

Defined Benefit Investment Policy Statement

(Articles I-IX adopted by the SIC 2/26/14)

I. Employees' Retirement System of the State of Rhode Island: Purpose

A robust state retirement system plays a critical role in recruiting and retaining the talented employees on whom the State of Rhode Island depends for quality public services, such as teaching in our schools, fixing our roads, protecting our environment and policing our streets. Pension assets exist to fund future pension payments, both in the near and long term.

II. Investment Policy Statement: Purpose

This document sets out investment objectives and policies for the Rhode Island State Investment Commission ("SIC") in investing the funds of the Employees' Retirement System of the State of Rhode Island ("ERSRI") as mandated by R.I. Gen. Laws §35-10-6(b): "The commission shall adopt a statement of investment objectives and policies consistent with the prudent person standard."

III. Adoption

The SIC adopted this policy on February 26, 2014 and will review it at least once every seven (7) years.

IV. Legal Authority

ERSRI was established effective July 1, 1936. *R.I. Gen. Laws §36-8-2.*

The SIC was established within the office of the General Treasurer with the General Treasurer as its Chair R.I. Gen Laws §35-10-1. The SIC is charged with the investment of ERSRI's funds (collectively, the "Fund"). *R.I. Gen. Laws §35-10-2.*

V. Fiduciary Responsibility

The SIC must act in accordance with the "prudent person" standard. The "prudent person" standard requires SIC members to discharge their duties solely in the interests of ERSRI participants and their beneficiaries with such care, skill, prudence, and diligence under the circumstances then prevailing that a person acting in a like capacity and

familiar with these matters would use in the conduct of an enterprise of like character and with like aims. In addition, the prudent person standard requires the SIC to diversify the investments of ERSRI so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. *R.I. Gen. Laws §35-10-6(b)*

ERSRI expects Investment Managers to minimize costs to the full extent possible without compromising net investment returns.

VI. Ethics

Members of the SIC and the Staff advising them are subject to the State's Code of Ethics. *R.I. Gen. Laws §36-14-1 et seq.*

Members and employees of the SIC must not profit directly or indirectly from any investment transaction made by the SIC. *R.I. Gen. Laws §35-10-7(b)*.

External Managers must sign Rhode Island's Investor Code of Conduct Pledge and Placement Agent Disclosure Certificate.

SIC members and Staff must disclose any material interests in financial institutions with which the SIC conducts business as well as any personal financial/investment positions that could be related to the performance of the Fund. They must refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Fund.

VII. Investment Philosophy

Retirement security is the priority of the SIC in overseeing the pension investments. In constructing its investment policy, the SIC considers three primary factors: the expected rate of return mandated by the ERSRI Retirement Board, characteristics of the pension plan, and investment characteristics.

The ERSRI Retirement Board, with the assistance of consultants, determines the pension fund's actuarial rate-of-return assumption. In 2011, the ERSRI Retirement Board adopted a 7.5% actuarial return assumption for the plan. The SIC seeks to build the investment portfolio to achieve this expected return over the 30-year actuarial time horizon.

Additionally, the SIC considers other characteristics of the pension plan. At this writing, the fund's projected benefit obligation meaningfully exceeds the assets currently held by

the fund. The retirement system pays out more in benefits each year than it receives in contributions. Consequently the fund's investment horizon needs to balance its long-term obligations and shorter-term cash flow requirements. As such, investments must achieve a balance between seeking returns (to reduce the underfunding) and controlling risk (to meet annual cash flow needs).

In directing the portfolio, the SIC also considers the characteristics of investments and current market conditions. Investments are inherently unpredictable over the short term, being subject to the returns and risk delivered by the capital markets in any given period. The SIC strives for a portfolio that balances expected return and risk across asset classes to achieve the assumed actuarial return over the long term and provide retirement security for pension participants. Diversification of risks is a powerful tool to improve the potential return per unit of risk when investing. Minimizing the volatility of returns harnesses the power of compounding and generates stronger returns over time.

Given these considerations, the SIC is guided by the following:

Investment Beliefs

To maintain, or better yet improve, the pension system's financial condition, the fund seeks to equal or exceed the actuarial rate of return assumption over the long term. Therefore, the fund must prudently invest in volatile assets, seeking to use diversification to minimize risk while looking to attain the investment objective.

Asset allocation is the primary determinate of portfolio return and volatility. Making allocations across different asset classes and strategies is the fundamental focus of the SIC.

There is a return premium to risky assets. Given the investment objective and the plan's underfunding, the portfolio must take risk with its asset allocation to achieve the actuarial return assumption over time.

Numerous return drivers impact the plan including, but not limited to, funding uncertainty, contribution variability, liquidity premium (risk), capital markets return/risk, tail risk, and interest rate exposure. The SIC seeks to identify and measure return and risk drivers. However, many sources of risk/return are not fully measurable and can deviate from historical patterns. Quantitative risk measures often underestimate large negative market environments (tail risk). The fund's monthly disbursements (payments exceed contributions) limit the portfolio's ability to weather downturns (can be forced to sell low

to raise monthly cash outflow). Therefore, diversifying return and risk drivers is a primary factor in asset allocation.

Diversification among investment types is a powerful tool to enhance the strength and stability of the portfolio. By designing a diversified portfolio, the SIC seeks to achieve strong, long-term returns. In determining the target mix of assets, the SIC considers:

- Expected rate of return for each asset class
- Expected variability of each asset class
- Expected correlations of each class's returns with those of other asset classes
- Expected performance of each asset class in response to different market environments
- Asset liquidity (ability to exit quickly at low cost)
- Actuarial rate of return assumption, investment objectives, funding status, cash flow profile, and risk constraints of the overall pension plan

The SIC recognizes there are costs and practical limitations around maintaining its target allocation. It allows for, and will monitor, latitude around its allocation targets.

Where staff resources are constrained, external managers shall be selected to implement investments. The state's resources will focus on hiring the most capable investment managers, prioritizing expected long-term, net-of-fee returns. The SIC seeks value for fees paid over the life of its investments.

Good governance of companies, in which the plan invests, can help drive returns and should be managed accordingly

VIII. Corporate Governance Policies

a. Purpose

The SIC views its governance rights as an asset of the pension fund. By advocating for good governance practices and responsive corporate behavior, the fund expects to strengthen the long-term investment returns generated by the fund for its hardworking public employees and retirees.

b. Principles for creating long-term shareholder value

Charged with funding liabilities several decades into the future, the SIC has a mandate to generate performance over the long run. In seeking a return on its governance assets, the SIC focuses on four primary principles for generating long-term value:

- *Increase corporate board member accountability to shareholders*
- *Improve corporate board effectiveness through independent and rigorous decision-making*
- *Create value over the long term*
- *Upgrade transparency*

Increase corporate board member accountability to shareholders

Corporate Board members represent shareholders. Yet, many standard practices for selecting and electing corporate boards often make directors more accountable to a company’s chief executive officer and current board members than to shareowners. Lacking a mandate from shareholders, corporate boards often do not serve as a sufficient check on corporate senior executives and their overall decision-making. The SIC favors proposals that improve accountability of corporate directors to owners.

Improve corporate board effectiveness through independent and rigorous decision-making

Effective corporate board decisions require debate among directors with diverse, independent, and informed perspectives. The SIC favors proposals that encourage companies to look broadly when identifying candidates for corporate board seats. By incorporating varied perspectives and experiences, and ensuring the majority of directors are independent of the companies and executive teams they oversee, better decisions should follow.

Create value over the long term

Long-term value creation requires effective management of three forms of capital: financial, physical and human. Shortcuts can create gains in the short run to the detriment of long-term earnings. By ignoring multi-year impacts, corporate management teams fail to create durable returns for ERSRI plan participants, since equities are valued based on expected cash flows over the long run. The SIC favors proposals that encourage corporate directors and leaders to measure and mitigate external risks and costs – environmental, social, regulatory, legal, geopolitical – that can destroy value in the long term.

Upgrade transparency

For shareholders to evaluate the effectiveness of corporate boards and managements, they need information. Too often companies hide behind competitive concerns or worries of market “short-termism” to avoid communicating with their shareowners. However, equities are priced based on companies’ long-term prospects. With better

information, shareholder understanding of companies' strategies will improve, creating more patience with promising plans. Access to all appropriate data enhances the effectiveness of decision-making. Therefore, the SIC favors proposals that improve corporate directors' access to information, including access to company employees, shareholders, equity analysts and other informed parties.

c. **Corporate governance philosophy**

The SIC seeks to generate returns from its governance assets for the benefit of pension participants. Equity holdings give the pension fund ownership stakes in companies, and thus corporate governance rights.

Given the plan's structure and the characteristics of investments, the SIC is guided by the following:

Corporate governance beliefs

Since the pension plan has broad equity holdings in low-turnover strategies, the SIC has a longer-term perspective than most corporate executives or fund managers, elevating the importance of corporate governance to the ERSRI plan.

The primary methods for implementing corporate governance policy are voting proxies and engaging with corporate management teams.

Exercise of the SIC's fiduciary duties depends on how the shares are held:

Equities directly held by ERSRI require staff and any corporate-governance consultants to exercise corporate governance responsibilities in accordance with SIC priorities.

For shares indirectly held through commingled funds, the third-party, commingled-fund manager has standing as the equity holder, and the duty to vote shares. The SIC's role is to oversee the fund managers' effectiveness in generating value from corporate governance, as well as more generally.

d. **Corporate governance process**

As part of the vetting process when selecting managers, the SIC will evaluate managers on their ability to extract value from their votes. Consultants and staff will incorporate an evaluation of managers' governance capabilities (where appropriate) into their due diligence and recommendations. A copy of this Corporate Governance Policy will also be sent to all new fund managers. While corporate governance is one

important consideration, the SIC will assess all the attributes that a commingled fund brings to the ERSRI portfolio, with the ultimate goal to maximize long-term, risk-adjusted returns for the ERSRI participants.

Staff and consultants will review the corporate governance record of its passive fund managers (where there is no opportunity to avoid underperformers through active stock selection) on an annual basis, and report to the SIC. For active fund managers, consultants and staff will include corporate governance as part of the ongoing monitoring of managers.

IX. Roles and Responsibilities

a. State Investment Commission (SIC)

The SIC is responsible for strategic asset allocation and final investment decisions and oversees Staff's day-to-day running of the Fund, consistent with the authority granted under Rhode Island law. The SIC is a fiduciary for the Fund.

The SIC establishes and maintains broad policies and objectives for all aspects of Fund investments. It seeks appropriate and consistent investment results, net of fees, for ERSRI members and beneficiaries, balancing the actuarial return assumption, current market opportunities, and risk levels. The SIC may delegate certain of its duties as appropriate. It receives periodic reports and recommendations for asset management from the Investment Consultants and Managers.

The SIC is comprised of up to ten members, with nine voting members; the Rhode Island General Treasurer is the chair of the SIC. The SIC meets monthly, with the ability to add or cancel meetings as appropriate.

Each member of the SIC and each member of the SIC's Committees are fiduciaries to the Fund. The duties of each fiduciary shall be discharged:

- Solely in the interests of ERSRI participants and their beneficiaries.
- For the exclusive purpose of providing benefits to eligible participants and their beneficiaries and defraying reasonable expenses of administering the Fund.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity would use in the conduct of an enterprise of like character and with like aims.
- By diversifying the investments of the Fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Main Responsibilities

- Sets investment policy, asset allocation, Manager selection, and investment guidelines.
- Maintains overall responsibility for financial management of the Fund assets.
- Reviews Fund performance including risk monitoring.
- Monitors and evaluates Investment Consultants, Investment Managers and the Custodian.
- Reports major accomplishments and Fund performance to the General Assembly through the Comprehensive Annual Financial Report (CAFR).

SIC members are encouraged to participate in educational forums as available.

b. Investment Office

The Investment Office carries out the administration of the Fund on behalf of the SIC, led by the Chief Investment Officer.

Main Responsibilities

- Oversees the day-to-day operational activities of the Fund subject to policies established by the SIC.
- Formulates, evaluates, recommends and implements SIC decisions on investment policies and procedures for all asset classes. Conducts ongoing review and maintains the SIC Investment Policy Statement.
- Develops and/or reviews recommendations for improvements in policies, practices and procedures.
- Implements long and short-term asset allocation strategic plans set by the SIC. Develops programs to implement asset allocation decisions efficiently, including securities trading and cash management. Sets tactical asset allocation based on SIC policy allocation and practicalities of vetting third-party Managers and diversifying vintage-year risk. Manages actual allocations within +/-2% of each asset type in the tactical asset allocation to accommodate market movements while minimizing trading costs.
- Generates search criteria for Investment Consultants; participates in the evaluation and selection of Investment Consultants; negotiates fees and contracts; and recommends termination of Investment Consultants if necessary.
- Develops search criteria for new Investment Managers; participates in the evaluation and selection of Investment Managers; negotiates fees and contracts; and recommends the termination of Investment Managers if necessary. Has ability

to reduce Fund investments by no more than 2% of the Fund assets, when urgency requires action before next SIC meeting.

- Acts as signatory on investment accounts, and executes such documents as may be necessary to invest the Fund.
- Monitors and oversees the ERSRI external Investment Management firms, the internal investment portfolio, and Investment Consultants.
- Meets with Investment Managers to review performance and to monitor compliance with investment policies and procedures, and contractual guidelines.
- Monitors performance benchmarks, risk characteristics and performance attribution analysis for the Fund, asset classes and individual Investment Managers.
- Advises the SIC of cash flow requirements and the availability of funds for investment.
- Oversees investment education and training programs for SIC and Staff.

Chief Investment Officer (CIO)

As head of the Investment Office, the CIO:

- Reports to the Rhode Island General Treasurer.
- Directs the activities of the Investment Staff.
- Manages day-to-day oversight of the ERSRI investment portfolio, working with Investment Staff.
- Receives necessary training and education required to carry out duties on behalf of the SIC; is encouraged to attend industry conferences and educational forums as opportunities arise.

Investment Staff

The Investment Staff carries out the Investment Office activities to administer the Fund on behalf of the SIC and is directly responsible to the Chief Investment Officer.

- Works with the CIO to execute the Investment Office responsibilities.
- Receives necessary training and education required to carry out their duties on behalf of the SIC, and is encouraged to attend industry conferences and educational forums as opportunities arise.

c. Legal Counsel

The State Investment Commission hires external counsel to serve as its legal adviser.

Main Responsibilities

- Advises the SIC on applicable laws including open meeting and access to public records laws.
- Works with the Investment Staff and external Investment Consultants to negotiate agreements with third-party Investment Managers.
- Reviews documentation of Investment Managers and Consultants upon request.

d. Bank Custodian

Responsible for the safekeeping and custody of ERSRI's assets, the Custodian is hired by and responsible to the SIC.

Main Responsibilities

- Provides safekeeping and custody of all securities purchased by Managers on behalf of the Fund.
- Provides a monthly reconciliation of ERSRI assets from the Custodian bank's reports with each Investment Manager's statement.
- Values and monitors individual securities, including derivatives and the trades from which they emanate.
- Settles securities transactions in a timely manner.
- Maintains short-term investment vehicles for investment of cash not invested by Managers.
- Executes foreign currency transactions as needed by the Fund.
- Checks all Manager accounts daily to make sure that all available cash is invested.
- Collects interest, dividend and principal payments on a timely basis.
- Processes corporate actions.
- Files and monitors class action settlements on behalf of ERSRI.
- Prices all securities at least on a monthly basis, preferably on a daily basis contingent on asset classes and types of securities.
- Provides data and reports directly to the SIC on a monthly basis, as well as on an *ad hoc* basis as needed.
- Provides continuing education programs for the SIC and Staff.

e. Investment Consultants

The role of the Investment Consultants is to provide objective, independent third-party advice to the SIC and Investment Staff. Investment Consultants do not have discretionary decision-making authority on behalf of the SIC. The Investment Consultants provide research, evaluation, education, and due diligence for the SIC

and Investment Staff. Investment Consultants have a fiduciary responsibility for the quality of the service delivered.

Main Responsibilities

- Recommend strategic procedures and processes.
- Prepare asset / liability or asset allocation studies upon the request of the SIC, recommending asset allocation policy.
- Assist with Manager structure, selection, monitoring and evaluation.
- Review the performance of the overall portfolio and/or its components.
- Execute special projects at the request of the SIC and CIO.
- Provide continuing education to the SIC and Investment Staff.

f. **Investment Managers**

Given resource constraints, the SIC hires third-party Investment Managers to manage portions of the portfolio consistent with a mandate for that portion of the portfolio.

Main Responsibilities

- Acts as an investment specialist on behalf of the SIC.
- Executes on a portfolio strategy a) within the specific mandate that has been developed specifically for the Fund in the case of separate accounts, or b) that is consistent with the Fund's mandate in the case of commingled accounts.
- Manages, purchases and sells assets and securities for the Fund in accordance with the assigned portfolio mandate.
- Communicates performance, performance drivers and major investments with the Investment Consultant and Investment Staff periodically (at least quarterly), and more frequently as needed.
- Monitors the Fund's formal agreements such as limited partnership agreements, subscription agreements, and side letters. Responsible for communicating any changes in these agreements with Investment Staff and Consultants.
- Wherever possible, serves as a fiduciary for assets under its management.

Asset Class Policies

Inflation-Linked Bonds

(Adopted by the SIC 5/27/15)

Part of the real return allocation, the allocation to inflation-linked bonds is intended to protect the portfolio during periods of unanticipated inflation. Diversification, safety and liquidity are primary considerations, with an expectation of a minimal but positive return over a full market cycle.

Given the structure of the inflation-linked bond market, the allocation is actively managed. Managers are given tight guidelines to ensure the allocation hews closely to the expected goal of providing safety and protection from inflation.

As of March 31, 2015, the benchmark for the inflation-linked allocation is the Barclays US Inflation Linked Bonds 1 to 10 Year. An intermediate-term benchmark is used to moderate the portfolio's duration risk. Since the global inflation-linked market can experience meaningful, lasting swings between the relative attractiveness of U.S. issues vs. non-U.S. issues and intermediate duration vs. long duration, the SIC can authorize shifts in the policy benchmark to take advantage of these long-term valuation misalignments.

SIC Investment Philosophy – Inflation-Linked Bonds:

- The SIC is a long-term investor in inflation-linked securities, expecting a modest but positive real return over a full market cycle.
- Inflation-linked bonds play the following roles for the total portfolio:
 - Protection in periods of rising inflation
 - Diversification of growth and duration risks
 - Capital preservation / low expected volatility
 - Liquidity
- The allocation is actively managed due to the structure of the inflation-linked bond market. Managers may take modest duration and sovereign risks. The SIC expects managers to be adequately compensated for assuming these risks and the attendant volatility.

- To increase the likelihood of serving its portfolio purpose, the active management of the inflation-linked allocation will be constrained by low tracking error targets (± 200 basis points per year). In addition, duration of the inflation-linked investments will be limited to $\pm 25\%$ of the benchmark's duration.

As of March 31, 2015, the policy allocation to inflation-linked bonds is 4%, apportioned:

Brown Brothers Harriman	4%
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N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Core Fixed Income

(Adopted by the SIC 5/27/15)

The purpose of the core fixed income allocation is to provide downside protection in adverse market environments. It seeks to achieve this goal through broad exposure to U.S. investment grade fixed income securities. As the overall portfolio's primary "risk off" asset, strong returns and outperformance are secondary considerations. The allocation accepts lower expected returns in exchange for more consistent cash flows and generally more stable valuations.

Given the structure of the investment grade bond market, the allocation is actively managed. Managers are given tight guidelines to ensure the allocation hews closely to the expected goal of providing safety.

The Barclays Aggregate Index is the benchmark for the core fixed income allocation. The Aggregate index parallels the investment-grade bond universe (bonds rated BBB- or higher), with roughly eighty percent of its weight in US Treasuries and US-backed agency (Fannie Mae, Freddie Mac, etc.) securities. Backed by the US government, these bonds are generally the most stable among fixed income securities. The rest of the index consists primarily of corporate bonds and asset-backed securities.

SIC Investment Philosophy - Core Fixed Income:

- The SIC is a long-term investor in core fixed income securities, expecting a modest but positive nominal return over a full market cycle.
- Core fixed income plays the following roles for the total portfolio:
 - Diversification of growth risks
 - Capital preservation / low expected volatility
 - Liquidity
- The allocation is actively managed due to the structure of the U.S. investment grade fixed income market. Core fixed income managers may take modest risks in duration, pre-payment and credit. The SIC expects managers to be adequately compensated for assuming these risks and the attendant volatility.

- To increase the likelihood of serving its portfolio purpose, the active management of the core fixed income allocation will be constrained. The core portfolios are managed with low tracking error targets (± 150 basis points per year). In addition, duration of the overall core investments will be limited to ± 1.0 year of the benchmark's duration.

As of March 31, 2015, the policy allocation to core fixed income is 15%, apportioned:

Mackay Shields	8%
Pyramis Global Advisors	8%

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Real Estate

(Adopted by the SIC 07/21/15)

Real estate is intended to provide stable current income, capital preservation, protection in periods of inflation, and diversification from traditional asset classes while achieving moderate-to-strong returns over a full market cycle. Real estate seeks to achieve this goal by broadening the Fund's investable universe and providing exposure to equity investments in physical property as well as investments in debt backed by property assets. Because income generation is of primary concern and the assets are not easily tradable, liquidity is a secondary consideration.

Given the structure of the commercial property market, the real estate allocation is actively managed through investments in commingled funds. To ensure the allocation hews closely to the primary goal of income generation, the majority of the allocation is expected to be invested in core real estate. Through its core managers, the SIC accepts lower capital appreciation in exchange for more consistent cash flows and generally more stable valuations. Core managers focus on investment-grade, institutional properties that are completed, stabilized and substantially leased. The managers operate within tight guidelines to ensure diversification among property type and geographic exposure, as well as limited use of leverage.

To achieve diversification within the real estate allocation, up to 25%-30% of the allocation is expected to be invested in non-core real estate managers that provide potential for higher capital appreciation by investing in less stable properties. Manager guidelines are specific to each strategy and may allow for higher, though still limited, use of leverage. Investments in markets outside of the U.S. as well as publicly-traded real estate securities may be considered as part of this smaller portion of the portfolio.

The benchmark for the real estate allocation is the NFI-ODCE (short for NCREIF Fund Index – Open End Diversified Core). NCREIF is the National Council of Real Estate Investment Fiduciaries, a non-profit trade group. The NFI-ODCE is an index of investment returns reporting on both a historical and current basis the results of institutional open-end commingled funds pursuing a core investment strategy.

SIC Investment Philosophy - Real Estate:

- The SIC is a long-term investor in private, commercial real estate funds, expecting a moderate-to-strong return with low correlation to public and private equity and fixed income securities over a full market cycle.
- Real Estate plays the following roles for the total portfolio:
 - Income generation
 - Capital preservation / low expected volatility
 - Portfolio diversification
 - Inflation protection
- Funds within the real estate allocation will pursue different strategies with attendant risk/return expectations. Strategies will include:
 - **Core** - Generate predictable and stable cash flows and returns from investments in generally stabilized, income-generating assets with low- to medium-risk characteristics.
 - **Non-Core** - Generate enhanced cash flows and returns over core assets from investments with higher risk characteristics. Non-core strategies will span the risk/return spectrum from existing assets that require significant improvements (value-add) to newly constructed or to-be-developed assets that may not generate cash flows for an extended period (opportunistic). Return expectations will vary depending on the risk taken.

Within the goal of achieving the targeted return for the overall ERSRI portfolio, the portfolio will be heavily weighted towards core and value-add strategies.

- Overall, at the portfolio level, the real estate managers may take modest risks in leverage and credit. The SIC expects managers to be adequately compensated for managing these risks, which may include incentive compensation tied to results which exceed the benchmark. Individual investment funds may take more aggressive risks in exchange for the prospect of desirable capital appreciation.
- Given the illiquid and cyclical nature of real estate, the SIC will seek to diversify the vintage-year risk within the portfolio, spreading investments across time. Achieving this diversification may result in the portfolio being under-allocated for extended periods of time.

As of March 31, 2015, the policy allocation to Real Estate is 8%, apportioned:

Core managers	4.3%
Non-Core managers	0.4%
To be allocated	3.3%

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Private Infrastructure

(Adopted by the SIC 07/21/15)

Within the absolute return allocation, private infrastructure is expected to generate relatively stable, moderate returns, while adding diversification, capital preservation and inflation protection. Private infrastructure seeks to achieve this goal by broadening the Fund's investable universe and providing exposure to illiquid infrastructure assets, both equity and debt. Liquidity is of secondary concern.

Given infrastructure assets are not publicly traded and the complexity of investing in this market, the allocation is actively managed and managers have broad latitude. Managers will range along the risk/return spectrum with individual mandates or private placement memoranda that prescribe the types of assets and opportunities managers can pursue.

The benchmark is the Consumer Price Index (CPI) plus four percent (4%). CPI measures changes in the price level of a market basket of consumer goods and services purchased by households.

SIC Investment Philosophy – Private Infrastructure:

- The SIC is expecting moderate returns over a full market cycle with an emphasis on stable cash flows and capital preservation
- Private infrastructure plays the following roles in the total portfolio:
 - Protection in periods of rising inflation
 - Capital preservation / low expected volatility
 - Portfolio diversification through returns less correlated with public securities
 - Stable cash flow generation
- The infrastructure portfolio may contain investments within, but not limited to, the following sectors (prohibited sectors include nuclear facilities, correctional facilities, and underlying assets with significant commodity exposure):
 - Energy and Utilities: Energy Efficiency, Electricity, Gas, Pipelines, Power Distribution, Power Transmission, Water, Water Treatment, Waste Management, Sewage, Renewable Energy, Clean Energy, Wind Generation, etc.
 - Transportation and Ports: Airports, Barges, Bridges, Tunnels, Railways, Roadways, Seaports, Terminal Ports, etc.

- Communications: Broadcast and Wireless Towers, Cable Systems, Satellite Networks, etc.
- Social Infrastructure: Educational Facilities, Healthcare Facilities, Military Facilities, Government Buildings.
- The allocation is actively managed due to private nature of these assets and the complexity of the market. Managers may take modest risk including, but not limited to, the following:
 - **Liquidity:** Infrastructure investments are often illiquid securities. There may or may not be a secondary market for infrastructure investments
 - **Leverage:** Infrastructure investment may have significant leverage which could increase financial and refinancing risks
 - **Financing Risks:** Infrastructure assets typically require financing and changes to the capital markets (both debt and equity) may impact financing costs
 - **Regulatory Risk:** Changes in regulatory environments may impact investment returns and financing options
 - **Political and Headline Risks:** Infrastructure investments may attract political and headline risk to investors
 - **Asset Class Risk** The infrastructure market can be impacted by the supply and demand of infrastructure projects
 - **Country/Regional Risk:** Certain geographies and countries may be associated with a higher risk premium due to legal, currency and political environments
 - **Labor Risks:** Infrastructure investments may have an impact, either positive or negative, on labor groups and public sector employment opportunities
 - **Volume / Price Risk:** Infrastructure asset revenues are largely contracted, but some assets may have revenues that can be impacted by changes in the volume or price of the underlying unit serviced or provided by the asset
 - **Operating Risk:** Many infrastructure assets have an operational component, that if not managed correctly can impact performance
 - **Permitting Risk / Construction Risk:** Some investments may require a manager to take permitting or construction risk

The SIC expects managers to be adequately compensated for assuming these risks.

- Funds within the private infrastructure allocation will pursue different strategies with attendant risk/return expectations. Strategies will include:
 - **Core** - Generate predictable and stable cash flows and returns from investments with low- to medium-risk characteristics. Core assets may involve brownfield (pre-existing assets).

- **Non-core** - Generate enhanced cash flows and returns over core assets from investments with higher risk characteristics. Non-core strategies will span the risk/return spectrum from brownfield assets that require significant improvements (value-add) to greenfield (newly constructed or to-be-developed) assets that may not generate cash flows for an extended period (opportunistic). Return expectations will vary depending on the risk.

Within the goal of achieving the targeted return for the overall ERSRI portfolio, the portfolio will be heavily weighted towards core and value-add strategies. The private infrastructure allocation will limit the use of publicly listed infrastructure investments/securities in an effort to minimize exposure to market beta.

- Within the private infrastructure portfolio, diversification is required in an effort to mitigate risk, maximize returns and limit portfolio biases. Variety across infrastructure sectors, strategies, allocations, risks and geographies will be encouraged.
- The leverage level of the private infrastructure portfolio will be monitored by staff and consultants, as leverage can both enhance investment returns and increase the risk profile of an investment. Leverage may exist at the portfolio, manager and underlying investment level.
- The SIC is interested in the condition of workers employed by the SIC’s investment advisors for infrastructure investments, and has established a Responsible Contractor Policy for Infrastructure Investments. The SIC expects managers to comply with this policy (attached below).
- Given the illiquid nature of private infrastructure, the SIC will seek to diversify the timing (vintage-year risk) of investments. Achieving this diversification may result in the portfolio being under-allocated for extended periods of time.

As of March 31, 2015, the policy allocation to private infrastructure is 3%, apportioned:

Core managers	0.6%
Non-Core managers	0.6% committed
To be allocated	1.8%

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Responsible Contractor Policy for Infrastructure Investments

The Office of the Treasurer and the SIC are interested in the condition of workers employed by the SIC's investment advisors for infrastructure investments. Through this Responsible Contractor Policy for Infrastructure Investments, the SIC supports and encourages fair wages and fair benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive returns on the SIC's infrastructure investments. The SIC endorses market competition, labor organizations, small business development and control of operating costs. The SIC believes that an adequately compensated and trained worker delivers a higher quality product and service.

The SIC shall give a strong preference to all domestic infrastructure investment vehicles that have adopted an internal policy regarding responsible contracting consistent with this Responsible Contractor Policy, subject to the fiduciary duty of the SIC. This preference shall apply to any domestic infrastructure investment vehicle that makes a good faith effort to comply with the spirit of the policy. If the manager of any domestic infrastructure investment vehicle does not agree to comply with this Responsible Contractor Policy or adopt an internal policy regarding responsible contracting, and, if staff deems it appropriate based on all the circumstances, including the intent of this policy as well as the investment merits of the investment vehicle, staff shall so advise the SIC and the Commission shall make a determination whether or not to invest in such investment vehicle.

In addition, in the event staff has determined that during the life of an investment vehicle there is a violation of the above stated terms, staff will bring the manager to the SIC for review and next steps. The SIC will determine the appropriate action to take, based on all the facts and circumstances, and remaining consistent with its fiduciary duty.

The SIC shall secure a written agreement from infrastructure investment managers for which the Responsible Contractor Policy applies, such that all contractors, investors, managers, consultants or other participants shall adhere to this Responsible Contractor Policy, as updated by the SIC. If an investment manager does not comply with this Responsible Contractor Policy or an internal policy, the SIC will not invest in the investment manager.

Asset Class Policies

Publicly Traded Infrastructure

(Adopted by the SIC 07/21/15)

Part of the absolute return allocation, the publicly traded infrastructure allocation seeks to harness the income and inflation-protection characteristics of infrastructure. Being publicly traded, the allocation is expected to be more volatile than private infrastructure, with greater liquidity as the offsetting benefit. The allocation seeks to generate a moderate return over a full market cycle.

Given the availability of publicly traded infrastructure investments, the allocation will primarily be allocated to energy infrastructure securities, most typically master limited partnerships (MLPs) that own oil and gas pipelines. By structure, the allocation will allow for MLP investments via Master Limited Partnerships, MLP General Partnerships, and energy-infrastructure-related C-corporations. In addition to pipeline assets, the allocation may also include securities of oil-and-gas gathering-and-processing assets, along with latitude to invest in exploration and production, propane, coal, shipping, oilfield services, and specialty energy sectors.

Though MLPs and affiliated securities can show near-term sensitivity to energy prices, interest rates and equity market moves, the goal for this allocation is to generate stable, infrastructure-like returns over the long term and thus to invest in underlying assets whose fundamental economics have more infrastructure-like characteristics. Given this aim, the allocation is actively managed. Managers are given guidelines to ensure the allocation hews closely to the expected goal of providing moderate risk and return, and are expected to achieve the investment objective by investing primarily in companies that trade on public exchanges that are engaged in providing energy infrastructure.

For the publicly traded infrastructure allocation devoted to MLPs and affiliated securities, the Alerian MLP Infrastructure Index will serve as the benchmark.

SIC Investment Philosophy – Publicly Traded Infrastructure:

- The SIC is a long-term investor in publicly traded infrastructure, expecting moderate returns over a full market cycle.
- Publicly traded infrastructure plays the following roles for the total portfolio:

- Income generation
 - Inflation protection
 - Capital appreciation
 - Moderate portfolio diversification
 - Liquidity
- The SIC believes that, over the long term, the diversification and liquidity benefits of publicly traded infrastructure will compensate for the commodity, interest rate and equity market sensitivity taken in the short term.
 - The allocation is actively managed due to the structure of the energy infrastructure market and the goal to achieve infrastructure-like returns. The portfolio is expected to be generally invested that in underlying assets that generate stable returns over time.

As of March 31, 2015, the policy allocation to publicly traded infrastructure is 2%, apportioned:

Harvest Fund Advisors LLC	2%
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N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Global Public Equity

(Adopted by the SIC 12/16/15)

Within the larger equity allocation, the global public equity allocation seeks to access the strong, long-term returns of publicly traded equity markets. Through ownership stakes in companies globally, equities benefit from economic growth and corporate value creation. Both capital appreciation and dividend yield are sources for equity returns. As the portfolio's largest allocation, global public equity is generally the largest driver of portfolio performance.

Global equity is also the largest driver of portfolio risk given the size of the allocation and the characteristics of the asset class. Priced daily and participating in net profits only after all costs are paid, public equities have the highest observed volatility of the portfolio's asset classes. Shifts in sentiment about future earnings potential can have a dramatic impact on equity prices. To mitigate some of this volatility, the allocation is diversified globally and across different return drivers (a.k.a. betas or factors).

The benchmark for the public equity allocation is the MSCI All Country World index (net dividends). This broad, commonly referenced index incorporates large-capitalization equities from both developed and emerging markets on a free-float capitalization-weighted basis.

SIC Investment Philosophy - Global Public Equity

- The SIC is a long-term investor in global public equity, seeking strong returns over a full market cycle.
- Public equity plays the following roles for the total portfolio:
 - Return generation
 - Liquidity
- The SIC seeks to invest in global public equities in the most effective manner possible, balancing returns, risks and costs. Where equity exposure, a.k.a. equity betas, can be achieved more efficiently, passive strategies are used. Public equity strategies include:
 - **Capitalization-weighted indexes** -- Capture returns of equity markets globally, as measured by the MSCI All Country World index (net dividends). This allocation is composed of four sleeves that replicate the following market indices:

Russell 3000 Index; MSCI EAFE Index, MSCI Canada Index and MSCI Emerging Markets Index. In the US, small-capitalization stocks are included (Russell 3000) for the additional return typically achieved with small caps. Outside the US, only larger-capitalization stocks are held for liquidity reasons.

- **Factor-tilted index** – Captures additional return premia that exist due to investor biases or preferences. The allocation has more exposure to quality, value and momentum factors than capitalization-weighted indexes, and is expected to provide some risk/return enhancement and diversification to the larger capitalization-weighted exposure. Managed to a 2.0% to 2.5% tracking-error constraint to the developed-market MSCI World Index (net dividends), its performance is expected to diverge only moderately from that index. For liquidity reasons, the allocation only includes large-capitalization, developed-market equities.
- By investing globally and avoiding home-country bias, the public equity allocation achieves the strongest, long-term risk-adjusted returns. Geographic diversification is expected to benefit the portfolio over time. Currency exposure, which does not have an inherent return, is unhedged.
- Rebalancing helps performance through buying low (adding to underperformers) and selling high (trimming outperformers). Allocations among the geographic indexes and strategies within highly liquid public equity are rebalanced regularly within the SIC-mandated constraint of +/-2% of target weight for each investment. Futures can also be used in the short term to achieve target weights.
- When adopting new strategies, the SIC can leg in, allocating to the new strategy over a period of time to achieve time diversification. The SIC decides on whether to make a change gradually or immediately depending on the opportunity and market conditions. During transitions, portfolio weights can diverge substantially from the policy allocation. In these periods, allocations are often held in public equity, due to the asset's liquidity and ease of access.

As of September 30, 2015, the policy allocation to Global Equity is 38%, apportioned:

Capitalization-weighted index	29%
Factor-tilted index	10%

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Equity Hedge Funds

(Adopted by the SIC 01/27/16)

Within the larger equity allocation, the equity hedge fund allocation serves as a diversifier, seeking returns from active investment decisions (a.k.a. alpha) with low-to-moderate exposure to the broad equity markets (a.k.a. equity beta). Managers are expected to generate returns through active selection of securities, both long positions that benefit from outperformance and short positions that benefit from lagging or negative price moves. Additional return drivers available to equity hedge funds include sector, geography and instrument selection; gross and net exposure management; and currency exposure. Though primarily focused on equities, funds in the equity hedge fund category may invest in bonds and other instruments when they can generate equity-like returns. Since returns are driven primarily by manager decisions, the allocation is actively managed.

The equity hedge fund portfolio seeks to generate an equity-like return over the long term with less risk than equity markets, targeting roughly half the volatility. Consequently, the equity hedge fund allocation is evaluated on its expected efficiency, seeking higher return per unit of return volatility than the equity index allocation.

The HFRI Equity Hedge index serves as the benchmark. Since the index has more market exposure (beta) than the equity hedge funds in the portfolio, it is to be expected that the allocation will trail the benchmark when equity markets are strong and outperform when they are weak. Over the long term, the allocation is expected to match or outperform the HFRI Equity Hedge index.

SIC Investment Philosophy - Equity Hedge Funds

- The SIC is a long-term investor in equity hedge funds, seeking strong returns and moderate volatility over a full market cycle.

- Equity hedge funds play the following roles for the total portfolio:
 - Return generation
 - Alpha capture
 - Risk mitigation
 - Moderate liquidity

- Accessing idiosyncratic returns, primarily from individual company securities, is the role of the equity hedge fund portfolio. Hedge funds have broad mandates and the SIC expects equity hedge fund managers to take ownership of all decisions around investments. Long-term, net-of-fees returns and future return potential are the metrics on which the SIC assesses hedge fund

investments.

- Since risk mitigation is an important goal of the equity hedge fund allocation and the overall portfolio's largest risk is equity market exposure (beta), the SIC seeks to build a portfolio of equity hedge funds with limited equity beta (targeting <0.6 collectively across the equity hedge fund allocation).
- The SIC seeks to invest in equity hedge funds in the most effective manner possible, balancing returns, risks and costs. Since equity beta can be achieved more cheaply through index funds, the SIC selects a portfolio of equity hedge funds whose returns are driven by active security-selection decisions (alpha) rather than broad market moves (beta). Successful active management, particularly for returns uncorrelated with broad markets, is rare and costly. The SIC seeks to hire the best managers and uses performance fee structures to incentivize them.
- Equity hedge funds are generally given a broad mandate, with the ability to invest in a wide variety of securities, to manage their market exposure, and to hedge out unwanted exposures. While no strategy works in every environment, the SIC holds equity hedge fund managers to a high bar in terms of using their broad mandates to navigate a wide variety of environments. Assessment of future return potential drives the SIC's investment decisions.
- Diversification among hedge funds is important, as idiosyncratic decisions drive returns. The SIC seeks to invest with managers that provide diversification to the broader portfolio and to one another. Though each fund will pursue different strategies, the equity hedge funds can be classified into two basic strategies:
 - **Equity long/short** – Generate returns through selection of individual securities (generally equities), identifying and going long securities that are undervalued and putting on short positions in securities that are overvalued. The balance of longs and shorts is expected to insulate the portfolio from broad market moves, with performance based on the relative movement of individual securities.
 - **Event-driven** – Generate returns by anticipating mergers or other events that will produce a change in a security's value, and either going long or short securities that will benefit. With generally more concentrated exposures, event-driven strategies can be more volatile.
- With its equity hedge funds, the SIC accepts longer lock-ups and less frequent opportunities to redeem. This moderate liquidity is expected to provide hedge fund managers with a longer time horizon over which to execute their strategies.

As of December 31, 2015, the policy allocation to Equity Hedge Funds is 8%.

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Private Investments

(Adopted by the SIC 01/27/16)

Private investments (a.k.a. private equity) allocation focuses primarily on return generation and is expected to be the overall portfolio's highest return generator over the long term. In addition to accepting the economic growth and corporate profitability risks found in the other equity segments, private investments are subject to risks associated with illiquidity, appraised valuations, leverage, and lumpy performance due to reliance on capital gains primarily. Though among the riskiest assets, private equity has low observed volatility due to the infrequency of valuations given the reliance on appraisals.

Private investments achieve their returns through broad exposure to unlisted common and preferred stock, and to a lesser degree, subordinated and senior debt of companies that are, in most instances, privately held. The SIC invests with general partners that, through limited partnership vehicles, pursue a variety of strategies suited to private situations.

Given the diversity of private markets and the idiosyncratic nature of performance, manager resources and skill are crucial; therefore, the private investments allocation is actively managed. Due to the closed-end nature of private-investment funds and defined investment periods (typically 3-7 years to invest a fund and an additional 3-5 years to harvest investments), new commitments are spread out across vintage years to diversify risks associated with underlying economic and market cycles.

The ILPA All Funds Index serves as the benchmark for the private investments allocation.

SIC Investment Philosophy - Private Investments

- The SIC is a long-term investor in private investments, seeking a large positive return over a full investment cycle, typically 10 years.

- Private investments play the following roles for the total portfolio:
 - Return generation
 - Idiosyncratic performance
 - Access to value creation not accessible in public markets
 - Capture of illiquidity premium

- The SIC seeks to invest in private investments in the most effective manner possible, balancing returns, risks, liquidity and costs. Almost exclusively held in closed-end funds, private investments are among the longest-term commitments that the SIC makes. As such, diversification across vintage years, strategies, industries, investment types and geographies is

important when constructing the private investments portfolio.

- Since private investment funds generally hold a limited number of investments, the SIC seeks a variety of approaches in its private investments portfolio. Exposures will vary based on market conditions and the timing of funds. Though each fund will pursue its own unique strategy, private investments can be slotted into some basic classifications:
 - **Buy-out** – Capture returns by purchasing companies (either majority share or a minority stake with significant control rights), holding it for a period of years, and then selling it. Value is generated through a combination of buying inexpensively, improving the growth and profitability of the business, using financial leverage, and selling effectively.
 - **Growth equity** — Capture returns by investing in fast-growing, established companies typically through minority stakes. The companies generate value by deploying the capital to accelerate the expansion of their businesses.
 - **Venture capital** — Participating in the value creation of start-ups, venture capital typically invests in management teams as they develop new businesses. Investments are typically minority stakes, and can span from early stage (pre-revenue) to late stage (young but established businesses).
 - **Private debt, including mezzanine and distressed** — Capture returns through privately negotiated, idiosyncratic fixed-income securities. Private debt typically has higher returns than publicly traded fixed income as compensation for the lack of liquidity and often more complex situations. Though returns on performing private debt can be lower than those of private equity, faster and more likely returns of capital produce an attractive risk-adjusted return. Distressed debt has return profiles similar to private equity.
 - **Secondary funds** — Capture returns through purchases of other limited partners' stakes in private equity funds, which are typically sold at a discount due to the funds' illiquidity.
 - **Other** — Given the idiosyncratic nature of private investments and the goal to capture returns, the SIC will consider new and evolving strategies as long as the risk/return characteristics seem favorable.
- Private investment funds are typically closed-end vehicles, meaning that the purchase and sale of investments typically happen within a limited period. Market conditions during those defined times can have a meaningful impact on the success of a fund and the years that elapse between commitment to a fund and its conclusion make it difficult to predict market conditions. As a result, the SIC seeks to invest in private investment funds in a consistent, steady manner, ensuring vintage-year diversification.
- Private investments, other than when they are bought and sold, do not have market-based valuations. Instead interim values are based on appraisals and other derived valuations that are typically smoother than public market valuations. As long-only investments, often carrying substantial debt, privates are among the riskiest of the SIC's investments, even if the valuation methodology makes the volatility difficult to observe.

- Given the inconsistent nature of private investments — opportunities to invest are episodic as are return of capital — portfolio weights can diverge substantially from the policy allocation. In these periods, allocations are often held in public equity, due to the asset class’s liquidity and ease of access.
- The goal of the private investments portfolio is to maximize returns for the capital deployed. At times, the SIC may determine that the sale of a stake in a private investment fund, even at a discount to the stated valuation, achieves the goal of maximizing performance, particularly if the capital can be redeployed in investments with higher expected returns.

As of December 31, 2015, the policy allocation to Private Investments is 7%.

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.

Asset Class Policies

Absolute Return Hedge Funds

(Adopted by the SIC 01/27/16)

Absolute return hedge funds seek to generate performance through active selection of securities and asset classes, with little-to-no consistent bias to broad markets (a.k.a. beta). Investing in a broad range of securities from equities and fixed income to commodities, convertibles, currency and derivatives, absolute return funds serve as diversifiers, seeking returns from active investment decisions, both long and short (a.k.a. alpha). Since returns are driven primarily by manager decisions, the allocation is actively managed.

Taking less consistent market risks, the allocation is expected to generate steadier and lower returns than other allocations, particularly those with exposure to the equity markets. With less volatility, the absolute return hedge fund allocation is expected to be more efficient (higher return per unit of return volatility).

The HFRI Fund of Funds index serves as the benchmark. Since the index has more equity market exposure (beta) than the SIC's portfolio, it is to be expected that the allocation will trail the benchmark when equity markets are strong and outperform when they are weak. Over the long term, the allocation is expected to match or outperform the HFRI Fund of Funds index.

SIC Investment Philosophy - Absolute Return Hedge Funds

- The SIC is a long-term investor in absolute return hedge funds, seeking solid returns and limited volatility over a full market cycle.
- Absolute return hedge funds play the following roles for the total portfolio:
 - Return generation
 - Alpha capture
 - Risk mitigation
 - Moderate liquidity
- Accessing alpha, or idiosyncratic returns, from security selection is the role of the absolute return hedge fund allocation. Hedge funds have broad mandates and the SIC expects managers to take ownership of all decisions associated with its investments. Long-term, net-of-fees returns and future return potential are the metrics on which the SIC assesses hedge fund investments.
- Since risk mitigation is a key role of the absolute return hedge fund allocation and the overall portfolio's largest risk is equity market exposure, the SIC seeks to build a portfolio of absolute return hedge funds with minimal equity beta (targeting <0.4 collectively across the absolute

return hedge fund allocation).

- The SIC seeks to invest in absolute return hedge funds in the most effective manner possible, balancing returns, risks and costs. Since betas can be achieved more cheaply through long-only vehicles, the SIC selects a portfolio of absolute return hedge funds whose performance is driven by active security-selection decisions. Successful active management, particularly for returns uncorrelated with broad markets, is rare and costly. The SIC seeks to hire the best managers and uses performance fee structures to incentivize them.
- Absolute return hedge funds are generally given broad mandates, with the ability to invest in a wide variety of securities, to manage their market exposure, and to hedge unwanted exposures. While no strategy works in every environment, the SIC holds hedge fund managers to a high bar in terms of using their broad mandates to navigate a wide variety of environments. Assessment of future return potential drives the SIC's investment decisions.
- Diversification among hedge funds is particularly important, as idiosyncratic decisions drive returns. The SIC seeks to invest with managers that provide diversification to the broader portfolio and to one another. Though each fund will pursue different strategies, many of the absolute return hedge funds can be classified into basic strategies:
 - **Credit long/short** – Generate returns through selection of individual securities, mostly corporate bonds, identifying and going long securities that are undervalued and putting on bearish positions in securities that are overvalued. The balance of longs and shorts is expected to insulate the portfolio from broad market moves, with performance based on the price moves of individual securities.
 - **Macro** – Generate returns through assessment of macroeconomic trends and selection of securities that will move, either up (long positions) or down (short positions) based on these trends. Using primarily broad-based instruments, such as equity indexes, government bonds, currencies, and others, macro funds will take varying directional positions to capitalize on their views.
 - **Multi-strategy** – Generate returns both through pursuing typical hedge-fund strategies and from actively allocating capital among those strategies. Multi-strategy funds give access to strategies, such as convertible arbitrage, that fluctuate in their attractiveness.
 - **Relative value** – Generate returns through capitalizing on small, usually temporary price discrepancies between similar securities. By pairing a long position in an undervalued security and a short in a related and overvalued security, relative value funds seek to generate modest, consistent returns that compound to meaningful performance over time.
 - **Trend-following** – Generate returns by capitalizing on markets' tendency to continue a price trend (auto-correlate) over the short to medium term. By following trends across a large number of markets, from currencies to commodities to fixed income and equities, trend followers benefit from the average probability of trends continuing, and diversify away the risk that not every security in every time frame will exhibit this tendency.

- With its absolute return hedge funds, the SIC accepts longer lock-ups and less frequent opportunities to redeem. This moderate liquidity is expected to provide hedge fund managers with a longer time horizon over which to execute their strategies. The idiosyncratic returns from security selection are expected over the long term to produce solid returns with less volatility and minimal correlation.

As of December 31, 2015, the policy allocation to Absolute Return Hedge Funds is 7%.

N.B. Numbers may not add due to rounding. Actual allocations may vary from policy allocations due to market movements, efforts to minimizing trading costs of rebalancing, lags in rebalancing to less liquid asset classes, time required to vet managers, and efforts to diversify vintage year exposures.