Asset Class Policies

Private Growth

The private growth 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.

Private investments achieve their returns through broad exposure to unlisted common and preferred stock, subordinated and senior debt of companies that are, in most instances, privately held, privately held real estate and debt backed by real estate. 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.

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.

Private growth class strategic benchmarks:

Asset	Benchmark
Private Equity	ILPA All Funds Index 1Q Lag
Opportunistic Private Credit	ILPA Distressed Index 1Q Lag
Non-Core Real Estate	NFI-ODCE Index +2.5%

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

SIC Investment Philosophy - Private Growth

- The SIC is a long-term investor in private growth 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 general partners, vintage years, strategies, industries, investment types and geographies is important when constructing the private investments portfolio.

  The private growth asset classes are primarily comprised of primary fund commitments. However, up to 20% of the exposure of each 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

- 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 September 28, 2016, the strategic policy allocation to the private growth class is 15%.