Real Estate DRAFT

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 considerations.

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.

Private Infrastructure Allocation **DRAFT**

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 Contactor 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.

Publicly Traded Infrastructure Allocation DRAFT

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% commitment to be allocated over calendar 2015

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.