SCERS
SACRAMENTO COUNTY
EMPLOYEES'
RETIREMENT SYSTEM

SCERS REAL RETURN ASSET CATEGORY INVESTMENT POLICY STATEMENT

June 15, 2022

Contents

A. REAL RETURN ASSET CATEGORY INVESTMENT OBJECTIVE

The Real Return asset category and its underlying asset classes seek to achieve the following investment objectives:

- Attractive returns on a real (net of inflation) basis and a hedge against inflation risk.
- Moderate income and cash flow generation.
- Diversification for SCERS' portfolio, including low or negative correlation to equities and nominal bonds.
- Greater consistency in the return distribution and muted downside risk.

Asset classes within the Real Return asset category include:

- Real Estate, including both Core and Non-Core exposures
- Real Assets, including infrastructure, energy and power, and agriculture/timber
- Liquid Real Return

Asset class target weights within Real Return are as follows:

Asset Class	Minimum	Target Allocation	Maximum
Real Estate	7%	**9%**	11%
Real Assets	5%	**7%**	9%
Liquid Real Return	0%	**2%**	3%
Real Return Asset Category		***18%***	

B. BENCHMARKS

The Real Return asset category total performance is evaluated by applying the investment performance of the individual asset class benchmarks weighted by the strategic asset allocation targets weights. The Real Return asset class benchmarks are as follows:

Real Estate:

SCERS Real Estate Portfolio	Target Weight	Real Estate Policy Index Benchmark (custom blend of benchmarks below)
Core Real Estate	**60%**	NFI-ODCE
Non-Core Real Estate	**40%**	NFI-ODCE + 1%

- Performance of core and core plus real estate investments are expected to exceed the NCREIF Fund Index – Open-End Diversified Core Equity (NFI-ODCE), net of fees.

- Performance of non-core real estate investments are expected to exceed the NFI-ODCE by 100 basis points, net of fees.

- Performance of the Total Real Estate program is expected to exceed a blended benchmark which consists of the following components: 60% core (NFI-ODCE) and 40% non-core (NFI-ODCE + 100 basis points). This blended benchmark with serve as the Policy Index for SCERS' Real Estate asset class.

- A customized secondary benchmark will be used to measure performance of SCERS' global exposures. The secondary benchmark will include a customized blend of U.S. and non-U.S. exposure, with the non-U.S. component using the Global Real Estate Fund Index (GREFI) with SCERS' weighting to each geographic location. The secondary benchmark will be a 'floating' benchmark based on SCERS' average capital invested in each region, measured each quarter.

Real Assets:

- Over the medium-term, performance of the Real Assets asset class is expected to exceed the following weighted benchmark return, net of fees, which will serve as SCERS' Policy Index:

SCERS Real Assets Portfolio	Target Weight	Real Assets Policy Index Benchmark (custom blend of benchmarks below)
Infrastructure	60%	Cambridge Associates Private Infrastructure Index
Energy and Power	30%	Cambridge Associates Private Energy Index
Agriculture, Timber, Other	10%	NCREIF Farmland Index

- Performance of each sub-asset class will be benchmarked individually by the underlying asset:

  - Performance of infrastructure investment strategies are expected to exceed the Cambridge Associates Private Infrastructure Index pooled IRR.
  - Performance of energy and power investment strategies are expected to exceed the Cambridge Associates Energy Index pooled IRR.
  - Performance of agriculture, timber, and other investment strategies are expected to exceed the NCREIF Farmland Index.

- Over the long-term (5-10 years), performance of the Real Assets asset class is expected to exceed CPI-U (headline inflation) by 5%.

Liquid Real Return:

- ❖ Performance of the Liquid Real Return portfolio is expected to exceed a blended benchmark which consists of the following components:

SCERS Liquid Real Return Portfolio	Target Weight	Liquid Real Return Policy Index Benchmark (custom blend of benchmarks below)
Global Real Estate (REITs)	15%	FTSE EPRA/NAREIT Developed Liquid Index
Global Infrastructure Equity	25%	S&P Global Infrastructure Index
Global Natural Resources	10%	S&P Global Large Mid Cap Commodity and Resources Index
Commodities	10%	Bloomberg Roll Select Commodity Index
US Intermediate TIPS	30%	Bloomberg Barclays 1-10 Year US TIPS Index
Floating Rate Notes	10%	Bloomberg Barclays US Dollar Floating Rate Note < 5 Years Index

C. INVESTMENT GUIDELINES

1. Investment Descriptions:

Real Estate Investments:
Investments in real estate can be made across a broad array of investment strategies:

- ❖ *Core and Core Plus Real Estate.*
  - ➢ Core and core plus real estate will typically possess a lower risk and return profile than non-core value-add or opportunistic investments due to attributes that can include a higher level of cash yield and income generation; a lower level of capital appreciation potential; location in a primary metropolitan area; greater occupancy levels; and a lower level of leverage.
  - ➢ Core and core plus real estate include investments in operating and substantially leased properties of institutional quality, consisting primarily of investments in traditional property types (office, industrial, retail, and for-rent multifamily). Core investments have moderate levels of associated leverage (generally below 40%).
  - ➢ Core plus real estate investments offer the opportunity to enhance returns by: (1) alleviating an identifiable deficiency (in an asset's capital structure, in an asset's physical structure, in an asset's operation, etc.); and/or (2) benefitting from market inefficiency. These investments may use slightly more leverage than core real estate investments to improve returns and may include some non-traditional property types.
- ❖ *Non-Core (Value-Add and Opportunistic) Real Estate.*
  - ➢ In addition to some of the characteristics of core real estate outlined above, non-core investments offer the opportunity to enhance returns through factors that can include: (1) investing in assets with greater

deficiencies (such as substantial vacancy, the need for substantial renovation, etc.); (2) accepting different types of risks (such as development risk, redevelopment risk, repositioning, etc.); (3) focusing more on non-traditional property types that may have greater operating risks (such as hotels); (4) accepting greater capital market risk (for example, by acquiring assets with complex capital structures that may be difficult to unwind); and (5) seeking areas of greater market inefficiency.

- ➢ Value-add and opportunistic real estate will typically possess a higher risk and return profile compared to core real estate due to considerations that can include a lower level of cash yield and income generation; a higher level of capital appreciation potential; location in a secondary market; lower occupancy levels; and an increased level of leverage. In many cases non-core real estate investments attempt to capitalize on an enhanced level of distress in specific properties or wider market dislocation. These characteristics can magnify the risk and return of value-add and opportunistic investments throughout the business and real estate cycles.

- ❖ *Debt Investments with Underlying Real Estate Exposure.*
  - ➢ Debt investments may be classified by SCERS' investment staff and consultant as falling into one of the traditional core/core plus or non-core investment strategies based on the composition of the underlying collateral.

- ❖ *Global Real Estate.*
  - ➢ Investments in global real estate (ex-U.S.) are permissible in order to improve diversification and enhance returns on a relative value basis. Accordingly, SCERS' Real Estate program (core, core plus and non-core real estate) may target exposure to investments outside the United States, with a permissible range of 0% to 35%.

  - ➢ In addition to the same risks as investing in domestic real estate, investing in global real estate may carry other risks, including:

    - Macroeconomic risks that differ by country and geopolitical landscape (changes in interest rates, inflation, GDP growth, unemployment).
    - Currency differences, which can provide diversification to SCERS' total fund, but may have periods of fluctuations against the U.S. dollar that can impact investment returns.
    - Market transparency may differ across countries and in comparison to the U.S.
    - There is a higher dispersion of returns associated with non-U.S. real estate investments, which presents opportunities for active managers to add value, but can also present greater volatility.

- Careful selection of managers and countries through a thorough investment process is critical in order to benefit from global real estate opportunities while also mitigating these risks.

- While a range of 0%-35% for the global real estate component allows SCERS to seek out better relative value and specific global investment themes and opportunities, it is important to note that it is not a required allocation, but rather, provides the flexibility to invest in markets outside the U.S. when the risk and return profile is superior. It is anticipated that global real estate opportunities will arise that are both core and non-core (value-add and opportunistic).

Real Assets Investments:

Investments in Real Assets can be made through investments in both public and private securities and can include equity and debt investments. Private investments primarily involve the purchase of unlisted, illiquid common and preferred stock, and to a lesser degree, can include subordinated and senior debt of companies that are typically privately held. Underlying real asset investments can include infrastructure, energy, power, timber, agriculture, or other natural resources related investments. Investment is authorized in a broad array of sub-asset classes and strategies including:

- Infrastructure - Investments include ownership interests in physical structures, facilities, companies, or operating platforms that provide essential services to a community. Underlying investments can include:
  - Economic Infrastructure
    - Transportation
      - Toll Roads; bridges; tunnels; airports; parking facilities; sea ports; freight rails; trucking trailers; and logistics services.
    - Utilities
      - Gas and electricity transmission and distribution; district heating and cooling; water; and wastewater/sewage treatment.
    - Energy
      - Oil and gas production; midstream oil and gas pipelines and processing; electricity networks; power generation; storage; and renewable energy.
    - Communications and Digital Infrastructure
      - Communications towers; satellites; data centers; and fiber-optic networks.
  - Social Infrastructure
    - Education facilities; healthcare facilities; judicial buildings (courthouses and police stations); correctional facilities; housing; and public transportation.

- Energy and Power - Investments include ownership interests in businesses and operating platforms involved in the exploration, production, processing, transportation, or distribution of conventional and renewable energy and power, or energy- and power-related resources, including technology and services businesses related to such activities.
  - Upstream (oil and gas)
  - Midstream (oil and gas)
  - Downstream and Field Services (hydrocarbons and renewables)
  - Energy Transition:
    - Renewables (wind, solar, biogas, hydro, etc.)
    - De-carbonization (software and hardware technologies)
    - Renewables adjacent (energy storage, grid efficiency, digitization, etc.)
    - Etc. (future technologies, such as hydrogen and miniature/modular nuclear)

- Agriculture - Investments include ownership interests in farmland and agricultural businesses involved in the acquisition, production, processing, and management of row and permanent crops. Other agriculture investments may include agriculture-related storage, transportation, irrigation, agribusinesses, and bio-technology services.

- Timber - Investments include ownership interests in properties where the majority value of the property is derived from income-producing timber.

- Other natural resources - Investments include ownership interests in businesses and operating platforms involved in the mining and/or processing of metals, carbon capture and sequestration, and other natural resources.

<u>Liquid Real Return Investments:</u>
Investments in a diversified series of liquid publicly traded real return exposures that complement the broader objectives of the Real Return asset category, to (1) protect against inflation; (2) generate cash flow; and (3) provide further portfolio diversification. Underlying investments include global real estate investment trusts (global REITS), global infrastructure equities, real asset debt, commodities, Treasury inflation protected securities (TIPS), global natural resource equities, REIT preferreds, master limited partnerships (MLPs), and floating rate notes.

2. Risk and Diversification:

- ***Diversification by investment strategy and geography, including target allocation and ranges.***

The construction of the Real Return portfolio is important because a well-developed portfolio can reduce risk and serve as a diversifier, lowering the overall volatility of the total fund, as well as protecting against inflation. Distinguishing characteristics of the Real Return asset category are: (1) a wide range of assets in both the public markets (liquid) and private markets (illiquid); (2) a number of differing investment strategies; and, (3) a variety of asset classes. While not all investments included in this scope will diversify SCERS' fund, it is the combination and construction of the overall portfolio that results in diversification.

The targeted and range of investment exposures within the various asset classes are shown below. It is also anticipated that SCERS will seek diversification with respect to investment strategies within the asset classes where warranted.

Real Estate and Real Assets form the largest allocations due to their capabilities to fulfill the majority of goals and overall investment objective.

Real Estate:
The Real Estate program will be diversified across investment strategies and geographies. The Real Estate program has a target allocation of 9%, with a permissible range of 7% to 11%. The Real Estate program targets an allocation of 60% to core and 40% to non-core investments, with the permissible ranges as displayed below. The non-U.S. target is 0%, with a range between 0% and 35%.

The table below highlights the target allocation and permissible ranges for core and non-core real estate, as well as for geographic exposure.

SCERS Real Estate Portfolio Construction	Minimum	Target	Maximum
Total Real Estate Portfolio	7%	**9%**	11%
Sub-Strategy			
Core Real Estate	50%	**60%**	70%
Non-Core Real Estate	30%	**40%**	50%
Geography			
Non-U.S. Real Estate	0%		35%

Within the core real estate portfolio, exposure will primarily be comprised of open-end commingled funds (OECF), which provide SCERS with diversified exposure to stabilized properties and an element of liquidity. The majority of non-core real estate exposure will be attained through closed-end fund vehicles.

For Real Estate, one single investment position shall be limited to 2.5% of the net asset value (NAV) of SCERS' total fund. SCERS will strive to maintain ongoing long-term relationships with an expected range of 10 to 20 investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Real Estate Asset Allocation Structure.

Real Assets:

The targeted and range of investment exposures to the identified Real Assets investment sub-asset classes and geographies are shown in the table below. These exposures should be measured on a fair value basis, once the Real Assets asset class is fully invested. The Real Assets portfolio is expected to invest globally. Infrastructure investments are expected to be made primarily within developed market countries, such as North America, Europe, and Asia, but are also permitted within developing countries. Energy and Power investments are also expected to be made primarily within developed markets, but are also permitted in developing countries. Agriculture, Timber, and Other investments will also be global in nature, with a particular focus on investments within developed market countries and a few emerging market countries.

SCERS' Real Assets Portfolio Construction:			
	Minimum	Target	Maximum
Total Real Assets Portfolio	5%	**7%**	9%
Sub-Strategy			
Infrastructure	45%	**60%**	75%
Energy and Power	15%	**30%**	45%
Agriculture, Timber, Other	0%	**10%**	20%

SCERS will allocate approximately 5%-20% of the total Real Assets target allocation to each fund. SCERS will strive to maintain ongoing long-term relationships with approximately 15 real assets managers with an expected range of 10-20 manager relationships. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the Real Assets Asset Allocation Structure.

Liquid Real Return:

Liquid Real Return is given a 2% target allocation with a 0% to 3% range. While the Liquid Real Return allocation is a strategic allocation, a segment of it serves as a rebalancing proxy for the Overlay Program that will rebalance the overall Real Return asset category to its target allocation. The Overlay proxy allocation is not included in the 0% to 3% range.

3. Asset Class Specific Risk Considerations:

Real Estate:
Within the Real Estate asset class, investment risk will be addressed through diversification by region, type of property, lease renewal terms, maximum leverage, and debt renewal terms.

- *Diversification by region, property type, and geography*.
  - SCERS will endeavor to limit the potential for any concentration in a real estate property type (office, industrial, apartment, retail, and other) or geography (South, West, Midwest, North, and non-U.S.) to negatively impact long-term returns by investing across regions and strategies. This will involve monitoring SCERS' U.S. real estate portfolio against the allocation of property types and regions in the NFI-ODCE Index.

  - SCERS' Real Estate program will maintain diversification by geography and property type. The U.S. core and non-core real estate portfolio will target weightings by geography to be similar to the NFI-ODCE Index. The maximum allocation to any of the main property types (office, industrial, apartment, and retail) is 40%, or the NFI-ODCE Index weight (whichever is greater), and 25% collectively to any of the 'Other' property types (as defined by NFI-ODCE).

  - Exceptions may exist at different points in the market cycle, particularly with respect to targeted investments in the non-core real estate space, and will be monitored by Staff and consultant and reported to the Board in the quarterly performance report for real estate. An explicit exception is the non-U.S. real estate exposure, which may range from 0%-35%. When investments are made internationally, SCERS' Real Estate portfolio will potentially deviate from its primary real estate benchmark.

- *Diversification by lease and debt renewal terms.*
  - SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results by investing in underlying properties that, in aggregate, spread the risk of lease renewals and debt renewals across a number of years in the business cycle.

- *Real Estate leverage.*
  - Leverage on the Real Estate program can magnify both returns and losses. However, adding a moderate level of debt to a long-term real estate strategy has shown that it can be additive to returns over the long-term. Therefore, allowing flexibility to add debt during the expansionary phase of the cycle subject to a maximum limit will help ensure that a debt strategy will be accretive to returns. With this in mind, the loan-to-value (LTV) limits for the Real Estate program are as follows:

- 40% maximum LTV for total core real estate program
- 75% maximum LTV for total non-core real estate program

These limits should provide adequate flexibility for the Real Estate program to operate through the real estate cycle, taking advantage of expansionary periods, but at the same time not increasing leverage beyond a point that will cause significant losses in a downturn in the cycle. However, if conditions warrant, Staff and consultant will approach the Board for approval of any exceptions to these debt guidelines.

Private Investments:

Private investments (e.g. real assets and real estate), like investments in most asset classes, bear an inherent risk that the actual return of capital, gains, and income will vary significantly from the return and amounts expected. The expected volatility of private investments in aggregate is high among major asset classes. The investment risk associated with private investments shall be addressed in several ways:

❖ *Diversification by geography and investment strategy*. SCERS will endeavor to limit the potential for any concentration in a type of investment strategy or geography to negatively impact long-term returns in the Real Return asset category by investing across regions and strategies.

❖ *Diversification by vintage year.* SCERS will strive to limit the potential for investments during any given year in the business cycle to negatively impact the long-term results of the Real Return asset category by investing across business cycles and vintage years. It is anticipated that SCERS will commit to real assets and real estate funds over multiple years, whereby the aggregate amount will be spread across the entire business cycle. This will serve to limit the exposure or risk to investing and relying on the performance of real return funds in any given year of the business cycle. The Board will determine with Staff and consultant the funding allocation for the private segments of Real Return each year in conjunction with its annual review of the Asset Allocation Structure and Annual Investment Plan for asset classes such as Real Assets and Real Estate.

❖ *Diversification by industry or business sector.* SCERS will attempt to limit the potential for any one industry or business sector to negatively impact the long-term results by investing across a variety of industries.

❖ *Diversification by investment manager and general partner.* SCERS will endeavor to invest across a number of investment managers and limited partnerships to mitigate the potential negative impact of a concentrated portfolio of investment managers. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will vary with time and will be evaluated as part of the Real Return asset allocation structure.

4. **Investment Vehicles:** The vehicles for investments within the Real Return asset category reflect the broad scope of investments.

   Private Real Estate and Real Assets investments generally take the form of open-end commingled funds and closed-end commingled funds, including commingled vehicles such as limited partnerships, limited liability companies, or offshore corporations.

   SCERS may also invest in separate account relationships or fund of one structures established with one or more fiduciary oversight managers. These managers will make commitments to physical assets such as properties, limited partnerships, or other entities such as limited liability companies or offshore corporations, either on a discretionary or advisory basis.

   SCERS may also invest directly in fund-of-funds (FoF) vehicles. In these vehicles, the FoF invests in partnerships on a discretionary basis. FoFs will own the underlying partnerships and SCERS obtains contractual rights to the FoFs' portfolio through a limited partnership. A FoF will have investors other than SCERS.

   Real Estate:
   Specific to Real Estate, the majority of SCERS' core real estate exposure will be attained through open-ended core funds (OECFs), while the majority of SCERS' non-core real estate exposure will be attained through closed-end commingled funds (CECFs), generally through limited partnerships.

   Investments in core real estate can also be made through core separate account (CSA) relationships established with fiduciary oversight managers. These managers make commitments to physical assets such as properties, limited partnerships, or other entities such as limited liability companies or offshore corporations. SCERS does not expect to utilize CSAs within the Real Estate program.

   Liquid Real Return:
   Investment vehicle options for investing in the Liquid Real Return asset class include separate accounts, in which assets are custodied at SCERS' custodian, and/or commingled funds, including limited partnerships and institutionally investor-focused mutual funds. Determinants as to whether SCERS will invest in a separate account versus a commingled fund include availability of a separate account option, complexity of the underlying assets, whether individual country markets require opening (i.e., emerging markets investing via a separate account), fee levels, transparency, and whether a commingled fund's investment guidelines are consistent with SCERS' investment objective.

5. Secondary Investments and Co-investments:

Secondary investments are made when an investor purchases the limited partnership interest of another investor in an existing fund. Secondary investments also include sales of stakes in existing funds from one investor to another. A co-investment is a direct investment in an underlying portfolio company or asset where a manager offers investors the opportunity to invest directly in an underlying company or asset alongside the fund investment. Investments may be made in companies or assets that are either U.S. or non-U.S. domiciled.

Neither secondary investments nor co-investments are considered separate investment strategies within Real Return. For example, a secondary or co-investment could be in any of the asset classes, but will be most prevalent within the Real Estate and Real Assets asset classes. Therefore, secondary and co-investments will be categorized according to the underlying strategy and geography and will conform to the guidelines outlined in the above section on risk and diversification. SCERS will seek to allocate to secondary investments and co-investments on an opportunistic basis. It is expected that these investments will constitute a small portion of the overall Real Return asset category, if any. Secondary sales will serve as a portfolio management and rebalancing tool for the Real Estate and Real Assets asset classes, and any secondary sales will be considered on a standalone basis. Secondary investments (both purchases and sales) and co-investments will be implemented according to the implementation protocols of the asset class in which it resides.

6. Investment Vehicle Concentration:

Real Estate and Real Assets:

SCERS will not typically comprise more than 20% of any one investment vehicle at the initiation of the investment that is a limited partnership, limited liability company, or offshore corporation. An exception to this guideline is an investment in a FoF or a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

Liquid Real Return:

SCERS shall typically not comprise more than 20% of an investment strategy's assets under management at the initiation of the investment. Post-investment, SCERS shall monitor the investment strategy asset base, and SCERS' concentration relative to the asset base. An exception to this guideline is an investment in a separate account, whereby SCERS may be the sole investor. In these circumstances, SCERS will endeavor to ensure that it does not generate a majority of the firm's overall profits.

7. Liquidity: Overall, the Real Return asset category will maintain varying levels of liquidity based on the underlying sub-asset classes:

Liquid Real Return is anticipated to be very liquid; however, will offer varying degrees of liquidity depending on sector, region, and market capitalization for equities.

Investments in pooled vehicles such as fund-of-funds and open-end commingled funds (i.e., core real estate and segments of infrastructure, agriculture, and timber) are generally more liquid than closed-end funds (i.e., non-core real estate and segments of infrastructure, energy and power, agriculture, and timber), but less liquid in nature than publicly traded investments (i.e., stocks and REITs). Liquidity is generally based on fund specific redemption schedules, which are typically monthly and quarterly, subject to lock-up periods and investor-level gates. Real estate separate accounts properties generally have less liquidity and can require a price discount to be sold.

Investments in closed-end funds have limited liquidity. These vehicles have long expected holding periods such as 5-15 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private real return investments.

8. Distributed Securities: SCERS shall avoid the direct receipt of distributed securities from individual real return funds. However, if such receipt is unavoidable, SCERS shall ordinarily direct the sale of securities distributed by its investment vehicles through a third party broker dealer as soon as practically possible and strive to not impair the value of the security.

Within Liquid Real Return, SCERS shall typically seek receipt of distributed securities from investment managers. For separate accounts, assets are custodied at SCERS' custodian, which SCERS can liquidate at its own discretion. For commingled funds, SCERS generally prefers to receive distributed securities, which it can liquidate at its own discretion. The exception is for those funds that require that shares be redeemed from the fund, or if it is more prudent to have a fund redeem shares.

9. Performance Evaluation:
    a. Performance of the Real Return asset category will be evaluated quarterly against the weighted average of the policy index benchmarks outlined in the 'Benchmarks' section above.

b. Individual investment vehicle performance will be evaluated on a quarterly basis compared to the performance of respective peer universes and vintage years (where applicable).

c. It is recognized that immature private investments within closed-end investment vehicles will ordinarily have a 'J-curve effect' whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

10. Investment period to ramp-up: It is recognized that it can take multiple years for segments of the Real Return asset category to be fully invested, and that there may be deviations from the previously mentioned targets during the ramp-up period. During the real assets and non-core real estate asset class ramp-up periods, exposures can be estimated using percentages of committed capital. During the ramp-up period for the Real Return asset category, and subsequent to reaching the target allocation, SCERS' Overlay Program will re-balance the Real Return asset category to the target allocation, using the designated Real Return overlay proxy within the investment guidelines for the Overlay Program.

11. Rebalancing to guidelines: It is anticipated that the majority of changes to rebalance the Real Return asset category will be made on a long-term basis due to: (1) the general illiquidity of the private investments, which often have investment horizons of 10-15 years; and (2) the potential for discounts that can be applied if and when private holdings are liquidated in the secondary market. Accordingly, when these guidelines are exceeded, it is anticipated that reducing exposures will be carried out within a long-term time-frame and over a period that is as soon as practical to reflect the illiquidity of many real return investment vehicles.

    SCERS utilizes an Overlay Program, managed by a strategic overlay manager, to equitize cash and to rebalance asset categories within SCERS' total portfolio, including the Real Return asset category. Rebalancing occurs quarterly, unless upper and lower bands are breached intra-quarter, in which case rebalancing occurs upon the breach of a band.

D. MONITORING

Through the monitoring process, Staff and consultant will extend the initial due diligence into a formal quarterly, semi-annual, and annual process which regularly seeks to determine whether the manager is meeting the Real Return asset category's, and its underlying asset class's, investment objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process will disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which SCERS is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

Staff and consultant will aggregate investment vehicle data and perform analysis on the overall Real Return asset category, and its underlying asset classes, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the Real Return asset category. Staff and consultant will also conduct ongoing portfolio reviews and due diligence with the respective investment vehicle managers. Reviews can take place in person, either at SCERS' or the consultant's office, or the investment manager's office, or through a web conferencing platform (i.e., Zoom). Investment manager site visits will be performed to confirm that appropriate infrastructure is in place to support the investment process. Staff and consultant will provide the Board with regular performance reports and advise the Board of other matters as appropriate.

If, during the monitoring process, SCERS identifies areas of the Real Return asset category that are not compliant with the objectives, guidelines, and constraints, identified in this investment policy statement, then reasonable efforts will be made to cure the deficiency. These reasonable efforts will consider the illiquidity of the asset class and transaction costs to be incurred compared to the risk of non-compliance.

E. POLICY HISTORY

Date	*Description*
07-19-2017	Board adopted Real Estate asset class investment policy statement
08-16-2017	Board adopted Real Assets asset class investment policy statement
11-05-2018	Board adopted reformatted and consolidated Real Return asset category investment policy statement
03-20-2019	Amended Real Return asset category investment policy statement

03-18-2020	Amended Real Return asset category investment policy statement
06-15-2022	Amended Real Return asset category investment policy statement