**Global Public Equity Allocation Approved: 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.