SCERS OPPORTUNITIES
INVESTMENT POLICY STATEMENT

November 5, 2018

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A. INVESTMENT OBJECTIVE AND CONSIDERATIONS

The role of the Opportunities program is to enhance risk adjusted returns by investing in tactical opportunities across asset classes. The Opportunities asset class is unique because it is the only purely tactical asset class in the investment portfolio and it can include a wide range of assets.

Accordingly, the scope of the Opportunities asset class will include the full scope of allowable asset classes and investment vehicles to capture the broadest set of tactical investment opportunities available in the market: (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 and sub asset classes that are deemed as stand-alone asset classes.

Investments in the Opportunities asset class will often result due to market dislocations and various other underlying reasons including: (1) significant discounts on underlying asset values due to market volatility; (2) niche markets providing investment opportunities due to supply and demand imbalances in capital allocations; (3) long-term structural changes in the market environment; and (4) new and emerging asset classes.

Since attractive opportunities may or may not exist in a particular business cycle, investment discipline will be one of the key considerations of the asset class and is reflected in the decision to set a range of 0% to 5% for the asset class rather than a fixed target. Accordingly, the allocation will be at 0% if desirable options do not exist or more attractive investments are likely to unfold in the future. Conversely, the allocation will be at the upper end of the allocation range if a number of attractive opportunities are presented in comparison.

Another key consideration of the Opportunities asset class will be to properly filter the best investments. Therefore, investments in the Opportunities asset class will compete for an allocation and must offer superior risk adjusted returns compared to the total portfolio and the underlying asset class that the opportunity most closely tracks.

Opportunities investments can result in a realization of value in a short time frame (less than 3-5 years), can be cyclical and can be organized in a finite time frame around a specific investment opportunity. Accordingly, another key investment consideration will not only involve purchasing investments in a timely manner, but also involve identifying and closely monitoring when to exit investments.

It is anticipated that if the strategy is properly executed and the best investment opportunities are being properly screened, identified and vetted, that the Opportunities Program will lead not only to enhanced returns but do so on a favorable risk adjusted basis and provide diversification to the total portfolio over the long term.

B. BENCHMARKS

Given the above investment objectives, the performance of the Opportunities Program will be compared against the following benchmarks:

1. The long-term return goal (for a period equal to or greater than 3 years) will be defined as producing a return that exceeds SCERS' actuarial rate of return.
2. However, due to the higher level of volatility exhibited by markets in short-term periods (i.e., less than 3 years), achieving this absolute return goal can be both counterproductive and unrealistic. Thus, the short-term return goal will be defined as exceeding SCERS' policy benchmark.
3. Since Opportunities can include a wide range of assets, each investment manager will be benchmarked by the underlying asset class and characteristics that match most closely.

C. INVESTMENT GUIDELINES

1. Opportunities Investments: Investments in Opportunities can be made through investments in both public and private securities. Investment is authorized in a broad array of asset classes and strategies including the full scope of allowable investments across all asset classes.

2. Flexible allocation: Depending on the quality of investments and opportunities identified, the total allocation can range from 0% to 5% of the total fund. The target asset allocation is set at 0%.

3. Draw from competing asset class: Each investment in the Opportunities portfolio competes for an allocation on two levels: (1) the investment return must be deemed superior on a risk adjusted basis compared to the underlying asset class from which it would draw; and, (2) the investment return must be deemed superior on a risk adjusted basis compared to SCERS' total fund as measured by the actuarial rate of return. Accordingly, since the allocation target for the Opportunities portfolio is 0%, any investment will draw its allocation from the underlying major asset class which the Opportunities investment most closely resembles including equities, fixed income, absolute return, real assets, and private equity.

4. Risk and Diversification: Since every investment is a natural extension and draws from an underlying major asset class, the same risk guidelines and expectations which drive the underlying asset class will apply to each Opportunities investment. For example, if the potential Opportunities investment is an absolute return vehicle, Staff and consultant will review and monitor the unique risks the same as would occur for any other absolute return investment vehicle including transparency, liquidity, operations, leverage, and concentration of positions.

   Since every Opportunities investment draws from an underlying major asset class, there is risk of unintended concentration or higher levels of exposure to a number of risks including asset class, volatility, geography, risk factors, investment manager, strategy, economic environment, business cycle, or stage risks. Staff and consultant will measure and manage these risks on a total fund level in concert with the underlying asset classes in which the Opportunities investments are based upon.

   Finally, there are a number of unique risks specific to Opportunities investments such as shorter investment horizons, funds with shorter track records, and teams that may be recently formed. These risks will be assessed for each Opportunities investment.

Accordingly, the three broad groups of risk outlined above, as well as the investment opportunity and return expectations, will be addressed in the due diligence for each Opportunities investment.

5. **Investment Vehicles:** The vehicles for Opportunities investments reflect the broad scope of investments potentially available to the Opportunities portfolio. Specifically, investments to be included in Opportunities will be the same underlying investment types and vehicles in any of SCERS's major asset classes including equities, fixed income, absolute return, real assets, and private equity.

   Opportunities investments may take the form of commingled vehicles such as limited partnerships, limited liability companies or offshore corporations.

   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.

   SCERS may also invest in separate account relationships 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.

6. **Investment Vehicle Concentration:** 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.

7. **Liquidity:** The Opportunities portfolio may maintain low levels of liquidity overall depending on the predominance of investments in lower liquidity investments such as private equity, real assets, and absolute return. The levels of liquidity within the Opportunities segment will be measured and managed in relationship to the expected liquidity of the total fund.

8. **Distributed Securities:** SCERS will attempt to avoid the direct receipt of distributed securities from individual funds. However, if such receipt is unavoidable, the SCERS will ordinarily direct the sale of securities distributed

by its investment vehicles as soon as practically possible and strive to not impair the value of the security.

9. Performance Evaluation:

a. Performance of the Opportunities Program will be evaluated quarterly against the benchmarks outlined in the investment objective.

b. Individual investment vehicle performance will be evaluated on a quarterly basis compared to the performance of respective peer universes and vintage years, as provided in the investment objective section.

c. It is recognized that immature private investments 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. Rebalancing to guidelines:

It is anticipated that Opportunities investments can be liquid or illiquid assets. Accordingly, changes to rebalance the Opportunities portfolio may be made on a short-term or a long-term basis depending on the predominance of illiquid investments taking into account: (1) The illiquidity of private assets with typical investment horizons of 10-12 years; and (2) The significant discount that can be applied if and when real estate, private equity, or absolute return holdings are liquidated in the secondary market. Accordingly, if a guideline is exceeded, it is anticipated that reducing exposures in illiquid assets will be carried out within a long-term time frame and over a period that is as soon as is practical to reflect the illiquidity of the vehicles.

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 Opportunities program'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 overall goal 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 Opportunities portfolio, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification in relationship to the total fund. Staff and consultant also will conduct due diligence with the respective investment vehicle managers to understand the underlying drivers of performance. Additionally, Staff and consultant will conduct portfolio reviews and on-site due diligence as necessary. Site visits will also 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 Opportunities Program 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. IMPLEMENTATION PROTOCOL

The following implementation protocol describes the allocation of investment authority and responsibilities between SCERS' Board, Staff, and consultants. Overall, the Opportunities implementation protocol delegates the most time intensive elements of the process to Staff and consultant, while preserving the Board's oversight of the overall Opportunities Program.

If either the amount of an opportunities investment or the amount of the aggregate of an investment theme (a number of investment opportunities or investment managers with substantially the same investment strategy, regardless of whether it applies to different investment managers), equates to 1% or less of SCERS' total fund, the following investment protocol will apply:

- Staff and consultant will identify the most qualified candidates for a prospective opportunities investment.

- When a particular manager candidate is identified, Staff and consultant will pursue extensive due diligence on the manager candidate, including conducting extended interviews with the portfolio managers and other key members of the investment team.

- The consultant will complete its investment strategy and operational due diligence reports, if they have not done so already. Legal counsel will begin reviewing the documentation for the possible commitment and preliminary negotiation of deal terms will take place.

- Staff will prepare a detailed report for the Board outlining the basis for the potential commitment, the contemplated commitment amount, the target date for closing on the commitment, and an assessment of the fit within SCERS' portfolio. The report will include an evaluation of the organization, investment strategy, considerations and risks, and track-record, as well as an operational assessment and a review of the investment's terms.

- If/When: (a) The due diligence process is completed; (b) deal terms have been determined; (c) staff and consultant have concluded that a commitment should be made; then (d) staff will prepare a final report for the Board outlining the basis for the decision, the proposed commitment amount, and the target date for closing on the commitment. The final report will also summarize the due diligence items that have been completed in order to move forward with a commitment, as well as any considerations that have arisen since the issuance of the initial reports by Staff and the consultant.

- At any point in the process, questions or concerns by any trustee regarding a proposed investment or proposed manager can be communicated to the Chief Executive Officer. The CEO will be responsible for assuring that a prompt response is provided. The CEO will also provide the full Board with the response. If the Board member is not satisfied with the response, the Board member can request that the matter be brought to the full Board for consideration. In such a case, the CEO will refer the matter to the Board President who will determine whether the manager search process should be suspended until the matter is resolved. As a general rule, it is anticipated that the process of identifying and vetting a proposed investment will take place over a period of time sufficient to allow, if necessary, for full Board consideration of questions or concerns before a commitment is finalized.

- Absent questions or concerns by the Board, the proposed investment will be finalized and the necessary documentation executed, and funds placed with the manager.

- Staff and consultant will confirm that the commitment has been made, and the amount allocated to SCERS, at a subsequent Board meeting.

- Because management of the Opportunities portfolio is dynamic and ongoing, Staff and the consultant will also have authority to make adjustments to the Opportunities portfolio in order to assure that the portfolio is optimally aligned to achieve the objectives of the asset class. This includes, but is not limited to the authority to: (1) trim or add to existing investment mandates; (2) terminate and/or replace an existing manager; (3) submit redemption requests; (4) determine the appropriate sources for funding a new mandate or adding to an existing mandate; and (5) Determine the appropriate application of any returned capital.

- If and when Staff and consultant determine that such actions are necessary, a timely report will be prepared outlining why the action is/was deemed necessary and how it impacts SCERS' Opportunities portfolio. Notice will be promptly provided to the Board regarding the action and the report will be provided to the Board.

If either the amount of an opportunities investment or the amount of the aggregate of an investment theme (a number of investment opportunities or investment managers with substantially the same investment strategy, regardless of whether it applies to different investment managers), equates to greater than 1% of SCERS' total fund, Staff and consultant will present the proposed investment to the Board for approval at a Board meeting.

F. POLICY HISTORY

Date	Description
11-05-2018	Board adopted revised Opportunities investment policy statement
03-09-2012	Board adopted Opportunities investment policy statement
01-16-2013	Board adopted revised Opportunities investment policy statement