimize and mitigate the risk of errors, fraud, and material financial statement errors, while also providing for the safe-guarding and effective management of ISBI's assets. Staff adheres to ISBI's internal controls procedures which are reviewed and subsequently tested annually by the Office of the Illinois Auditor General or its designee.

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, broker/dealers, and investment banks owned by minorities, women, and persons with a disability. For more detail on ISBI's diversity goals and initiatives, please refer to the Diversity Policy on [ISBI's website](#).

C. Procurement

ISBI established a Procurement Policy for the selection and appointment of investment service providers, including but not limited to Strategic Partners, General Consultants, and investment managers. For ISBI's Procurement Policy, please refer to [ISBI's website](#). 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 RFPs, please refer to [ISBI's website](#).

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 adopted by the Board. For the current version of ISBI's Proxy Voting Guidelines, please refer to [ISBI's website](#). 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; and
- 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; and
- 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](#).

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 ISBI's Transition Management Policy, please refer to [ISBI's website](#).

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](#).

ISBI's website can be located at: <https://www.isbinvestment.com>.

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 Agency's most recent Financial Reports on their respective websites:

[SERS of Illinois](#)

[JRS of Illinois](#)

[GARS of Illinois](#)

[Illinois Power Agency](#)

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