Asset Class Policies

Inflation Protection Class

The purpose of the inflation protection class is to protect against unanticipated spikes in inflation or long periods of inflation that can have a detrimental impact on the long-term purchasing power of an asset portfolio. The inflation protection class is designed to provide exposure to assets with valuations that are sensitive to potential future rises in inflation through explicit (legal contract) or implicit adjustment of income to changes in inflation rates.

The inflation protection class seeks to achieve this goal through exposure to public and private debt and equity assets; including but not limited to Private Infrastructure/Agriculture/Timber, Private Core Real Estate, Global Inflation Linked Bonds (GILBS) or TIPS, and liquid natural resources. A diversified portfolio of these assets is expected to provide protection from rising inflation, diversification and an element of growth return.

Since there is no asset that is perfectly correlated with inflation, in shorter time periods market forces and asset correlations could overwhelm the impact of inflation on the inflation protection class portfolio. Therefore, the inflation protection class may deviate from its intended role in the short-term. Results will be judged over a rolling 5 year period.

The Inflation protection class is expected to produce ~3% real return across a full market cycle. The Inflation protection class may exhibit price volatility in certain environments. The total Inflation protection class should exhibit volatility lower than the publicly traded equity market.

Inflation protection class strategic policy:

Private Core Real Estate	30-60%
Private Infrastructure/Agriculture/Timber	15-45%
Public Inflation-Indexed Government Bonds	0-25%
Natural Resources (Liquid)	0-25%

The targeted maximum allocation to private assets is 80% within the Inflation Protection Class. The portfolio may deviate from the strategic policy as market conditions and funding conditions permit within the ranges above.

Asset	Benchmark
Private Core Real Estate	NFI-ODCE Index
Private Infrastructure*	CPI +4%, 1 Month Lag
Public Inflation-Indexed Government Bonds	Bloomberg Barclays 1-10 Year TIPs Index
Natural Resources	Bloomberg Commodity Index TR

*Includes agriculture/timber

The Inflation Protection Class benchmark is a blend of the individual assets' benchmarks, weighted in accordance with the stated Total Plan benchmark component weights.

The Private Infrastructure asset class investments are primarily comprised of primary fund commitments. However, up to 20% of the exposure within the asset class may be through the acquisition of secondary interests in LP fund commitments (secondaries).

Secondary transactions involving funds that are currently in the portfolio do not require SIC approval, as long as the SIC's previously approved commitment vote included the capacity for future secondaries. All other secondary transactions must be approved by SIC vote.

The investment pace and type of secondary transactions will be opportunistic, but can be categorized into four types:

Type	Anticipated Exposure	Min Percent Funded
Existing portfolio funds	40% - 60%	no minimum
Existing GPs, but new funds	40% - 60%	25%
Access to high quality GPs	< 10%	25%
Opportunistic deep discount	20% - 40%	50%

- Min Percent Funded: the minimum of drawn capital divided by total committed capital of the fund at the time of transaction
- Existing portfolio funds – funds that are currently in the ERSRI portfolio
- Existing GPs, but new funds – GPs that ERSRI is currently invested with, but funds that ERSRI does not have exposure to

- Access to high quality funds – Many high quality funds are hard to access. If ERSRI is able to get into such a fund via a secondary transaction that can be an alternative way to gain such exposure. Additionally, GPs prefer to have consistent investors across fund vintages so the secondary may provide access to new funds with the high quality GP on a primary basis

- Opportunistic deep discount – In a forced sale situation which may be caused by liquidity needs, over allocation to privates, change of investment staff or mandate, or market distress LPs may be forced to liquidate positions at deep discounts which ERSRI can capitalize on. These may not be funds ERSRI would commit to on a primary basis, but the discount on the current portfolio and potential upside of the unrealized investments is attractive enough to warrant investment

Risks that may impact the Inflation protection class include:

- Illiquidity risk (private assets)
- Growth risk
- Real interest rate risk
- Active management Risk

SIC Investment Philosophy – Inflation Protection Class Portfolio:

- The SIC expects the Inflation protection class to provide ~3% real return over rolling 5 year periods

- The Inflation protection class plays the following roles for the total fund:
    - inflation protection (primary goal)
    - diversification
    - principal appreciation

As of August 2017, the strategic policy allocation to the Inflation protection class is 8%