ILLINOIS STATE BOARD OF INVESTMENT

INVESTMENT POLICY

Adopted: March 19, 2010
Amended: June 25, 2010
(revising Transition Policy and adding Securities Lending Policy)
Amended: June 24, 2011
(revising Watch List Policy, Asset Allocation and Real Estate Investment Guidelines)
Amended: December 16, 2011
(revising Emerging and Minority Investment Manager Policy and Minority and Illinois Brokerage Policy)
Amended: March 22, 2013
(revising Securities Lending Policy)
Amended: June 21, 2013
(revising Emerging and Minority Investment Manager and Minority and Illinois Brokerage Policy, Shareholder Resolution Policy, and Asset Allocation)
Amended: September 27, 2013
(revising Emerging and Minority Investment Manager and Minority and Illinois Brokerage Policy)
Amended: December 17, 2013 (revising Real Estate Investment Guidelines, Investment Adviser Performance Review Policy and Securities Litigation Policy).
Amended March 21, 2014 (revising Real Asset Investment Guidelines and adding SEC Comment Policy)
Amended: June 27, 2014
(revising Proxy Voting Policy and Sudan Divestment Policy, following retention of new service provides, and adding Derivatives Policy)
Amended: September 26, 2014
(revising Emerging and Minority Investment Manager and Minority and Illinois Brokerage Policy)
Amended: December 5, 2014
(revising Procurement Policy and Vendor Disclosure Policy)
Amended: March 20, 2015
(revising Vendor Disclosure Policy)
Amended: June 19, 2015
(revising: Securities Lending Policy, Real Estate Investment Guidelines)

Amended: September 17, 2015
(revising: Diversity Policy, Real Estate Investment Guidelines)

INVESTMENT POLICY

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I. Mission Statement

The Illinois State Board of Investment (the "Board" or "ISBI"), created by Article 5/22 of the Illinois Pension Code, is responsible for managing, investing and reinvesting the reserves, funds, assets, securities and moneys of Illinois pension and/or education funds as mandated by statute. Currently, the Board has fiduciary responsibility for managing and investing retirement assets belonging to the State Employees' Retirement System of Illinois, the Judges' Retirement System of Illinois and the General Assembly Retirement System of Illinois, collectively ("the Commingled Fund" or "Fund"). In recognition of the Board's responsibility, the Board has adopted the following Mission Statement:

The ISBI Mission

It is the mission of the Board to manage and invest the Commingled Fund (i) in accordance with the governing provisions of the Illinois Pension Code, (ii) in good faith and in the best interest of the retirement system participants and beneficiaries (iii) with prudence, care, skill, competence and diligence and (iv) over an infinite time horizon, within prudent risk parameters, to seek to achieve the actuarially assumed rate of return as defined by the retirement systems. In effecting this mission, the Board shall be guided by the fundamental ethical principles of honesty, integrity, independence, fairness and openness.

II. Statement of Purpose of Investment Policy

The purpose of this statement of investment policy ("Investment Policy") is to formalize the Board's investment objectives, policies and procedures and provide broad operational direction to the Board, investment staff and contractors of ISBI.

In effecting the Investment Policy, the Board and investment staff understand and accept their fiduciary obligations. These obligations are legal in nature, and are outlined in the Illinois Pension Code (40 ILCS 5). In summary form, the provisions specifically referring to the definitions, duties, and responsibilities of a fiduciary to the Fund are these:

- A fiduciary is anyone who has discretion in managing Fund assets or in administering the retirement system, or who renders investment advice or renders advice on the selection of fiduciaries for direct or indirect compensation. (40 ILCS 5/1-101.2).
- A fiduciary must discharge its duties to the Fund solely in the interest of the participants and beneficiaries for the exclusive purposes of providing benefits to participants and beneficiaries, and defraying administrative expenses of the Fund. (40 ILCS 5/1-109(a)).
- A fiduciary must discharge its duties to the Fund with the same care, skill, prudence and diligence that a prudent expert would use in a similar enterprise. (40 ILCS 5/1-109(b)).
- A fiduciary must discharge its duties to the Fund by diversifying the investments to minimize the risk of large losses, unless prudence dictates otherwise. (40 ILCS 5/1-109(c)).
- A fiduciary must discharge its duties to the Fund in accordance with Articles 1 and 22A of the Illinois Pension Code. (40 ILCS 5/1-109(d)).
- A fiduciary must use reasonable care to prevent any other fiduciary from committing a breach of duty. (40 ILCS 5/1-109.2(b)).
- A fiduciary must prevent the Fund from engaging in prohibited transactions. A fiduciary must not deal with the Fund's assets for its own interest, or on behalf of any party whose interests are adverse to the Fund. (40 ILCS 5/1-110).

No provision of this statement of Investment Policy shall be construed in contravention of the Illinois Pension Code.

III. Asset Allocation

The asset allocation adopted by the Board, upon the recommendation of the Board's investment consultant, is the fundamental building block of the Commingled Fund's portfolio construction. The asset allocation combines assets with different return, risk, skew and correlation characteristics to provide for higher returns with lower risk over time. The Board's objective with its asset allocation is to develop a diversified investment program that achieves the highest rate of return for the lowest acceptable level of downside risk, while providing for the Fund's liquidity needs.

The factors used to determine the appropriate asset allocation targets for the Fund are:

- Statutory constraints and requirements;
- Short and long-term liquidity needs;
- Overall risk tolerance and return needs of the portfolio;
- Capital market risk, return characteristics and historical relationships;
- Diversification; and
- Minimization of downside risk.

The Board's current asset allocation, adopted March 21, 2008, revised on June 24, 2011, and revised on June 21, 2013 is as follows:

	Current
Traditional:	
Core Fixed Income	7%
High Yield Fixed Income	4%
Global Aggregate	3%
Bank Loans	4%
Emerging Market Debt	2%
Total Fixed Income	**20%**
Large-Cap Value	6%
Large-Cap Core	6%
Mid-Cap Growth	9%
Small-Cap Core	4.5%
Small-Cap Value	4.5%
Hedged Equity Fund of Funds	10%
Total U.S. Equity	**40%**

Non-U.S. Small Cap	5%
Non-U.S. Large Cap/Emerging	11.5%
Non-U.S. Emerging Small Cap	3.5%
Total Non-U.S. Equity	**20%**
Alternative:	
Total Real Assets	**5%**
Total Private Equity	**5%**
Total Real Estate	**10%**
Total:	**100%**

Combined	Allocation	Minimum	Maximum
Fixed Income	35%	32%	38%
U.S. Equity	45%	42%	48%
Non U.S. Equity	20%	17%	23%
Total	100%		

The portfolio is re-balanced on a regular basis to bring ISBI's portfolio in-line with the asset allocation target ranges. The Board, with the assistance of its investment staff and investment consultant(s), review the Fund's asset allocation on a regular basis and adjust the portfolio to comply with the aforementioned factors. The Board anticipates that the on-going natural cash flow needs of the Fund (contributions and withdrawals) will be sufficient to maintain ISBI's asset allocation within policy guidelines under most market conditions. In markets where actual weights of the combined asset class are outside the prescribed ranges, it is the responsibility of ISBI's investment staff to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner. The combined Fixed Income asset class includes the allocation for Real Estate and Infrastructure. The combined U.S. Equity asset class includes the allocation for Private Equity.

IV. Procurement Policy

The Board establishes the following policy for the selection and appointment of Consultants and Investment Advisers.[1] In establishing this policy, it is the Board's intention to assure all interested parties that procurement decisions occur in an environment of full disclosure characterized by competitive selection, objective evaluation and proper documentation. The overriding consideration with respect to all decisions made by the Board is that the decisions be made solely in the best interests of the underlying retirement system participants and beneficiaries.

In order for any Consultant or Investment Adviser to provide Investment Services to the Board, the entity must either be registered as an investment adviser under the federal Investment Advisors Act of 1940[2] or be a bank, as defined in the federal Investment Advisers Act of 1940.

The Board shall award all contracts for Investment Services through a competitive proposal process. For this process, the Board shall develop and use uniform documents for the solicitation, review and acceptance of all Investment Services. Documents may vary by specific investment mandate. At a minimum, the documents shall include (i) a description of the goal to be achieved; (ii) the Investment Services to be performed; (iii) the need for the Investment Services; (iv) the qualifications that are necessary and (v) a plan for post-performance review. These uniform documents shall be published on the Board's website.

Prospectively, a description of every contract for Investment Services shall be posted on the Board's website, including the name of the person or entity awarded the contract, the total amount applicable to the contract, the total fees paid or to be paid under the contract and a disclosure, approved by the Board, describing the factors that contributed to the selection of the Investment Adviser or Consultant.

This Procurement Policy shall not apply to the following procurements for Investment Services:

1. Sole source procurements;
2. Emergency procurements; and
3. At the Board's discretion, (i) contracts valued at $20,000 or less, (ii) that are nonrenewable and (iii) of one year or less in duration.

All exceptions to this policy shall be published on the Board's website, shall name the person authorizing the procurement and shall include a brief explanation of the reason for the exception.

No Consultant or Investment Adviser shall retain a person or entity to influence (i) the outcome of an investment decision or (ii) the procurement of investment advice or

[1] All capitalized terms within this Procurement Policy are defined in the attached *Schedule A*.
[2] 15 U.S.C. § 80b-1, *et seq*.

services of the Board for compensation, contingent in whole or in part upon the decision or procurement.

The selection and appointment of Consultants and Investment Advisers for Investment Services by the Board shall be made and awarded in accordance with the Illinois Pension Code,[3] the State Officials and Employees Ethics Act[4] and all other relevant authority under the Illinois Compiled Statutes. All ex parte communications shall be recorded. Board Members and all Board employees shall comply with all gift ban restrictions.

A. Selection of Consultant Services

Under the Illinois Pension Code, the Board has authority to select Consultants who shall provide Investment Services to the Board's Commingled Fund.

The criteria used to determine the minimum qualifications for Consultants with respect to a specific investment mandate are:

1. Registration with the Securities and Exchange Commission under the Investment Advisors Act of 1940, or otherwise qualified under the Illinois Pension Code;
2. Firm's reciept of all authorizations, permits, licenses and certifications required by federal and state laws and regulations to provide Investment Services;
3. Firm's agreement to serve as a fiduciary to the Fund, as defined by the Illinois Pension Code;
4. Firm experience advising large defined benefit plans in respect of asset allocation, adviser selection and adviser oversight and operating under prudent person standards, as well as related investment advisory experience;
5. Qualifications and depth of the professional Investment staff;
6. Soundness of the firm's philosophy and process in respect of defined benefit plan assets;
7. The firm's track record with defined benefit clients;
8. The adequacy of the firm's advisory, back office, accounting and reporting and client servicing capabilities;
9. Firm's ability to comply with the Board's disclosure, statutory and contractual policies and/or requirements; and
10. Fees.

Requirements may differ based on the investment mandate recommended by the Board's investment staff. The establishment of these criteria shall not be used to bar or prevent any qualified Consultant from responding to a competitive proposal process.

The search process for a Consultant shall be a competitive proposal process and shall generally follow the guidelines listed below:

1. The Board shall determine the parameters of the Consultant search, upon recommendation by the Board's investment staff. Advertisements for the Consultant search shall be placed in the State newspaper, in one or more industry

[3] 40 Ill. Comp. Stat. § 5, *et seq.*
[4] 5 Ill. Comp. Stat. § 430, *et seq.*

periodicals and on the Board's website at least 14 days before the response to the proposal document is due.

2. Uniform documents shall be used for the solicitation, review, and acceptance of Investment Services and will be posted on the ISBI web site. Documents may differ based on the specific search mandate.
3. All interested respondents shall return their responses to the Board's investment staff, as directed by the proposal document. Investment staff shall open the responses, record them and thoroughly review each for content, quality and compliance with proposal document requirements to ensure that all minimum qualifications for Consultants have been met. The Board's investment staff will prepare a report identifying all proposals deemed non-responsive, due to the respondents' failure to satisfy the minimum qualifications. The respondents identified in this report may no longer be considered for the requested mandate, unless the request for proposal document is flawed due to an error, ambiguous language or similar issue. If the request for proposal document is flawed, the Board's investment staff may allow respondents to resubmit the affected areas.
4. Investment staff shall compile a list of all respondents to the competitive proposal process.
5. Following review and evaluation of the responses from interested firms, the field of candidates is narrowed to a smaller list of the most highly qualified firms. At this point, the Board's investment staff meets with representatives of each firm to obtain an independent assessment of the firm's capabilities.
6. Following the interview with the selected firm(s), the Board's investment staff recommends to the Board one or more Consultants for engagement. Generally, the finalists appear before the Board to present their firms' qualifications.
7. The Board accepts or modifies the recommendation and makes the final decision with respect to the engagement, if satisfied with the firm's capabilities.

The competitive proposal process shall comply with all relevant sections of the Illinois Compiled Statutes.

ISBI shall post the name(s) of the successful respondent(s) on the Board's website, along with a disclosure including the total amount applicable to the contract, the total fees paid or to be paid and a description of the factors that contributed to the selection of the Consultant.

B. Contracting for Consultant Services

The Board shall not enter into a contract with a Consultant that exceeds 5 years in duration. No contract to provide consulting services may be renewed or extended. At the end of the term of the contract, the Consultant is eligible to compete for a new contract. The Board shall not attempt to avoid or contravene this restriction by any means.

Investment Services provided by a Consultant shall be rendered pursuant to a written contract between the Consultant and the Board. The Board's uniform Investment

Consulting Agreement shall be the base contract. This agreement shall be in compliance with all relevant sections of the Illinois Compiled Statutes.

The contract must include the following terms, among others:

1. Acknowledgement in writing by the Consultant that the firm is a fiduciary with respect to the Board;
2. The description of the Board's investment policy and notice that the policy is subject to change;
3. (ii) Full disclosure of direct and indirect fees, commissions, penalties and other compensation, including reimbursement for expenses, that may be paid by or on behalf of the Consultant in connection with the provision of services to the Board and (ii) a requirement that the Consultant update the disclosure promptly after a modification of those payments or an additional payment. The disclosures shall include the date and amount of each payment and the name and address of each recipient of a payment;
4. A requirement that the Consultant, in conjunction with the Board's investment staff, submit periodic written reports, on at least a quarterly basis, for the Board's review at its regularly scheduled meetings. All returns on investments shall be reported as net returns after payment of all fees, commissions and any other compensation;
5. Disclosure of the names and addresses of (i) the Consultant; (ii) any entity that is a parent of, or owns a controlling interest in, the Consultant; (iii) any entity that is a subsidiary of, or in which a controlling interest is owned by, the Consultant; (iv) any persons who have an ownership or distributive income share in the Consultant that is in excess of 7.5% or (v) serves as an executive officer of the Consultant or Investment Adviser;
6. A disclosure of the names and addresses of all subcontractors, if applicable, and the expected amount of money each will receive under the contract, including an acknowledgement that the Consultant must promptly make notification, in writing, if at any time during the term of the contract a contractor adds or changes any subcontractors. For purposes of this paragraph (6), "subcontractor" does not include non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy-voting services, services used to track compliance with legal standards and investment fund of funds where the Board has no direct contractual relationship with the Investment Advisers or partnerships;
7. A requirement that the Consultant utilize investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and total proceeds in every transaction are the most favorable under the circumstances;
8. A description of the Investment Service(s) to be performed;
9. A description of the need for the Investment Service(s);
10. A description of the plan for post-performance review;
11. A description of the qualifications necessary;
12. The duration of the contract;
13. The method for charging and measuring cost; and

14. Contract terms, certifications and representations required by statute.

These contract terms are subject to change based on amendments to the Illinois Compiled Statutes.

C. Selection of Investment Advisory Services

Under the Illinois Pension Code, the Board has authority to select Investment Advisers who shall provide Investment Services to the Board's commingled fund.

The criteria used to determine the minimum qualifications for Investment Advisers with respect to a specific investment mandate are:

1. Registration with the Securities and Exchange Commission under the Investment Advisors Act of 1940, or otherwise qualified under the Illinois Pension Code;
2. Firm's receipt of all authorizations, permits, licenses and certifications required by federal and state laws and regulations to provide Investment Services;
3. Firm's agreement to serve as a fiduciary to the Fund, as defined by the Illinois Pension Code;
4. Experience of the firm in the management of institutional portfolios operated under prudent person standards, as well as related investment management experience;
5. Qualifications and depth of the professional Investment staff;
6. Soundness of the firm's investment philosophy and process;
7. The investment record of the firm and the firm's principals in former associations where that record is verifiable;
8. The adequacy of the firm's trading, back office, accounting and reporting and client servicing capabilities;
9. Firm's ability to comply with the Board's disclosure, statutory and contractual policies and/or requirements; and
10. Fees.

Requirements may differ based on the investment mandate recommended by the Board's investment staff and Consultant. The establishment of these criteria shall not be used to bar or prevent any qualified Investment Adviser from responding to a competitive proposal process.

The search process for Investment Adviser(s) shall be conducted in a substantially similar manner to that of the Consultant search process, except that the Board's Consultant may assist the Board and the Board's investment staff in the search.

In the event the Board's Consultant assists the Board and the Board's investment staff in the search process, it is the responsibility of the Board's investment staff to review the timely submitted responses and ensure that all minimum qualifications for Investment Advisers have been met. The Board's investment staff will prepare a report identifying all proposals deemed non-responsive, due to the respondents' failure to satisfy the minimum qualifications. The respondents identified in this report may no longer be

considered for the requested mandate, unless the request for proposal document is flawed due to an error, ambiguous language or similar issue. If the request for proposal document is flawed, the Board's investment staff may allow respondents to resubmit the affected areas.

If in any case an Emerging Investment Manager(s), or, if no Emerging Investment Manager, a Minority Investment Manager(s), meets criteria established by the Board and Consultant for a specific search (if a Consultant is utilized), the Emerging Investment Manager(s), or Minority Investment Manager(s), if applicable, shall receive an invitation by the Board, or the Board's Investment Policy Committee and/or Emerging Manager Committee, to present the firm(s) for final consideration. In the case where multiple Emerging Investment Managers, or Minority Investment Managers, if applicable, meet the search criteria, the Board's investment staff may choose the most qualified firm or firms to present to the Board.

The competitive proposal process shall comply with all relevant sections of the Illinois Compiled Statutes.

ISBI shall post the name(s) of the successful respondent(s) on the Board's website, along with a disclosure including the total amount applicable to the contract, the total fees paid or to be paid and a description of the factors that contributed to the selection of the Investment Adviser.

No Board Member, ISBI employee or ISBI Consultant shall knowingly cause or advise the Board to engage in an investment transaction with an Investment Adviser when the Board Member, ISBI employee, ISBI Consultant or any of their spouses (i) has any direct interest in the income, gains or profits of the Investment Adviser through which the investment transaction is made or (ii) has a relationship with that Investment Adviser that would result in a pecuniary benefit to the Board Member, ISBI employee or ISBI Consultant or any of their spouses as a result of the investment transaction. With respect to this requirement, Consultant includes an employee or agent of a consulting firm who has greater than 7.5% ownership of the consulting firm.

D. Contracting for Investment Advisory Services

Investment Services provided by an Investment Adviser shall be rendered pursuant to a written contract between the Investment Adviser and the Board. The Board's uniform Investment Management Agreement shall be the base contract. This contract shall be in compliance with all relevant sections of the Illinois Compiled Statutes and contain contract terms similar to those identified in Section B. Selection of Consulting Services. Contract terms are subject to change based on amendments to the Illinois Compiled Statutes.

Schedule A - Definitions

"Consultant." "Consultant" means any person or entity retained or employed by the board of a retirement system, pension fund, or investment board to make recommendations in developing an investment strategy, assist with finding appropriate investment advisers or monitor the board's investments. "Consultant" does not include non-investment related professionals or professionals offering services that are not directly related to the investment of assets, such as legal counsel, actuary, proxy-voting services, services used to track compliance with legal standards and investment fund of funds where the board has no direct contractual relationship with the investment advisers or partnerships.[5]

"Emerging Investment Manager" means a qualified investment adviser that manages an investment portfolio of at least $10,000,000 but less than $10,000,000,000 and is a "minority owned business," "female owned business" or "business owned by a person with a disability" as those terms are defined in the Business Enterprise for Minorities, Females and Persons with Disabilities Act.[6]

"Investment Adviser." A person is an "investment adviser," "investment advisor" or "investment manager" with respect to a pension fund or retirement system established under the Illinois Pension Code if the person:

1. Is a fiduciary appointed by the board of trustees of the pension fund or retirement system in accordance with Section 1-109.1;
2. Has the power to manage, acquire or dispose of any asset of the retirement system or pension fund;
3. Has acknowledged in writing that he or she is a fiduciary with respect to the pension fund or retirement system; and
4. Is at least one of the following (i) registered as investment adviser under the federal Investment Advisers Act of 1940; (ii) registered as an investment adviser under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisers Act of 1940; or (iv) an insurance company authorized to transact business in this State.[7]

However, under Public Act 96-0006, a person may not act as a consultant or investment adviser unless that person is registered as an investment adviser under the federal Investment Advisers Act of 1940 or a bank, as defined in the federal Investment Advisers Act of 1940.[8]

"Investment Services." For the purposes of 40 ILCS 5/1-113.14, "investment services" means services provided by an investment adviser or a consultant.[9]

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[5] 40 Ill. Comp. Stat. § 5/1-1-1.5.
[6] Id. at 5/1-109.1(4).
[7] Id. at 5/1-101.4.
[8] Id. at 5/1-113.13(b).
[9] Id. at 5/1-113.14(a).

V. Vendor Disclosure Policy

The Illinois State Board of Investment (ISBI) acts as fiduciary for the General Assembly Retirement System, Judges' Retirement System and State Employees' Retirement System of Illinois. As fiduciaries, the Board is responsible for managing, investing, reinvesting, preserving and protecting fund assets.

It is the policy objective of the Illinois State Board of Investment (ISBI) to prevent actual, potential or perceived conflicts of interest with its current and prospective vendors on behalf of its participants.

In furtherance of this policy, ISBI shall require the following disclosures:

1. Political Contribution Disclosure

All (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI, as well as each of the aforesaid vendors' solicitors, finders, officers, directors, partners, principals, lobbyists, and any individual whose compensation is directly derived by the awarding of the Board's contracts must provide written disclosures of all political contributions made during the preceding five years to a Board Member or a Board Member's Campaign Committee, and provide disclosures in writing of any future political contributions made to Board Members or a Board Member's Campaign Committee.

All, (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI, as well as each of the aforesaid vendors' solicitors, finders, officers, directors, partners, principals, lobbyists, and any individual whose compensation is directly derived by the awarding of the Board's contracts must provide written disclosures of any future instances where a Board Member or a Board Member's Campaign Committee solicits any political contributions from such persons, regardless of the candidate or political campaign committee for whom the solicitation is requested.

Additionally, (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI, as well as each of the aforesaid vendors' solicitors, finders, officers, directors, partners, principals, lobbyists, and any other individual whose compensation is directly derived by the awarding of the Board's contracts, must provide written disclosures of all political contributions made during the preceding five years to any political committee established to promote the candidacy of the office of the Governor or any other declared candidate for that office.

The failure to provide written disclosures of political contributions or solicitations may result in the disqualification or termination of the vendor.

PROVIDE RESPONDENT'S POLITICAL CONTRIBUTION DISCLOSURES IN AN ATTACHMENT.

IF RESPONDENT HAS NO POLITICAL CONTRIBUTIONS TO REPORT, INDICATE THAT RESPONDENT HAS NO DISCLOSURES TO REPORT IN AN ATTACHMENT.

2. Public Act 95-0971 Disclosures

Public Act 95-0971 (the Act) amends the Illinois Procurement and Election Codes (i) to require certain "business entities" to register with the State Board of Elections; (ii) to require state bidding documents and contracts to contain language referencing a business entity's duty to register with the State Board of Elections and duty to provide a registration-related certification; and (iii) to restrict business entities from making political contributions to any political committee established to promote the candidacy of the officeholder responsible for awarding the contract on which the business entity has submitted a bid or proposal, which is the Governor in the case of the Board. ISBI constitutes a "State Agency" under the Act. On January 30, 2008, the Board resolved to apply the Act's requirements to the Board's contracts.

All (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI must comply with all requirements of the Act that are applicable to the particular vendor. Please note that any contract formed between the Board and vendor is voidable for vendor's failure to comply with the requirements of the Act.

Please read the Act carefully, as it may affect your ability to do business with ISBI. The Act may require registration and disclosures by you with the State Board of Elections, and requires specific language to be present in ISBI bidding materials and contracts. Further, the Act may restrict you from making political contributions to certain state officeholders.

DISCLOSE WHETHER RESPONDENT CONSTITUTES A "BUSINESS ENTITY" UNDER THE ACT.

IF RESPONDENT IS A BUSINESS ENTITY, RESPONDENT MUST ATTACH REGISTRATION CERTIFICATION IN AN ATTACHMENT.

3. Vendor Disclosure of Financial Interests and Potential Conflicts of Interest

All bidding materials from potential ISBI vendors must be accompanied by a disclosure of any ownership of the vendor in excess of 5%, as well as a disclosure of any distributive income share in excess of $100,000.00 of the bidding entity and its parent entity. If the vendor is a publicly traded entity subject to Federal 10K reporting, it may submit its 10K disclosure to satisfy the 5% ownership disclosure. Distributive income share, in this instance, is a fee, commission, bonus or any other form of remuneration conferred by the bidding entity or its parent contingent on the bidding entity's selection for procurement of services by ISBI.

Disclosures must include at least the names, addresses, and dollar or proportionate share of ownership of each person identified and their instrument of ownership.

PLEASE PROVIDE OWNERSHIP DISCLOSURES IN AN ATTACHMENT.

IF RESPONDENT HAS NO OWNERSHIP DISCLOSURES TO REPORT, INDICATE THAT RESPONDENT HAS NO OWNERSHIP DISCLOSURES TO REPORT IN AN ATTACHMENT.

Further, the bidding entity must disclose whether any of the following relationships, conditions, or statuses are applicable to representatives of the bidding entity or its parent entity:

a. State employment, currently or in the previous three years, including contractual employment services;

b. State employment by spouse, father, mother, son, daughter or immediate family including contractual employment for services in the previous two years;

c. Elective Status: the holding of elective office of the State of Illinois, the government of the United States, any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois currently or in the previous three years;

d. Relationship to anyone (spouse, father, mother, son, daughter or immediate family) holding elective office currently or in the previous two years;

e. Employment, currently or in the previous three years, as or by any registered lobbyist of the State government;

f. Relationship to anyone (spouse, father, mother, son, daughter or immediate family) who is or was a registered lobbyist of the State government in the previous two years;

g. Compensated employment, currently or in the previous three years, by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections;

h. Relationship to anyone (spouse, father, mother, son, daughter or immediate family) who is or was a compensated employee in the last two years of any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections.

PROVIDE DISCLOSURES APPLICABLE UNDER SECTION 3.a. – 3.h. IN AN ATTACHMENT.

IF RESPONDENT HAS NO DISCLOSURES TO REPORT FOR 3.a. – 3.h., INDICATE RESPONDENT HAS NO DISCLOSURES TO REPORT FOR 3.a. – 3.h. IN AN ATTACHMENT.

4. Public Act 98-1022 Disclosures

Public Act 98-0122 (the Act) amends the Illinois Pension Code to require certain disclosures regarding utilization of minorities, females and persons with a disability. For purposes of this Policy, the terms "minority owned business", "female owned business", and "business owned by a person with a disability" are as defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act." In accordance with the Act, all (i) vendors submitting bidding proposals to ISBI and (ii) vendors retained by ISBI, must provide the following numerical data:

a. The number of the vendor's investment and senior staff and the percentage of its investment and senior staff who are a (i) minority person, (ii) female, or (iii) person with a disability;

DIVERSITY PROFILE								
Name of Investment Advisory Firm:								
Data as of:								
Job Category	**Non-Disabled**				**Disabled**		**Total Minority, Female and Disabled Persons**	**Total Staff Minority & Non-Minority**
	Non-Minority		**Minority**					
	Male	**Female**	**Male**	**Female**	**Male**	**Female**		
Senior Staff (as defined by your Firm)								
Investment Professionals (Excluding Senior Staff)								
Total Senior Staff & Investment Professionals								
Percent of Total Senior & Investment Professionals								

Note: Do not count employees twice. Employees must be placed in one category ONLY.

Example: A black female with a disclosed disability can go into either the "minority female" category OR the "disabled female" category, not both.

b. The number of contracts, oral or written, that the vendor has in place for investment services, consulting services, and professional and artistic services that constitute a (i) minority owned business, (ii) female owned business, or (iii) business owned by a person with a disability; and

c. The number of contracts, oral or written, that the vendor has in place for investment services, consulting services, and professional and artistic services where more than 50% of services performed pursuant to contract are performed by a (i) minority person, (ii) female, or (iii) person with a disability but do not constitute a business owned by a minority, female, or person with a disability.

Number of contracts, oral or written, for investment services, consulting services, and professional and artistic services that the investment advisor, consultant or private market fund has with:		
	Number of Contracts	**Funds Expenses to Date**
Minority/Female/Disabled Firms		
Non-Minority owned Firms where greater than 50% of the services performed pursuant to the contact are completed by Minority/Female/Disabled persons within that Firm.		
Total		$

Finally, in a separate attachment, please provide any additional information related to your firm's diversity initiatives that might be useful during the search and/or selection process.

These disclosures are not intended to prohibit or prevent any contract. The disclosures are (i) considered by the Board, within the bounds of financial and fiduciary prudence, prior to awarding a contract and (ii) used to fully and publicly disclose any potential conflict to ISBI so that ISBI may adequately discharge its duty to protect its participants.

When a potential for a conflict of interest is identified, discovered, or reasonably suspected, the Executive Director shall review and comment on it in writing to the Board's Audit and Compliance Committee. This Committee shall recommend in writing to the Board whether to void or allow the contract, bid, proposal or response weighing the best interests of the State of Illinois. The comment and determination shall be a part of the associated file.

These thresholds and disclosures do not relieve ISBI, or its designees, from reasonable care and diligence for any contract, bid, proposal or response. ISBI, or its designees, shall

use any reasonably known and publicly available information to discover any undisclosed potential conflict of interest and act to protect the best interest of the State of Illinois.

Failure to make any disclosure required by this provision may render the contract, bid, proposal, response or relationship voidable by the Board and may result in the termination of any existing relationship, suspension from future contracts, bids, proposals, responses or relationships for a period up to ten years. Reinstatement must be reviewed and commented on in writing by the Executive Director. The Board shall determine in writing whether and when to reinstate the party at issue. The comment and determination must be a part of the associated file.

Additionally, all disclosures must note any other current or pending contracts, leases, bids, proposals, responses or other ongoing procurement relationships the bidding, proposing, or responding entity has with any other unit of State government and must clearly identify the unit and the contract, lease, bid, proposal, response or other relationship.

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This policy shall be disclosed to all vendors as early as possible in the marketing process, ideally at the initial point of contact with ISBI. However, a failure on the part of ISBI to make such disclosure shall in no way detract from the application of this policy.

VI. Statutory Investment Restrictions

A. PA 95-521 – Sudan Divestment Policy

Public Act 95-0521 (the "Act") imposes investment restrictions on *retirement systems* governed by Article 1 of the Illinois Pension Code. Specifically, new Section 5/1-110.6 of the Illinois Pension Code limits the investment of *retirement system* assets in certain *forbidden entities* with ties to the Government of Sudan.

This Sudan Divestment Policy shall serve as a guide for implementation of the Act's specific requirements. All italicized terms are defined in Schedule B to this Sudan Divestment Policy.

In accordance with the Act, the following actions shall be taken:

The Board shall not transfer or disburse funds to, deposit into, acquire any bonds or commercial paper from, or otherwise loan to or invest in any entity unless a *certifying company* certifies to the Board that (i) with respect to investments in a publicly traded *company*, the *certifying company* has relied on information provided by an independent researching firm that specializes in global security risk and (ii) 100% of the Board's assets for which the *certifying company* provides services or advice are not and have not been invested or reinvested in any *forbidden entity* at any time after December 27, 2007 (4 months after the effective date of this Act).

The Board shall obtain certifications from the *certifying company* by February 28, 2008 (6 months after the effective date of this Act) and annually thereafter. The Board shall then submit these certifications to the *Department*.

The Board has obtained a List of *Forbidden Entities* from IW Financial, an independent researching firm that specializes in global securities risk, which identifies for the investment advisers' benefit the public *companies* that constitute *forbidden entities* under this Act. The Board shall be reimbursed for the cost of these services by each investment adviser that invests the Board's assets in public securities. The cost shall be divided equally across all public security investment advisers every 3rd quarter (via a reduction in the management fee owed to each investment adviser on the 3rd quarter invoice). The Board cannot acquire the *companies* identified on the List of *Forbidden Entities*. In the event that the investment adviser invests the Board's assets in a *forbidden entity*, the investment adviser shall notify the Board in writing immediately and shall divest the *forbidden entity* in an orderly and fiduciarily responsible manner within six months of the investment. If the investment adviser makes an investment in a *company* that is subsequently added to the List of *Forbidden Entities*, the investment adviser shall divest the *forbidden entity* in an orderly and fiduciarily responsible manner within six months of the *company's* inclusion on the List of *Forbidden Entities*. The List of *Forbidden Entities* shall be updated on a quarterly basis and provided to each investment adviser via email. On an annual basis the Board shall, in consultation with the retained independent

researching firm, adopt a List of *Forbidden Entities* and such list shall be published in the Board's annual report.

With respect to a commitment or investment in a *private market fund* made pursuant to a written agreement executed prior to the effective date of this Act, each *private market fund* shall submit to the appropriate *certifying company*, at no additional cost to the Board: A) an affidavit stating that (i) the *private market fund* does not own or control any property or asset located in the *Republic of the Sudan*, and (ii) does not conduct *business operations* in the *Republic of the Sudan*; or B) a certificate stating that the *private market fund*, based on reasonable due diligence, has determined that, other than direct or indirect investments in *companies* certified as Non-Government Organizations by the United Nations, the fund has no direct or indirect investment in any *company* (i) organized under the laws of the *Republic of the Sudan*; (ii) whose principal place of business is in the *Republic of the Sudan*; or (iii) that conducts *business operations* in the *Republic of the Sudan*. Upon failure of the *private market fund* to provide the affidavit or certification required, the Board shall, within 90 days, divest, or attempt in good faith to divest, its interest in the *private market fund*, provided that the Board confirms through resolution that the divestment does not have a material or adverse impact. The Board shall also immediately notify the *Department* and the *Department* shall notify other *retirement systems*. No other *retirement system* may enter into any agreement under which the *retirement system* directly or indirectly invests in the *private market fund* unless the *private market fund* provides that *retirement system* with the affidavit or certification required.

With respect to a commitment or investment in a *private market fund* executed by the Board after the effective date of this Act, each *private market fund* shall, at no additional cost to the Board: A) submit to the appropriate *certifying company* an affidavit or certification (in the form described above), or B) enter into an enforceable written agreement with the Board that provides for remedies if any of the Board's assets are transferred, loaned, or otherwise invested in any *company* that directly or indirectly (i) has facilities or employees in the *Republic of the Sudan* or (ii) conducts *business operations* in the *Republic of the Sudan*. Upon failure of a *private market fund* to fulfill its obligations under any enforceable agreement, the Board shall immediately take legal and other action to obtain satisfaction through all remedies and penalties under the law and the agreement itself. The Board shall immediately notify the *Department* and the *Department* will notify other *retirement systems*. No other *retirement system* can enter into an agreement under which the *retirement system* directly or indirectly invests in the *private market fund* at issue.

Schedule B - Definitions

"*Business operations*" means maintaining, selling, or leasing equipment, facilities, personnel, or any other apparatus of business or commerce in the Republic of the Sudan, including the ownership or possession of real or personal property located in the Republic of the Sudan.

"*Certifying company*" means a company that (1) directly provides asset management services or advice to a retirement system or (2) as directly authorized or requested by a retirement system (A) identifies particular investment options for consideration or approval; (B) chooses particular investment options; or (C) allocates particular amounts to be invested. If no company meets the criteria set forth herein, then "certifying company" shall mean the retirement system officer who, as designated by the board, executes the investment decisions made by the board, or, in the alternative, the company that the board authorizes to complete the certification as the agent of that officer.

"*Company*" is any entity capable of affecting commerce, including but not limited to (i) a government, government agency, natural person, legal person, sole proprietorship, partnership, firm, corporation, subsidiary, affiliate, franchisor, franchisee, joint venture, trade association, financial institution, utility, public franchise, provider of financial services, trust, or enterprise; and (ii) any association thereof.

"*Department*" means the Public Pension Division of the Department of Financial and Professional Regulation.

"*Forbidden entity*" means any of the following:

(1) The government of the Republic of the Sudan and any of its agencies, including but not limited to political units and subdivisions;
(2) Any company that is wholly or partially managed or controlled by the government of the Republic of the Sudan and any of its agencies, including but not limited to political units and subdivisions;
(3) Any company (i) that is established or organized under the laws of the Republic of the Sudan or

(ii) whose principal place of business is in the Republic of the Sudan;

(4) Any company (i) identified by the office of Foreign Assets Control in the United States Department of the Treasury as sponsoring terrorist activities in the Republic of the Sudan; or (ii) fined, penalized, or sanctioned by the Office of Foreign Assets Control in the United States Department of the Treasury for any violation of any United States rules and restrictions relating to the Republic of the Sudan that occurred at any time following the effective date of this Act;

(5) Any publicly traded company that is individually identified by an independent researching firm that specializes in global security risk and that has been retained by a certifying company as being a company that owns or controls property or assets located in, has employees or facilities located in, provides goods or services to, obtains goods or services from, has distribution agreements with, issues credits or loans to, purchases bonds or commercial paper issued by, or invests in the Republic of the Sudan; and

(6) Any private market fund that fails to satisfy the appropriate certification requirements as stated in this Divestment Policy.

Notwithstanding the foregoing, the term "forbidden entity" shall exclude companies that transact business in the Republic of the Sudan under the law, license, or permit of the United States, including a license from the United States Department of the Treasury, and companies, except agencies of the Republic of the Sudan, who are certified as Non-Government Organizations by the United Nations, or who engaged solely in (i) the provision of goods and services intended to relieve human suffering or to promote welfare, health, religious and spiritual activities, and education or humanitarian purposes; or (ii) journalistic activities.

"*Private market fund*" means any private equity fund, private equity fund of funds, venture capital fund, hedge fund, hedge fund of funds, real estate fund, or other investment vehicle that is not publicly traded.

"*Republic of the Sudan*" means those geographic areas of the Republic of the Sudan that are subject to sanction or other restrictions placed on commercial activity imposed by the United States Government due to an executive or congressional declaration of genocide.

"*Retirement system*" means the State Employees' Retirement System of Illinois, the Judges Retirement System of Illinois, the General Assembly Retirement System, the State Universities Retirement System, and the Teachers' Retirement System of the State of Illinois.

B. PA 95-521 – Illinois Finance Entity Divestment Policy

Public Act 95-0521 (the "Act") imposes investment restrictions on *retirement systems* or *pension funds* governed by Article 1 of the Illinois Pension Code. Specifically, new Section 5/1-110.10 of the Illinois Pension Code limits the investment of *retirement system*, or *pension fund* assets in certain *Illinois finance entities*.

This Illinois Finance Entity Divestment Policy shall serve as a guide for implementation of the Act's specific requirements.

All italicized terms are defined in Schedule C to this Illinois Finance Entity Divestment Policy.

In accordance with the Act, the following actions shall be taken:

In order for an *Illinois finance entity* to be eligible for investment or deposit of the Board's assets, the *Illinois finance entity* must annually certify that it complies with the requirements of the High Risk Home Loan Act (815 ILCS 137) and the rules adopted pursuant to that Act that are applicable to that *Illinois finance entity*. Certification for *Illinois finance entities* with whom the Board is investing or depositing assets as of the effective date of the Act shall be completed by February 28, 2008 (6 months after the effective date of the Act). For *Illinois finance entities* with which the Board is not investing or depositing assets as of the effective date of the Act, the initial certification required must be completed before the Board may invest or deposit assets with the *Illinois finance entity*.

The Board shall submit the certification to the *Department*, and the *Department* shall notify the Secretary of Financial and Professional Regulation if a *retirement system* or *pension fund* fails to do so.

If an *Illinois finance entity* fails to provide an initial certification by February 28, 2008 (6 months after the effective date of this Act) or fails to submit an annual certification, the Board shall notify the *Illinois finance entity* of its non-compliance status. The *Illinois finance entity* shall, within 30 days after the notification, either (i) notify the Board of its intention to certify and complete the certification or (ii) notify the Board of its intention not to complete the certification.

If an *Illinois finance entity* fails to provide the certification, then the Board shall, within 90 days, divest, or attempt in good faith to divest, the Board's assets with the *Illinois finance entity*. The Board shall immediately notify the *Department* of the *Illinois finance entity*'s failure to provide the certification.

Schedule C - Definitions

"*Department*" means the Public Pension Division of the Department of Financial and Professional Regulation.

"Illinois finance entity" means any entity chartered under the Illinois Banking Act, the Savings Bank Act, the Illinois Credit Union Act, or the Illinois Savings and Loan Act of 1985 and any person or entity licensed under the Residential Mortgage License Act of 1987, the Consumer Installment Loan Act, or the Sales Finance Agency Act.

"Retirement system" or *"pension fund"* means a retirement system or pension fund established under the Illinois Pension Code.

C. PA 95-616 – Iran Divestment Policy

Public Act 95-616 (the "Act") imposes investment restrictions on *retirement systems* governed by Article 1 of the Illinois Pension Code. Specifically, new Section 5/1-110.15 of the Illinois Pension Code limits the investment of *retirement system* assets in certain *companies* with ties to the Government of Iran and its *oil-related* and *mineral-extraction* business sectors.

With respect to actions taken in compliance with the Act, including good faith determinations regarding companies as prescribed by the Act, the Board is exempt from any conflicting statutory or common law obligations, including any fiduciary duties under Article 1 and any obligations with respect to choice of asset managers, investment funds, or investments for the Board's securities portfolios. (40 ILCS 5/1-110.10(j)).

This Iran Divestment Policy shall serve as a guide for implementation of the Act's specific requirements. All italicized terms are defined in Schedule D to this Iran Divestment Policy.

In accordance with the Act, the following actions shall be taken:

The Board shall use best efforts to identify all *scrutinized companies* in which it has *direct holdings* or *indirect holdings* by March 30, 2008 (90 days after January 1, 2008, the effective date of the Act). In order to identify the *scrutinized companies*, the Board has discretion to use any of the following efforts: A) reviewing and relying on publicly available information regarding *companies* having *business operations* in Iran, including information provided by nonprofit organizations, research firms, international organizations, and government entities; B) contacting asset managers contracted by the Board that invest in *companies* having *business operations* in Iran; C) contacting other institutional investors that have divested from or engaged with *companies* that have *business operations* in Iran; or D) retaining an independent research firm to identify *scrutinized companies* in which the Board has *direct* or *indirect holdings*.

The Board shall assemble and adopt an official list of *scrutinized companies* at the June 2008 Board Meeting. The Board shall file the *scrutinized companies* list with the Public Pension Division (the "Division") of the Department of Financial and Professional Regulation within 30 days of its adoption. The Division shall make the Board's *scrutinized companies* list available to the public. Investment staff shall supplement the *scrutinized companies* list on an annual basis.

In respect of *companies* on the *scrutinized companies* list, the Board shall adhere to the following procedures:

1. The Board must determine which *companies* on the *scrutinized companies* list are *direct* or *indirect holdings*;

2. In respect of a *scrutinized company* with *inactive business operations*, the Board, on a semi-annual basis, must send a written notice informing the *company* of the Act and encouraging the *company* to refrain from initiating *active business operations* in Iran until it is able to avoid *scrutinized business operations*. This requirement applies to *companies* that are *direct* and *indirect holdings*.

3. In respect of a *scrutinized company* that has *active business operations*, the Board shall send a written notice informing the *company* that it is considered a *scrutinized company* under the Act and that it may become subject to divestment by the Board, due to such status. Further, the notice shall inform the *company* of its opportunity to clarify its Iran-related activities and encourage the *company*, within 90 days, to cease its *scrutinized business operations* or convert such operations to *inactive business operations*, in order to avoid qualifying for divestment by the Board.

a. If the *company* ceases *scrutinized business operations* within 90 days of the Board's first engagement, the Board shall remove the *company* from the *scrutinized companies* list.

b. If the *company* converts its active *scrutinized business operations to inactive business operations* within 90 days of the Board's first engagement, the *company* shall receive letters from the Board, as described above in III (B).

c. If the *company* continues to have active *scrutinized business operations* following the 90 day period, the Board shall sell, redeem, divest or withdraw all publicly traded securities of the *company* within 12 months after the *company's* most recent appearance on the *scrutinized companies* list. This requirement does not apply to *indirect holdings* in a *private market fund*. Please note that *companies* that the U.S. Government affirmatively declares are excluded from present and future federal sanctions relating to Iran are not subject to divestment.

4. Subsequent to the Board's adoption of the *scrutinized companies* list, the Board shall not acquire securities of *companies* on the *scrutinized companies* list that have *active business operations*. This requirement does not apply to *indirect holdings* in a *private market fund*. However, please note that the Board may acquire a *company* that the U.S. Government has affirmatively declared to be excluded from its present or any future federal sanctions relating to Iran. Investment staff will arrange for the Board's investment advisers to have access to the *scrutinized companies* list and provide this Iran Divestment Policy to guide the investment advisers' investment of fund assets. If the Board purchases the *scrutinized companies* list from an independent research provider, each of the Board's investment advisers will reimburse the Board for their pro rata share of the list's cost.

5. In respect of the Board's *indirect holdings* in *scrutinized companies* with *active business operations* existing within the Board's *private market funds*, the Board shall submit letters to the general partners of the applicable *private market funds*, requesting that the general partner consider removing the *companies* from the fund or create a similar actively managed fund having *indirect holdings* devoid of the *companies*. If the general partner creates such a fund, the Board shall replace all applicable

investments with investments in the similar fund in an expedited time frame consistent with prudent investment standards.

6. The Board shall file an annual report with the Division, which shall be made available to the public, discussing the following information: A) a summary of correspondence with *scrutinized companies* engaged by the Board; B) all investments sold, redeemed, divested or withdrawn in compliance with the Act; C) all prohibited investments (*companies* on the *scrutinized company* list that have *active business operations*); and D) a summary of correspondence with *private market funds.*

7. The Board may cease divesting from *scrutinized companies* or reinvest in *scrutinized companies*, if clear and convincing evidence shows that the value of investments in *scrutinized companies* with active *scrutinized business operations* becomes equal to or less than 0.5 % of the market value of all assets under management by the Board. If the Board decides to cease divestment, reinvest, or remain invested in *companies* having active *scrutinized business operations*, the Board must provide a written report to the Division in advance of the action and update the report semiannually thereafter, identifying the reasons and justification (supported by clear and convincing evidence) for the Board's decision to cease divestment, reinvest, or remain invested in the applicable *companies*.

This Iran Divestment Policy shall expire upon the occurrence of any of the following events: A) the U.S. revoking all sanctions imposed against the Government of Iran; B) the Congress or President declaring that the Government of Iran has ceased to acquire weapons of mass destruction and has ceased to support international terrorism; or C) the Congress or the President declaring that mandatory divestment of the type provided for in the Act interferes with the conduct of U.S. foreign policy.

Schedule D - Definitions

"*Active business operations*" means all *business operations* that are not *inactive business operations*.

"*Business operations*" means engaging in commerce in any form in Iran, including, but not limited to, acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

"*Company*" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of those entities or business associations, that exists for the purpose of making profit.

"*Direct holdings*" in a *company* means all securities of that *company* that are held directly by the *retirement system* or in an account or fund in which the *retirement system* owns all shares or interests.

"*Inactive business operations*" means the mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for that purpose.

"*Indirect holdings*" in a *company* means all securities of that *company* which are held in an account or fund, such as a mutual fund, managed by one or more persons not employed by the *retirement system*, in which the *retirement system* owns shares or interests together with other investors not subject to the provisions of this Section.

"*Mineral-extraction activities*" include exploring, extracting, processing, transporting, or wholesale selling or

trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc.

"*Oil-related activities*" include, but are not limited to, owning rights to oil blocks; exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil; and constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure. The mere retail sale of gasoline and related consumer products is not considered an oil-related activity.

"*Petroleum resources*" means petroleum, petroleum byproducts, or natural gas.

"*Private market fund*" means any private equity fund, private equity fund of funds, venture capital fund, hedge fund, hedge fund of funds, real estate fund, or other investment vehicle that is not publicly traded.

"*Retirement system*" means the State Employees' Retirement System of Illinois, the Judges Retirement System of Illinois, the General Assembly Retirement System, the State Universities Retirement System, and the Teachers' Retirement System of the State of Illinois.

"*Scrutinized business operations*" means *business operations* that have caused a *company* to become a *scrutinized company*.

"*Scrutinized company*" means the *company* has *business operations* that involve contracts with or provision of supplies or services to the Government of Iran, *companies* in which the Government of Iran has any direct or indirect equity share, consortiums or projects commissioned by the Government of Iran, or *companies* involved in consortiums or projects commissioned by the Government of Iran and:

(1) more than 10% of the *company's* revenues produced in or assets located in Iran involve *oil-related activities* or

mineral-extraction activities; less than 75% of the *company's* revenues produced in or assets located in Iran involve contracts with or provision of *oil-related* or *mineral-extraction* products or services to the Government of Iran or a project or consortium created exclusively by that government; and the *company* has failed to take substantial action; or

(2) the *company* has, on or after August 5, 1996, made an investment of $20 million or more, or any combination of investments of at least $10 million each that in the aggregate equals or exceeds $20 million in any 12-month period, that directly or significantly contributes to the enhancement of Iran's ability to develop *petroleum resources* of Iran.

D. 96-753 – Economic Opportunity Investments

Under Public Act 96-0753 (the "Act"), effective August 25, 2009, it is the public policy of the State of Illinois to encourage State pension funds (and the Board) to promote the economy of Illinois through the use of economic opportunity investments,[10] to the extent feasible within the bounds of financial and fiduciary prudence. The Act mandates that the Board make reasonable efforts to invest in accordance with the Act.

The Fund's portfolio of investments satisfies the Act's requirements. Examples of the Board's efforts to increase its economic opportunity investments include, among others: the Board's Minority Broker-Dealers and Managers policy, which includes provisions regarding utilization of Illinois-based brokerage and the Chicago Stock Exchange; the Transition policy; Illinois Real Estate Separate Account Program and the Board's commitment to investing with Illinois-based Advisers.

E. 96-882 – Investment Strategies; Explicit and Implicit Costs

Under Public Act 96-882 (the "Act"), effective August 25, 2009, every pension fund, retirement system, and investment board created under the Illinois Pension Code, with certain exceptions, shall instruct investment advisers to utilize investment strategies designed to ensure that all securities transactions are executed in such a manner that the total explicit and implicit costs and total proceeds in every transaction are the most favorable under the circumstances.

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[10] "Economic opportunity investment" means a qualified investment, managed passively or actively by the pension fund, that promotes economic development within the State of Illinois by providing financially prudent investment opportunities in or through the use of (a) Illinois businesses or (b) Illinois-based projects that promote the economy of the State or a region of the State, including without limitation, promotion of venture capital programs, coal and other natural resource development, tourism development, infrastructure development, real estate development, and job development within the State of Illinois, while producing a competitive rate of return commensurate with the risk of investment. 40 Ill. Comp. Stat. § 5/1A-108.5(a).

"Illinois business" means a business, including an investment adviser, that is headquartered in Illinois. *Id.*

"Illinois-based project" means an individual project of a business, including the provision of products and investment and other services to the pension fund, that will result in the conduct [sic] of business within the State, the employment of individuals within the State, or the acquisition of real property located within the State. *Id.*

VII. Investment Adviser Performance Review Policy

On a quarterly basis, the Board's investment staff and/or Consultant shall (i) provide a quarterly report to the Board detailing each Adviser's quarterly performance, excluding private equity and real estate investment fund performance, and (i) assign a status for each Adviser based on Adviser's performance.

While the Board's investment staff has the authority to make recommendations regarding the status of Advisers, it is solely within the Board's discretion whether to adopt such recommendations.

The Board's investment staff and/or Consultant may make the following designations with respect to Advisers:

A. In-Compliance

Adviser will be designated "In-Compliance" if Adviser acts in accordance with ISBI's investment guidelines and policies and statutory and contractual requirements, as identified in Adviser's investment advisory agreement and the Illinois Pension Code.

B. Watch List

Adviser may be placed on a "Watch List" for any of the following factors:

1. Poor performance versus assigned benchmark;
2. Excessive risk versus assigned benchmark as measured by standard deviation;
3. Portfolio rank below median, on a quarterly basis only, versus peer group;
4. Style drift versus assigned benchmark;
5. Change in the investment management style for which they were retained;
6. Sub-optimal investment risk characteristics including Alpha, Beta, Sharpe ratio, Information ratio and tracking error versus assigned benchmark;
7. Key investment professional turnover within organization;
8. Organizational issues or any ownership change;
9. Excessive out-flows from the product;
10. Violation of any ISBI statutory or contractual requirements as defined in Adviser's investment advisory agreement;
11. Any other material irregularities where notification to the Board is necessary; or
12. Three year annualized benchmark return exceeds manager return.

The Board's investment staff and/or Consultant make a "Watch List" notification to the Board for an Adviser based on the above factors, using their discretion.

After notifying the Board of the "Watch List" status, the investment staff promptly notifies the Adviser of the status verbally and/or in writing. Unless directed by the Board to the contrary, the staff shall invite the Adviser to appear at the next regularly scheduled meeting of the Board.

Depending on the infraction, the Adviser remains on the "Watch List" for a minimum of one quarter to a maximum of one year before further action is taken. If the Adviser resolves the issues bringing rise to the "Watch List" designation Adviser will be reclassified as "In-Compliance," upon the decision of the Board's investment staff and/or Consultant.

C. On Notice

If the Board's investment staff and/or Consultant remain concerned with one or more of the Advisers on the "Watch List" factors, the Board's investment staff and/or Consultant may place the Adviser(s) "On Notice." The Adviser's failure to improve the "Watch List" factor(s) at issue within a specific time frame (depending on the infraction) justifies a termination recommendation by the Board's investment staff and/or Consultant to the Board. If the Adviser is placed "On Notice", investment staff promptly notifies the Adviser verbally and/or in writing. During the "On-Notice" designation period, the Board's investment staff and/or Consultant formulate a recommendation regarding Adviser and the asset class for the Board's review.

D. Termination

If the Board votes to terminate the Adviser, investment staff promptly notifies the Adviser in writing and begins coordinating transition management planning.

This policy serves as a guideline for the Board and its investment staff. The Board, as fiduciary, has discretion to change this policy or deviate from this policy at any time as circumstances dictate.

VIII. Transition Management Policy

Transition management is defined as the professional management of trading out of one portfolio of marketable securities ("legacy" portfolio) and into another portfolio of marketable securities ("target" portfolio), while controlling for the timeliness of trades, explicit and implicit costs, and market exposure relative to a predetermined benchmark. Transition management includes, but is not limited to, the termination and hiring of investment advisers. It also may apply to rebalancing between asset classes, large cash contributions/withdrawals to and from an investment adviser and strategy changes within the Fund. Transition management is most commonly utilized in domestic equity, international equity~~,~~ and fixed income portfolios.

- **Commission cost** is the fee paid to a broker for executing a transaction.
- **Bid/ask spread cost** is the amount by which the ask price exceeds the bid.
- **Market impact cost** is the effect trading will have on the market price of the shares being traded.
- **Opportunity cost** is the cost of market movements over the time it takes to trade.

A. Objective

Transitions are an important and inevitable element of portfolio management. The optimal method to use in executing a transition may vary significantly from one transition to another based on the types of assets involved and the timeframe in question. Generally, the Board's objective in an investment adviser transition is to implement the change in a cost-effective, timely manner while maintaining the appropriate market exposure. It is imperative to note that the cost of a transition is not commissions alone, but also bid/ask spread, market impact and opportunity cost. The market impact cost is the effect trading will have on the market price of the shares being traded. The opportunity cost, sometimes referred to as implementation shortfall, is the cost of market movements over the time it takes to trade. Efforts should be made to minimize the total cost rather than any single cost component.

B. Transition Manager Pool Selection Process

The Board's investment staff shall manage the transition manager pool selection process, in coordination with the Board's Consultant. The Board's transition manager pool shall consist of Board approved transition managers. To be considered for inclusion in the transition manager pool, transition managers must complete the Board's Transition Management Request for Competitive Proposal ("RFP") process. Proposals shall be evaluated based upon the following criteria: quality and completeness of the response, ability to fulfill the requirements of the scope of services, qualifications and experience of the firm, historical track record of the transition manager's aggregate transition activity, process and business model for transition management, including whether the transition manager will accept fiduciary responsibility for the transition, the presence or absence of conflicts of interest, confidentiality protections and reporting capabilities, among others.

Advertisements for the RFP shall be placed in the State newspaper, in one or more industry periodicals and posted on the Board's website at least 14 days before the response to the proposal document is due. The Board's investment staff shall also distribute the RFP document to investment staff's and Consultant's universe of known transition managers. Investment staff and Consultant shall encourage minority-owned, women-owned and persons-with-disability-owned transition managers to participate in the competitive proposal process.

Uniform documents shall be used for the solicitation, review, and acceptance of transition management services and shall be posted on the Board's web-site. Documents may differ based on the specific transition. All interested respondents shall return their proposals to the Board's investment staff or Consultant, as directed by the RFP. Investment staff shall open the responses, record them and thoroughly review each for content, quality and compliance with RFP requirements. Investment staff shall compile a list of all respondents to the competitive proposal process.

Following review and evaluation of the proposals from interested firms, the field of candidates is narrowed to a smaller list of the most highly qualified firms. At this point, the Board's investment staff and Consultant shall meet with representatives of each firm to obtain an independent assessment of the firm's capabilities. Following the interviews with the selected firms, the Board's investment staff and Consultant shall recommend to the Board three or more transition managers for inclusion in the transition manager pool. The finalists may appear before the Board to present their firms' qualifications. The Board shall accept or modify the recommendation and make the final decision with respect to the pool's composition, if satisfied with the firms' capabilities.

The Board reserves the right to reject any or all transition management proposals. The transition manager pool shall be reevaluated every three years.

For transitions occurring prior to the finalization of the Board's transition manager pool or during a competitive bidding period, Board investment staff and investment consultant shall solicit proposals from at least three qualified transition managers and prudently select the transition manager best suited to handle the particular transition at issue based on relevant factors such as: ability to fulfill the requirements of the scope of services, qualifications and experience of the firm, historical track record of the transition manager's aggregate transition activity, process and business model for transition management, including whether the transition manager will accept fiduciary responsibility for the transition, the presence or absence of conflicts of interest, confidentiality protections, reporting capabilities and the overall estimated costs and/or fees for the transition.

Each transition manager selected for the transition pool shall enter a transition management agreement with the Board, which shall establish terms and conditions for the relationship in general (i.e, fiduciary responsibilities, transparency requirements, conflict of interest disclosures, indemnification, insurance requirements and state law requirements etc.) and include stringent confidentiality terms to protect against

information leakage to the marketplace. Entry into a transition management agreement with the Board shall not be construed as a guarantee of a minimum level of transition assignments to be assigned to the transition manager, which shall be made evident in any transition management agreement executed by the Board

C. Transition Manager Assignment / Scope of Services

The criteria for choosing a transition manager to execute a transition will vary, just as the circumstances and types of portfolios being transitioned will vary. The Board's investment staff does not use the same metrics in evaluating a transition manager when rebalancing from fixed income to large cap equity as when changing international equity managers with similar mandates. Investment staff shall consider the fact that some transition managers tend to over-emphasize the value that can be added by their trading desks. Further, investment staff shall also consider that a firm which touts its ability to execute cheaply relative to the benchmark may be neglecting other important aspects of the transition. In more liquid portfolios, the trading efficiency advantage diminishes, while crossing opportunities increase. Investment staff shall also consider the fact that a firm which focuses too heavily on trading also may miss those crosses that would significantly lower costs. Conversely, a smaller capitalization, less liquid portfolio will have fewer crossing opportunities and the potential for value added through superior trading increases. Finally, the Board's investment staff shall take into consideration that a firm which focuses on maximizing crosses may accumulate excessive and unnecessary costs associated with time delays.

Prior to engaging in a transition, the Board's investment staff shall distribute a detailed transition work request to the transition manager pool, which shall include the following information, at a minimum: (i) a description of the specific need for the transition services, (ii) identification of the goals for the transition, including identifying the specific legacy portfolio of securities and any new accounts, (iii) custodial contact information, (iv) investment advisory contact information and (v) a request for a written transition work plan, timeline, pre-trade analysis and disclosure report, containing, among other things, a breakdown of all estimated explicit (i.e., commissions, custody, taxes, duties, foreign exchange) and implicit (i.e., market impact, opportunity costs, bid/ask spread) costs of the transition. Further, investment staff shall encourage transition managers to utilize minority broker-dealers in the execution of the Board's transitions and may establish minority brokerage goals for specific transitions in the transition work request. Transition managers in the pool shall submit specific proposals to investment staff based on the transition work request.

The Board's investment staff and Consultant shall review the proposals submitted by the transition manager pool and prudently craft a transition manager recommendation for the Executive Director's review, selecting the transition manager best suited to execute the particular transition. Each individual transition assignment established under a transition management agreement between the Board and a transition manager within the pool shall be documented in a transition work order, setting forth, at a minimum, the specific tasks, deliverables, schedules and costs for the specific transition assignment. Each transition

work order shall be subject to the terms of the transition manager's transition management agreement with the Board and incorporated as an attachment thereto. All transition work orders shall be approved in writing by the Executive Director or the Executive Director's designee. The Executive Director has authority to execute the transition work order on the Board's behalf. Investment staff shall provide a detailed performance evaluation for each transition assignment at the Board's next regularly scheduled meeting following the applicable transition.

In most instances transition management services shall be executed by a transition manager in the Board's approved transition manager pool. However, in some instances, the Board's investment staff may believe it is more appropriate for one of the Board's Advisers to provide these services. In this instance, investment staff shall provide complete documentation of its reasoning in a recommendation submitted to the Executive Director for approval, including any recommendations provided by the Board's investment Consultant, and prepare appropriate legal documentation for the specific transition assignment, including items required within a transition work order. Further, investment staff shall provide a detailed performance evaluation for the specific transition assignment to the Board, as detailed above.

A transition manager's scope of services may include, but is not necessarily limited to, the following:

1. Providing a transition work plan, timeline, pre-trade analysis and disclosure report, containing, among other things:
    (i) An analysis of implementation shortfall distribution;
    (ii) An analysis of the three month historical returns for the target and legacy portfolios;
    (iii) A factor analysis, including sector, market capitalization, estimated bid/ask analysis and liquidity summaries for the target and legacy portfolios;
    (iv) An estimate of how tracking error between the legacy and target portfolio will be reduced over the transition period;
    (v) A plan for executing the transition in terms of methods of execution and the estimated explicit and implicit transition cost attribution to successfully complete the transition;
    (vi) A disclosure report outlining the actual and potential conflicts of interest posed by the particular transition and proposed measures to manage those conflicts and prevent information leakage to the market;
    (vii) Historical track records of the transition manager's aggregate transition activity, as well as historical track records of similar transitions, where available; and
    (viii) An estimate of implementation shortfall to be incurred during the transition period.
2. Communicating and coordinating the transition process in cooperation with the Board's investment staff, Custodian, Advisers and any other third parties

to ensure that the assets are transitioned in the most efficient and cost-effective manner possible;

3. Trading securities from the legacy portfolio(s) to the target portfolio(s) as a fiduciary and agent on behalf of the Board, as well as trading in a principal capacity, if approved in advance by the Executive Director; these trading services could involve multiple investment strategies and encompass both multiple asset classes~~,~~ and multiple managers across all capitalization ranges;
4. Minimizing tracking error and maintaining asset class or benchmark exposure;
5. Preserving capital shall be taken into consideration through the expert use of trading, "cherry picking" of the legacy portfolio for the target portfolio, internal and external crossing networks, cash and all other approved tools required to accomplish a smooth transition;
6. Utilizing futures, swaps and ETFs, for risk reduction purposes only; and
7. Providing recurring written reports to investment staff throughout the transition event, as well as providing detailed reports regarding the performance and cost of the transition; the reports shall include the following information, at a minimum:
    (i) a daily performance review that compares the performance of the transition with the theoretical performance of the target portfolio during the transition period, specifically addressing the level of implementation shortfall incurred in the transition;
    (ii) a trading summary identifying the execution methods utilized and how much of the transition was executed for each method as measured by market value;
    (iii) a cost analysis identifying the commissions, execution costs and opportunity costs for the transition;
    (iv) a buy/sell detail report that identifies the dollar value, number of securities and/or units, time stamps and commissions paid for each execution method grouped by sell transactions and buy transactions;
    (v) a report identifying all brokers utilized in the transition and the dollar and share volume executed through each broker, as well as commissions paid to each broker;
    (vi) a report that provides a reconciliation of the transition manager's pre-trade estimates for transition execution methods and costs to the actual results;
    (vii) a cost detail report that breaks down the implied trading costs into execution costs and timing costs for each trade executed; and
    (viii) a complete revenue disclosure report and attestation of same, which shall include all revenue made by the transition manager, affiliates of the transition manager, third party broker dealers and counterparties to trades.

D. Performance Measurement/Board Reporting

Investment staff shall provide a detailed performance evaluation for each transition assignment at the Board's next regularly scheduled meeting following the applicable transition, assessing the transition manager's performance, cost effectiveness and implementation efficiency.

In addition, investment staff will provide to the Board, on an annual basis, a summary report of all portfolio transition activity occurring over the course of the fiscal year.

The Board's Consultant may provide evaluation and reporting services regarding the performance of the Board's transition managers, as well as aid in the solicitation and evaluation of bids submitted by transition managers for specific transitions; however, a lack of participation by Consultant in the Board's transition processes, as outlined above, shall not invalidate any action taken by the investment staff in accordance with this Policy.

IX. Securities Lending Policy

The Illinois State Board of Investment ("ISBI" or the "Board") has established the following Securities Lending Policy (the "Policy") to set forth objectives and procedures for its Securities Lending Program ("the Program"). In furtherance of the Board's fiduciary responsibilities, this Policy outlines the objectives and procedures that shall ensure that the Board's securities lending agent (the "Agent") and cash collateral investment adviser ("Adviser"(s)) take prudent and careful action while managing the Program.

A. Strategic Objectives

1. The Program serves as an investment function to enhance portfolio return without interfering with overall portfolio strategy.

2. The primary investment objective of the Program is protection of principal and maintenance of liquidity while generating sufficient income or alpha to justify the Program.

3. The Program shall focus on intrinsic value lending rather than collateral investment return and emphasize lending quality rather than loan quantity.

4. The Program shall only use well-capitalized Agents that agree to indemnify the Board against borrower default.

5. In order to maintain transparency and utmost control of the Program, only separate accounts shall be used for the investment of cash collateral.

B. Performance Benchmark

On a monthly basis, the overall lending portfolio shall be measured against the securities lending universe. The Agent shall provide written performance analysis for each asset class of securities on loan on a monthly basis, at a minimum. Other evaluation criteria may be mutually agreed upon by ISBI staff ("Staff") and the Agent.

C. Responsibilities

In relation to the Program, Staff is responsible for the following:

1. Updating this Policy and all attachments to this Policy as necessary.

2. Negotiating the appropriate form securities lending management agreement(s) for the Program with the Agent and Adviser.

3. Reporting to the Executive Director regarding the Program's performance on a quarterly basis, at a minimum.

4. Advising the Executive Director regarding any changes to the Program's collateralization levels, acceptable credit ratings for counterparty lending limits, and changes to permissible securities, including changes in duration targets and credit ratings.

5. Monitoring the implementation of, and compliance with, the Policy by the Agent and cash collateral Advisers(s). Staff shall report any issues, material changes, and/or any violations of the Policy, a securities lending management agreement and/or an investment advisory agreement immediately to the Executive Director. These reports shall provide a detailed description of the issue(s) and appropriate recommendations for corrective action.

6. Meeting with the Agent and Adviser, either in person or via telephonic means, on a quarterly basis, at a minimum, to review the current market environment and overall portfolio positioning.

7. Ensuring that the monthly valuation of the securities lending portfolio is reported by appropriate Staff to the Board in accordance with generally accepted accounting principals.

The Board's general consultant ("Consultant") is responsible for the following:

1. Evaluating and recommending to the Board an appropriate Program that meets the Board's fiduciary responsibilities.

2. Updating Staff in key areas of the Program, including, but not limited to, the performance of cash collateral investment separate account(s), utilization rates, and risks of the Program.

3. Monitoring, evaluating, and reporting quarterly to the Board regarding the Program's performance relative to the Program's strategic and performance objectives.

The Agent is responsible for the following:

1. Lending securities on an agency basis, in accordance with the securities lending management agreement between the Agent and ISBI.

2. Requiring third party banks to undertake certain custodial functions in connection with holding of collateral provided by a borrower.

3. Reporting to the Staff and Consultant immediately in writing regarding all violations of the securities lending management agreement.

4. Providing monthly standardized reports to Staff and Consultant, which shall include detailed daily lending activity (including, but not limited to, securities on loan, market values and collateralization, loan duration, security location and currency, and borrower information) and monthly portfolio level statistics (including, but not limited to, market values, average on-loan positions, utilization rate rebates, intrinsic earnings and fees).

5. Indemnifying ISBI against borrower default.

The Adviser (s) is responsible for the following:

1. Investing cash collateral in compliance with the investment advisory agreement(s) between the Board and the Adviser(s).

2. Notifying the Staff immediately in writing regarding all violations of the investment advisory agreement(s).

3. Providing daily and monthly standardized reports as specified by the Staff. The standardized reports shall include, but not be limited to, security information (e.g., CUSIP, description, par value, market value, duration, yield to maturity, coupon, credit quality, collateral (repo), location, currency, and broker information, etc.), portfolio weighted average life, and monthly portfolio level statistics (e.g., reinvestment earnings, rebates, fees, etc.).

D. Violation Reporting

The violation reporting process shall be as follows:

1. The Agent and/or Adviser shall report all violations to Staff immediately by telephone, followed by a written notification, describing in detail the violation(s) at issue. Staff shall report all violations immediately to the Executive Director and provide recommendations, if any, for corrective action(s).

2. The Executive Director shall determine what further action should be taken and/or what additional reporting is needed, based upon his/her judgment of the magnitude, sensitivity, and severity of the violation.

E. Calculations, Computations and Proxy Voting

The Agent and Adviser selected by the Board shall make all calculations and computations on a mark-to-market or amortized cost method, depending on market convention. The Board's Program shall adhere to the Board's investment policy for proxy voting; however, ISBI shall not be authorized to vote proxies with respect to securities that are on loan as of the applicable record date for such securities. Prior to each proxy season, Staff shall provide the Agent with the list of securities of companies at which the Board plans on filing shareholder resolutions. Upon receipt of the list of

securities, Agent shall seek ensure that such securities are not on loan as of the applicable record date.

G. Reporting

The Agent shall provide detailed reporting, as requested by Staff and/or Consultant from time to time. On a quarterly basis, Staff shall furnish a report to the Board for review, which shall include, but not be limited to, the following information: lending volume, income generated, borrower allocations, and the NAV of the cash collateral investment account(s). The Agent must establish and maintain such records as is necessary to account for loans that are made and the income derived therefrom. The securities that make up a loan shall be noted in the Board's custody account as being on loan. The Agent shall maintain all records and supporting documentation relating to loans for five (5) years after the term of the Agent's securities lending management agreement.

H. Program Structure

The goal of the Program is to maximize return through intrinsic value lending, not through cash collateral reinvestment. Overarching goals of the Program include increasing transparency in fees and the cash collateral investment account(s), as well as enhancing reporting, performance, and risk monitoring. The basic operational structure of the Program shall be comprised of two segments: intrinsic value lending ("Specials") and general collateral lending.

The long term strategic objective of the Program shall focus on intrinsic value lending and increasing the utilization of non-cash collateral. The short term goal of the Adviser and Agent is to manage the distribution of ISBI's assets in the State Street Bank and Trust Company Quality Funds for Short-Term Investment ("Quality D Fund" or "legacy cash collateral account") and minimize any potential for investment loss. It is the intention of ISBI to prudently unwind all positions in the legacy cash collateral account.

The lending structure for this Program is outlined below:

- Intrinsic Value Lending – The focus of the Program shall be to lend Specials. Specials are defined as highly sought after securities with a demand spread (risk free rate less rebate rate) of 20 basis points or greater. Increasing the utilization of specials will meet the strategic objectives of focusing on intrinsic value lending and maintaining sufficient liquidity.

- General Collateral Lending - Equity and fixed income securities utilizing the general collateral pool shall be de-emphasized, but are permissible to maintain sufficient liquidity. These securities may generate significant revenue over time; however, by increasing loan volume, thus increasing the cash collateral reinvestment pool, the overall potential reinvestment risk to the Program is

increased. The elimination of general collateral lending shall be dictated by maturing securities in the legacy cash collateral account and market conditions.

The acceptable forms of collateral for this Program are outlined below:

- Non-Cash Collateral – The primary form of collateral for this Program is non-cash collateral. The Agent shall match non-cash collateral with securities on loan, in order to reduce overall exposure to cash collateral and potential reinvestment risks. This approach transfers the collateral risk to the Agent, who must indemnify the Program in the event of borrower default. The need for a well capitalized Agent is an important factor in structuring the Program. Specific forms of acceptable non-cash collateral, credit ratings and exposure levels shall be established in a securities lending management agreement.

- Cash Collateral – Cash Collateral should be the secondary form of collateral. Cash collateral should be utilized to maintain sufficient liquidity in the Program.

The Reinvestment Program Structure is outlined below:

- ISBI shall maintain a separate, dedicated cash collateral account. This account shall enable ISBI to maintain liquidity, transparency, and oversight of the reinvestment program. It shall be held at the ISBI's Custodian.

- The only new investment permissible for the reinvestment of cash collateral shall be repurchase agreements ("repos"). Specific forms of acceptable repos and exposure levels shall be established in a securities lending management agreement.

- The Adviser of this account shall be evaluated on a regular basis. The Adviser's investment goals and objectives shall be determined by Staff and outlined in the investment advisory agreement between the Adviser and the Board. This account shall be evaluated on a monthly, quarterly, and annual basis.

I. Guidelines

Securities eligible for loan and loan agreements shall meet the following criteria:

1. Each securities loan agreement entered into with a U.S. borrower shall contain a grant of a security interest in U.S. borrower collateral in a form sufficient to allow for the perfecting of such security interest in such U.S. borrower collateral, as permissible by law, in accordance with the provisions of Articles 8 and 9 of any applicable State's Uniform Commercial Code.

2. On an annual basis, at minimum, Staff shall provide Agent with a list of approved securities accounts for lending, as approved by the Board. The list

may be updated as new securities accounts for lending are either added or removed by the Board.

3. All borrowers shall provide for delivery of the collateral to the custody and control of ISBI's Custodian.

4. ISBI's Custodian or Agent may receive and hold, on ISBI's behalf, collateral from borrowers to secure the obligations of borrowers with respect to any loans of securities made on behalf of the Board pursuant to a securities lending management agreement.

5. The Agent may only lend securities in countries approved by the Board. This list shall be reviewed by Staff and Consultant, in conjunction with the Agent, on an annual basis, at minimum. Any changes to this list shall be approved by the Board.

6. The maximum value of ISBI securities on loan at any one time shall be established in a securities lending management agreement.

7. On an annual basis, the Agent shall provide Staff with a list of potential borrowers and repo sellers and potential borrower and repo seller exposure limits. The Board shall approve the list and limits on an annual basis and has discretion to remove any borrower or repo seller from the list at any time.

8. Loans must be callable by ISBI or the Agent to ensure timely delivery of the security on the applicable trade settlement date, if the loaned security is sold by an ISBI portfolio. Non-callable loan terms are prohibited.

9. Loaned securities and initial collateral delivered by the borrower shall be marked- to-market at the close of each business day based upon the market value of the collateral and the loaned securities at the close of business employing the most recently available pricing information. Each securities lending management agreement shall require each borrower, if necessary, to deliver additional collateral to ISBI in the event the market value of the collateral falls below the required collateralization level(s).

10. Required margin collateralization levels for all types of loans and all types of repos shall be established in a securities lending management agreement.

This Policy shall be effective upon the successful completion of the FY 2010 search for securities lending services.

ISBI reserves the right to amend this Policy at any time.

X. Custodial Credit Risk Policy

The Illinois Pension Code authorizes the Board to manage, invest and reinvest the reserves, funds, assets, securities and moneys of any pension fund or retirement system under the purview of the Illinois Pension Code.

The following sections discuss how the Board protects cash deposits from custodial credit risk.

A. Deposit of Moneys Received for or on behalf of the State

The State Officers and Employees Money Disposition Act (the "Act") governs the deposit of moneys received for or on behalf of the State.[11]

The Act pertains to the Board in its capacity as a constituent of the Executive Department of the State, and applies to the Board's operation of essential State governmental functions assigned to it by the General Assembly, as noted above.[12]

Under Section 2(c) of the Act, if state moneys deposited with a bank or savings and loan association exceed the amount of Federal Deposit Insurance coverage, a bond, pledged securities, or other eligible collateral must be obtained to protect against custodial credit risk.[13]

Custodial credit risk for deposits is the risk that, in the event of a financial institution's failure, deposits of state assets in the possession of the financial institution may not be recovered.

As money received for or on behalf of the State, the Board must protect its operating budget from custodial credit risk. Each pension fund the Board oversees is charged its pro rata share of the Board's operating expenses. The valuation method used to compute the pro rata shares is reviewed and approved by the respective pension funds.

The Commingled Fund contains the trust assets of each pension fund the Board oversees. Operating expenses are drawn down from the Fund and wired to ISBI's operating account maintained by the Illinois Treasurer at the Northern Trust Company. For cash deposits not insured by Federal Deposit Insurance, the Illinois Treasurer requires a collateral pledge of 102% based on the average collected balance of cash deposits. Classes of securities acceptable as collateral by the Illinois Treasurer are codified at 15 ILCS 520/11.

Controls and procedures at the Illinois Comptroller ensure that operating assets can only be drawn down by ISBI.

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[11] 30 Ill. Comp. Stat. § 230/1 *et seq.* (West 2004).
[12] *Id.*; L. Patton, *Informal Op. of Senior Assistant. Att'y Gen.*, May 24, 2007.
[13] 30 Ill. Comp. Stat. § 230/2(c).

B. Deposit of Trust Assets Received for or on behalf of a Retirement System

The Board invests the trust assets of the State Employees' Retirement System, General Assembly Retirement System and Judge's Retirement System. All trust assets are accounted for internally to indicate respective ownership.

Retirement systems are created by the General Assembly for the benefit of employees of the State.[14] The Illinois Pension Code states that trust assets of a retirement system constitute a pension fund.[15] A pension fund is a body politic and corporate under the law creating the pension fund and is limited to performance of the duties set out in the law creating the pension fund.[16] Pension fund assets are separate and apart from the corporate purposes of the State.[17]

With respect to pension fund assets, the Board enforces rigorous criteria in order to manage effectively any risks associated with custodial credit.

ISBI effectively manages custodial credit risk of pension fund assets through the following measures:

1. The Board's Investment Advisory Agreements impose strict investment parameters on Advisers according to the specified investment mandates. The Board's investment staff regularly monitors Advisers' compliance with these investment parameters.
2. Investment staff directs Advisers to repatriate excess foreign currency balances into U.S. dollars on a quarterly basis; the respective Portfolio Managers monitor balances for compliance.
3. Investment staff monitors private investment fund stock distributions and transfers the stock from the distribution broker to the appropriate ISBI custodial account.
4. Investment staff directs Custodian to sweep overnight US dollar cash into a collective trust investment vehicle on a daily basis.
5. Investment staff conducts an annual review of the financial condition and credit rating of Custodian.

[14] 40 Ill. Comp. Stat. § 5/22-401, 22-402 (West 2004).
[15] *Id.*
[16] *Id.*
[17] *Id.*

XI. Trade Routing Information Policy

The Board requires that all domestic equity Advisers identify on a regular basis which of the Board's trades are routed through the Chicago Stock Exchange ("CHX"). This information is to be transmitted to the Board, or its designated retained professional, in a timely manner and in a format acceptable to the Board's investment staff. In the event Adviser cannot provide this information, Adviser is obligated to collect the data from its brokers-dealers.

Pursuant to Securities and Exchange Commission ("SEC") regulation, every broker-dealer "shall, on request of a customer, disclose to its customer the identity of the venue to which the customer's orders were routed for execution in the six months prior to the request."[18]

Broker-dealers are required to maintain this customer order information to comply with other regulatory requirements.[19] As such, providing this information in accordance with the Board's request does not constitute an unduly burdensome requirement for broker-dealers.[20]

This information obligation is mandatory.[21] Therefore, the Board expects any broker-dealer trading on its behalf to provide this order information to Adviser for the Board's investment staff, as well as any professional firms retained to advise investment staff.

Further, the Board directs its Advisers to utilize only those brokers who are willing to provide this information and comply with their obligations as defined by the SEC.

The Board requires all Advisers and broker-dealers to be in compliance with this policy, which shall take effect immediately. All Advisers and broker-dealers shall be in compliance by March 31, 2005.

[18] 17 C.F.R. § 240.11Ac1-6 (2005).
[19] 65 Fed. Reg. 75414, 75428 (Dec. 1, 2000).
[20] *Id*. at 75430.
[21] *Id.* at 75429.

XII. Soft Dollar Policy

The Board's Advisers have authority to select the brokerage firms through which orders will be placed. However, all utilization of internal brokerage services for the buying and selling of Fund assets is strictly prohibited, unless approved by the Board. Advisers may combine orders for the Fund with orders for other client accounts or funds under management. Advisers may utilize "soft dollars," to the extent permitted by Section 28(e) of the Securities Exchange Act of 1934. Soft dollar usage must comport with the SEC's interpretive guidance regarding client commission practices under the Section 28(e) safe harbor. Advisers are responsible for effecting purchases and sales of securities in a manner consistent with the principles of best execution, taking into account net price (including commissions) and execution capability and other services that the broker or dealer may provide.

Advisers shall provide a quarterly soft dollar report summarizing the amount of soft dollars the Adviser generated with the Board's commissions, the brokerage firm(s) utilized for this purpose, and the research or other services purchased with these soft dollars, together with an explanation of any of the Adviser's soft dollar policies and procedures that are not fully described in the Form ADV submitted to the Board.

The Board has relationships established for the purpose of generating soft-dollar commission recapture with BNY Brokerage and Salomon Smith Barney. These brokers are used by Advisers, if the net commission rates are competitive and if the quality of execution meets the best execution standards established by the Board's Advisers for other brokerage firms.

XIII. Real Asset Investment Guidelines

The following real asset investment guidelines ("Guidelines") shall serve to provide direction as the Board, with the assistance of its Consultant, identifies, evaluates and makes commitments under the real asset allocation, and manages the Board's real asset portfolio.

A. Rationale for Development of a Real Asset Portfolio

The role of the Board's real asset portfolio shall be to diversify ISBI's total investment portfolio and supplement the total return of the portfolio, which is comprised predominately of fixed income and equity assets. Real assets have traditionally provided diversification benefits through low correlations with other asset classes. A secondary role of the Board's real asset portfolio shall be to provide a hedge against unanticipated inflation, which real assets have historically provided due to lease structures and the increases in material and labor costs during inflationary periods.

B. Real Assets Investment Strategies

Real assets are defined as those assets that have physical form, excluding real estate investments. (real estate investments are allocated separately and are not included in the real asset portfolio.) The primary goal is to construct, over time, a well diversified, yet balanced, portfolio of real assets. The implementation process should consider different investment vehicles, with diversification by strategy, sector, industry, stage, and geographic region. An allocation to these assets may include investments in the following sub asset classes: infrastructure, timber, farmland, gold and other commodities.

Infrastructure assets are those assets which provide essential services or facilities to a community and can either be social or economic in nature. Social assets represent structures such as schools, hospitals, and prisons. Economic assets typically represent large, long life physical structures that are used for essential services such as transportation, distribution, and communication. Infrastructure investments will be made primarily through open-end and close-end private vehicles, though consideration will be given to publicly traded vehicles as a way to synthesize exposure during interim investment periods.

Timber investments consist of productive land plus growing trees, and can be in the form of natural forests or plantations. An allocation to Timber shall be diversified by geography, tree type (e.g., conifer/softwood vs. non-conifer/hardwood), and end-use (e.g., pulp, chip-n-saw, mature saw timber, and poles).

Farmland investments shall be diversified across geography, crop type (e.g., row crop vs. permanent crop), management style (e.g., lease vs. operate), and property size.

Commodity markets are global in nature, in that the value of a particular commodity is dependent on global supply and demand imbalances rather than regional factors. Most commodity markets are dollar denominated. Commodities include:

- Grains (e.g., corn, wheat and soybeans)
- Softs (e.g., cocoa, coffee, sugar, and orange juice)
- Livestock (e.g., cattle and hogs)
- Precious Metals (e.g., platinum and gold, silver)
- Industrials (e.g., cotton and copper)
- Energy (e.g., crude oil and natural gas)

Although actual ownership of the physical commodity can be problematic, the use of derivative contracts for exposure will be avoided as part of investments in the real asset portfolio.

C. Allocation of Assets

The Board, in accordance with the most recent asset allocation review performed by its Consultant, shall target 5% of total fund assets for allocation to investments in real assets. This allocation shall be reviewed on a triennial basis to determine its appropriateness in light of current market conditions, changes in ISBI's investment return objectives and liquidity requirements, and other relevant factors.

D. Investment Objectives

The primary investment objective for the Board's real asset portfolio is to contribute favorably to diversification of the total Fund through exposure to real assets' low or negative correlation to the public markets portfolios. A secondary investment objective for the portfolio is to provide competitive returns through capital appreciation.

E. Authority to Make Investments

The final authority to make investment commitments under the real asset allocation shall be vested solely with the Board.

F. Review and Modification of Real Assets Investment Guidelines

These Guidelines shall be reviewed periodically, but not less than annually, by the Board's investment staff and Consultant, to determine any additions or modifications that may be required.

XIV. Private Equity Investment Guidelines

The Board shall retain a qualified private equity Consultant to provide support services to assist portfolio management in the ongoing development and diversification of its private equity portfolio. With a five (5) percent target allocation, the Board's private equity Consultant is responsible for providing assistance in capital planning, as well as due diligence, for proposed partnership commitments. The following private market

investment guidelines ("Guidelines") shall serve to provide direction as the Board, with the assistance of its private equity Consultant, identifies, evaluates and makes commitments under the private equity asset class allocation, and manages the Board's private equity portfolio.

A. Rationale for Development of the Private Equity Program

Private equity investments are considered opportunities not yet identified by the traditional public equity or fixed income capital markets. The private equity asset class offers the potential for significantly greater returns than those available in the public market. The returns are commensurate with the risks presented by this asset class, including illiquidity or lack of standard historic evaluation data.

There are several potential opportunities afforded to ISBI through the private equity asset class. These opportunities include, but are not limited to the following:

1. Prospective returns on investment which are significantly greater than the expected returns from other asset classes and greater than the expected rate of inflation;
2. Prospective returns on investment in excess of the assumed actuarial minimum rate; and
3. Returns as set out above that are achievable from investment structures with prudent levels of risk and liquidity.

B. Private Equity Investment Strategies

For purposes of these Guidelines, the private equity asset class shall consist of certain investments that fall outside the traditional fixed income and public equity asset classes. Investments specifically designated as private equity shall be those private placements that represent interests in limited partnerships or similar vehicles, or direct interests in privately held operating companies.

Generally, private equity shall include the following strategies:

1. *Venture capital.* Equity or equity-like investments in development stage companies that raise capital for the financing of the development of a new technology or service.
2. *Buyout*. Equity or equity-like investments in mature or expansion stage companies typically made through the financing of growth, acquisitions, spin-offs, mergers or changes in capitalization.
3. *Mezzanine*. Investments in subordinated debt often used in conjunction with the financing of acquisitions or recapitalization of companies.
4. *Distressed Debt.* Investments in and restructuring of debt securities or other obligations often trading at discounts to par value.

Within the private equity asset class, the following categories of investments shall be eligible for funding.

1. Venture capital funds;

2. Buyout funds;
3. Mezzanine debt funds;
4. Growth capital funds;
5. Turnaround funds;
6. Distressed debt funds;
7. Special situation funds; and
8. Any non-traditional investment approved by ISBI as an eligible investment.

C. Allocation of Assets

The Board, in accordance with the most recent asset allocation review performed by its general investment Consultant, shall target 5% of total fund assets for allocation to investments in private equity. This allocation shall be reviewed on a triennial basis to determine its appropriateness in light of current market conditions, changes in ISBI's investment return objectives and liquidity requirements, and other relevant factors.

D. Investment Objectives

The primary investment objective for the Board's private equity portfolio is to maximize total risk-adjusted return, with particular emphasis on preservation of capital for the entire private equity portfolio as well as each individual fund or investment, and achievement of real capital appreciation (i.e. growth in excess of the expected rate of inflation). Within this context, ISBI shall seek long-term investment returns greater than those available from traditional debt and equity securities, and make investments with demonstrable safeguards against loss of capital. For purposes of these Guidelines, short-term fluctuations in value shall be secondary to the attainment of long-term investment returns with safeguards against the loss of capital.

At a minimum, investments in this asset class shall project returns in excess of ISBI's assumed actuarial rate of interest and also be designed to achieve long-term investment returns greater than those anticipated for ISBI's fixed income and equity investment components. The target rate of return for the overall private equity portfolio shall be the ten-year average annualized return of the broad public market, plus a 500 basis point premium. The determination of the target expected rate of return on any individual investment shall be based upon the particular investment strategy employed.

1. If investment commitments will be used by the investment sponsor, general partner or principals to make equity investments in early stage or emerging growth companies in which equity risk factors predominate the risk profile, then the target for expected long term returns on the investment shall be the 10-year average annualized return of the broad public market, plus an 800 basis point premium.
2. If investment commitments will be used by the investment sponsor, general partner or principals to make equity investments in mature companies in which equity risk factors predominate the risk profile, then the target for expected long term returns on the investment shall be the 10-year average annualized return of the broad public market, plus a 400 basis point premium.

3. If the investment commitments will be used to make advances under debt obligations, then the target for expected returns shall be at least 600 basis points in excess of the yield-to-maturity on U.S. Government obligations of similar maturities, net of fees.

ISBI may waive any of the foregoing criteria, provided that unusually strong security provisions can be demonstrated. Such waivers shall be contingent upon full review and approval by ISBI. Strong security provisions involve exceptionally effective ways to preserve capital and generate the expected returns.

These security provisions may arise from the following: protective covenants included in the documentation which governs the investment; the investment concept; the expertise of co-investors; seniority of claims in a partnership in an investee company; the manner in which a fund is managed; or from other aspects of the investment.

Additional objectives shall be participation in investments that:

1. Production of returns commensurate with levels of investment risk and liquidity that are generally considered to be prudent; and
2. Compliance with all applicable laws, regulations and internal policies of the Board with respect to investment of ISBI's assets.

The private equity asset class shall be managed to achieve:

1. A consistent flow of qualified investment opportunities that represent the most attractive investment vehicles currently available in the marketplace; and
2. A diversified and balanced portfolio of private equity investments structured so that the risks inherent in these illiquid and long-lived assets may be minimized.

Furthermore, the Board's private equity Consultant shall provide investment consulting services in furtherance of the Board's Targeted Investment Policy and Minority and Illinois Brokerage and Money Managers Policy contained herein.

E. Private Equity Investment Selection Guidelines

In addition to the overall asset allocation percentage and investment return objectives described above, certain additional portfolio selection criteria shall be applied to prospective investments under the Board's private equity portfolio. These criteria shall be reviewed on a triennial basis in order to reflect changes in ISBI's investment objectives, cash flow requirements, overall market conditions and applicable law.

Any prospective private market investment candidate will be reviewed for compliance with the following criteria before any level of detailed evaluation is undertaken:

Documentary Maturity Arrangements and Exit Strategy. Any private equity investment made by ISBI shall:

1. Contain a documented maturity arrangement, which offers reasonable assurance that ISBI shall recover its original commitment in cash or readily marketable securities after a period of time that shall be set out in the investment agreement. In general, maturity provisions in investment agreements shall call for final winding up and orderly liquidation of portfolio investments within twelve years; and
2. Feature a viable exit strategy or set of strategies through which assets shall be disposed of or liquidated.

Such strategies may involve the private divestiture of portfolio companies, an initial public offering of shares in such companies, the sale of shares through a management buyout, or employee stock ownership plan, a recapitalization under which a portfolio company may borrow funds to buy back shares from stockholders, or through other means.

Asset Quality and Risk Profile Restrictions and Limitations. Private equity investments shall offer an investment concept, a fund management structure, a specific plan for use of proceeds and investment documentation which shall provide reasonable assurance of protections against loss of capital, lack of ultimate liquidity of underlying assets, excessive shortfalls from expected investment returns, or loss of normal and customary rights or influence by the investor class of which ISBI is a part.

In addition, depending upon the risks posed by any particular investment, ISBI may mandate further asset quality enhancement measures. Subject to the amount of ISBI's pro rata interests in a proposed investment partnership and ability to negotiate changes in the investment's terms and conditions, ISBI shall seek to obtain the following additional security provisions:

1. Preferred returns for the investor class of which ISBI is a part;
2. Strengthened security provisions, which shall include covenants in the investment documentation to allow for cancellation of investor commitments and the specification of the representations and warranties to be met by the general partner as a condition precedent to a commitment in the investment; and
3. Increases in the usual level of influence over the investment structure through such practices as membership on advisory committees, or through expanding the voting powers of the investor group of which ISBI is a member.

Investment Size. With respect to primary partnership commitments, the Board shall, in general, make minimum investments that are the greater of $15 million or an amount that the Board, in conjunction with its investment staff and/or its private equity Consultant, deem appropriate to provide adequate influence over a private market investment. This influence shall be sufficient for ISBI to reasonably protect its rights under the respective investment agreement, in a manner consistent with other participants in the same investor class. Investment opportunities involving certain select funds, for which the minimum is reduced to $5 million, are an exception to the minimum investment limitation. In general, the Board shall not make investments that exceed an amount equal to 20% of the

amount raised for a proposed fund or direct investments, but in no event shall investments exceed 35% of the amount raised for a proposed fund or direct investment.

Investment Structure. The agreements governing a private equity investment shall feature acceptable provisions concerning termination of commitments, winding-up procedures, responsibilities of management, fund management expenses and cost allocations, the determination of distributions of earnings and capital to investors and the investment sponsor, management fees, carried interest and other fees, freedom from potential conflicts of interest, co-investment policies, tax considerations, confidentiality, indemnity and the organization and role of the advisory board, if any.

The role and participation of ISBI in private equity investments shall be restricted to those of a passive investor that has made financial resources available to the investment vehicle with the expectation of financial returns. ISBI shall not engage in management or financial planning, investment banking or other activities. In general, the role of ISBI shall be consistent with that of a limited partner in a partnership.

Portfolio Diversification. The private equity portfolio should be structured to maximize risk adjusted return. In order to achieve desirable diversification within the private equity portfolio, the following sub-allocations shall be used as an overall target for commitment levels within the portfolio:

Segment	**% of Total Private Markets Exposure**
Corporate Finance Funds[22]	75-100%
Venture Capital	0-25%

When determining actual commitments to the above sub-allocations, appropriate consideration shall be given to then-current market conditions or other circumstances that may warrant a temporary departure from the recommended ranges. Funds that focus on investing primarily outside of the U.S. may be approved, if the total value of international investments does not exceed 30% of total private equity exposure.

Restricted Activities. Certain private equity investment categories that shall not be eligible for initial evaluation or potential funding commitments are:

1. Investment plans which in substance will use proceeds for natural resource exploration and development projects which lack reliable information on proven accessible resources or deposits; and
2. Investments which are not in line with the Board's policies regarding Iran and Sudan, as set forth in this Investment Policy.

F. Risk Identification Guidelines for Each Investment Opportunity

[22] Includes buyout funds, mezzanine debt funds, growth capital funds, turnaround funds, distressed debt funds and special situation funds.

The private equity asset class carries with it a higher degree of potential investment risks, generally in direct proportion to the opportunity for enhanced investment returns. Investment risks shall be assessed for each private market investment in cooperation with the Board's private equity Consultant. Each investment shall be reviewed and a determination shall be made concerning the following risk categories and risk factors:

Risks Pertaining to the Specific Investment Opportunity

1. Events which could cause an investment to fail to return original commitments and lead to loss of capital;
2. Events which could lead to illiquidity of underlying assets or ineffectiveness of the exit strategies;
3. Events which could lead to variation in returns or shortfalls from expected levels of returns;
4. Events or characteristics that could potentially lead to negative public exposure or sentiment for ISBI;
5. Characteristics of the investment which could lead to reduced diversification within the investment structure itself, or the expected diversification that an investment is expected to afford the overall private equity portfolio;
6. Changes in circumstances, including investment sponsor management, which could lead to the possibility that the execution of an investment fund's strategy could be jeopardized; and
7. Signs of excessive levels of capital commitments in the industry, economic sectors, or transactional form for which proceeds would be used.

Risks Pertaining to the Economic Environment of Each Investment Opportunity

1. Ways in which the proposed investment may be vulnerable to identifiable economic cycles;
2. Ways in which an investment may be vulnerable to adverse changes in regional economies;
3. Exposure to adverse developments in debt or equity markets, interest rates, foreign exchange rates or availability of financing through sectors of the capital markets which lack depth, such as recapitalizations, or commercial real estate financing; and
4. Aspects of an investment proposal which are vulnerable to adverse changes in regulations or to increased uncertainties as to outcome depending on changes in federal, state, or local laws or regulations.

Risks Pertaining to the Structure of the Overall Portfolio

In addition to a review of the specific investment, ISBI shall avoid concentration of the private equity portfolio in any single manager, vintage year, investment strategy, industry, geographical region, exit strategy or target market for exit, or investments with returns which are closely correlated with other asset classes.

G. Investment Management Guidelines

ISBI shall follow procedures to minimize the inherent incremental risks associated with this asset class. Certain types of principal risks have been enumerated in the risk identification guidelines set out above in Section F. In addition, all phases of investment identification, evaluation, negotiation, and monitoring shall conform in their entirety to the "prudent investor"[23] rule. These procedures shall be the responsibility of the Board's private equity Consultant and shall include:

Prudent, formalized investment due diligence and selection. Comprehensive due diligence is essential to screening and selecting investments suitable for the Board's private equity portfolio. Major issues to be considered during the due diligence and evaluation process shall include, but not be limited to the following:

1. Experience (if applicable) of the investment sponsor, general partner or principals with projects similar to the one proposed and/or direct relevant experience in the market targeted by the stated investment strategy. In particular, the investment sponsor, general partner or principals shall demonstrate:
    - Relevant work experience directly applicable to the project they plan to undertake;
    - The requisite skills to be able to successfully execute the proposed project, including evidence from similar endeavors of their ability to work together;
    - Independence from other interests which may conflict with representation of the investors;
    - Successful investment results in applicable prior projects (quartile rankings will not be the sole factor considered when reviewing prior performance);
    - Adequate organizational depth with resources necessary to execute the contemplated investment strategy and support the reporting and administration of a partnership with third party institutional capital; and
    - High ethical standards and an understanding of fiduciary responsibility, generally assessed through extensive professional reference and background checks on the principals;
2. Viability of the investment premise and strategy, including analysis of, and market research covering, the general investment environment related to the proposed strategy;
3. Assessment of projected investment returns, risk factors and exit strategies. In this regard, the business plan or strategy describing the investment shall be in writing, and be prepared in sufficient detail to permit substantive and

[23] A fiduciary shall invest and manage assets held in a fiduciary capacity as a prudent investor would, taking into account the purposes, terms, distribution requirements expressed in the governing instrument, and other circumstances of the fiduciary estate. To satisfy this standard, the fiduciary must exercise reasonable care, skill, and caution. A "prudent investor" diversifies assets to obtain an investment strategy that incorporates suitable risk and returns based on the projected needs of all beneficiaries and based on the responsibilities described in the trust document.

meaningful review of the opportunity, its projected returns, its risks, and its exit program;

4. Compatibility with other private equity investments held by ISBI in order to achieve appropriate diversification in terms of investment strategy, industry focus, stage of development of portfolio companies, geographical focus, etc. In accordance with this objective to provide sufficient diversification within the Board's private equity portfolio, no one investment shall represent more than 10% of ISBI's total exposure[24]. Furthermore, no one investment sponsor shall represent more than 25% of ISBI's total exposure;
5. Discernible competitive advantages over groups pursuing similar strategies. Competitive advantages may include access to proprietary deal flow channels, strategic relationships, reputation/brand or specialized industry expertise that allow the manager to generate above-market returns;
6. Interviews with, and confirmation of, the participation of other sophisticated institutional investors;
7. Relative size of ISBI's contemplated investment vis-a-vis the total amount of capital being sought by the investment sponsor;
8. Evaluation of any perceived or potential conflicts of interest;
9. Environmental issues/compliance;
10. Assessment of compliance with ISBI's internal guidelines;
11. Compliance with all federal, state and local regulatory/legal requirements; and
12. Comparison of projected returns from the prospective investment with those of other private equity investments with similar risk characteristics available in the marketplace.

H. Scope of Private Equity Consulting Services

The Board's private equity Consultant shall work closely with the Board's investment staff and shall report regularly to the Board and the Board's Investment Policy Committee. The Board shall expect its private equity Consultant to provide the following services, at a minimum:

Strategic Private Equity Consulting.

1. Provide recurring recommendations concerning long-term investment policy, objectives and strategy for the private equity portfolio.
2. Prepare special analyses and/or research, as requested by the Board's investment staff, to define goals and objectives, monitor portfolio risk and model program cash flows/commitment pacing for the private equity portfolio.
3. Conduct and prepare comprehensive written research, analysis and advice on specific investment issues, or conduct special projects or other activities, as requested.
4. Appear as needed at Board meetings and/or the Board's Investment Policy

[24] Systems exposure defined as aggregate reported value of existing investments, plus unfunded commitments.

Committee meetings or other meetings to (i) present research, analyses, written reports and recommendations or (ii) respond to questions relating to the private equity portfolio or the private equity market or industry.

5. Attend meetings with the Board's investment staff, in order to provide advice and counsel on matters related to the private equity portfolio, as needed.
6. Coordinate and communicate with the Board, the Board's investment staff and private equity funds in the portfolio on an ongoing basis, in order to ensure the effective and successful administration of the private equity portfolio.
7. Provide other consulting services consistent with or required in connection with the private equity portfolio and its goals, strategies and objectives.

Deal Sourcing and Due Diligence.

1. Develop a proactive, structured process to (i) analyze the full universe of available investments and (ii) identify efficiently those investments most advantageous to the Board for investment. This process shall include a detailed analysis of prospective investments identified by the Board's investment staff.
2. Conduct due diligence on those prospective investments that the Board's investment staff and/or the private equity consultant recommend for consideration. Due diligence shall include evaluation of the prospective investment's history, team, performance and strategy. The Board's private equity consultant shall ensure that investments reviewed will comply with Illinois laws, including those governing investments with ties to Iran and Sudan.
3. Present written recommendations to the Board and its investment staff, which shall include: (i) the results of the Board's private equity Consultant's due diligence, (ii) a discussion of strategic considerations, (iii) an analysis regarding how the recommendation fits within the Board's private equity portfolio and (iv) a detailed business review of the deal terms and fund documents.
4. Work with the Board's investment staff and legal counsel in the negotiation of contract terms and conditions.

Monitoring of the Private Equity Portfolio.

1. Take responsibility for the timely review and analysis of key events that may affect the private equity portfolio. This review and analysis may cover market changes, changes in senior management or substantial reductions in portfolio value. Monitoring shall be conducted through surveillance of the media, communication with professional networks and the systematic review of the funds' reporting, at a minimum.
2. Assist in any actions taken to protect the interests of the Board as an investor, and interact, where necessary, with portfolio general partners to ensure individual fund compliance with contract terms.
3. Assist the Board's investment staff in attending partnership annual meetings, and, where appropriate, serve on advisory boards.
4. Review and recommend courses of action for all fund document amendments.

Database Management.

1. Record all historical information on cash flows, net asset values, unfunded commitments, fee payments, cost basis and returns per investment.
2. Record performance data, including IRR and multiple calculations, and measure the recorded data against performance benchmarks.
3. Review cash flows and performance data by individual investment, asset class and the total portfolio over quarterly periods.

Reporting.

1. Quarterly performance reporting, which shall include, at a minimum:
    a. Allocation breakdown by geography, sector and industry
    b. Updates on each investment fund
    c. Listing of each investment fund by sector
    d. Date of commitment to each investment fund
    e. Commitment amount to each investment fund
    f. Drawdown amounts by investment fund
    g. Outstanding commitment by investment fund
    h. Distribution amounts by investment fund
    i. Investment fund NAVs
    j. Multiples by investment fund
    k. IRR of each investment fund
    l. Items a – k aggregated for the total private equity portfolio.
2. Reconcile the quarterly reporting with the custodian bank's reports and records for accuracy.

Other.

1. Provide educational workshops to Board Members on specific issues designated by the Board and/or recommended by the Board's private equity Consultant.
2. Provide comments and analysis on proposed federal and state legislation affecting the private equity portfolio.
3. Support the Board and its investment staff through written and/or oral presentations with government agencies, legislative committees, auditors etc.
4. Meet with the Board's investment staff quarterly to review the private equity portfolio, provide updates regarding the current market/ new issues and advise regarding improvements to the private equity portfolio or the Board's administration of same.

I. Authority to Make Investments

The final authority to make investment commitments under the private equity asset allocation shall be vested solely with the Board.

J. Review and Modification of Private Equity Investment Guidelines

These Guidelines shall be reviewed periodically, but not less than annually, by the Board's investment staff and its private equity consultant, to determine any additions or modifications that may be required.

K. Institutional Limited Partners Association Private Equity Principles

The Board endorses the Private Equity Principles (the "Principles") issued by the Institutional Limited Partners Association ("ILPA"). These Principles are suggested best practices to:

1. Better align interests between general partners and limited partners;
2. Enhance limited partner governance of funds; and
3. Provide greater transparency to limited partners.

In addition, the Principles, which are attached as Exhibit A to this Investment Policy, outline the preferred terms for Limited Partnership Agreements ("LPA Preferred Terms") and provide best practice guidelines for Limited partner Advisory Committees (LPAC Protocol"). The Board's endorsement is not a commitment to abide by the Principles, LPA Preferred Terms, or LPAC Protocol. Instead, the endorsement is a statement that ISBI shall use the Principles, LPA Preferred Terms, and LPAC Protocol as guidelines for best practices.

XV. Real Estate Investment Guidelines

The Board shall engage a qualified real estate Consultant to provide support services to assist portfolio management in the ongoing development and diversification of its real estate portfolio. With a 10.4% target allocation to real estate, the Board's real estate Consultant shall provide assistance in capital planning, as well as due diligence support, for proposed real estate commitments. The following real estate investment guidelines ("Guidelines") shall provide direction as the Board, with the assistance of its real estate investment Consultant, plans, implements and monitors the Board's real estate portfolio.

A. Rationale for the Development of the Real Estate Portfolio

The role of the Board's real estate portfolio shall be to diversify ISBI's total investment portfolio and supplement the total return of the portfolio, which is comprised predominately of fixed income and equity assets. A secondary role of the Board's real estate portfolio shall be to hedge against inflation.

The Board shall make investment decisions regarding the real estate portfolio with a goal to achieve a total return competitive with other asset classes and maintain a broad diversification of assets. Controlling risk in the real estate portfolio shall be equally as important as seeking higher returns.

B. Real Estate Investment Categories

Traditionally, real estate investments were categorized by the risk and return features of the underlying real estate assets. ISBI shall recognize two broad categories: Core investments (e.g., properties that are operating and substantially leased) and other types of real estate investments generally categorized as "Non-Core" (e.g., properties that require some degree of improvement including leasing, renovation, repositioning, or redevelopment). These categories are defined below.

1) **Core ("Core") Investments**. ISBI shall regard Core real estate as commercial property investments with attributes including stabilized operating revenues, low leasing exposure (i.e., 75% occupied or greater at the time of acquisition), low leverage (i.e., generally 50% or less on a loan-to-value basis), and a high degree of liquidity. Core real estate may include equity and/or debt investments in the traditional property types (i.e., apartment, office, retail, and industrial) and non-traditional property types (i.e., senior housing, student housing, medical office, storage and other properties) to the extent that non-traditional property investments display the aforementioned, institutional quality features. Core investments typically feature current income as the major portion of overall return. These investments are comparatively low risk and provide a stable foundation for the Board's real estate portfolio.

2) **Non-Core ("Non-Core") Investments.** ISBI shall generally define Non-Core real estate to be primarily Value-Added real estate, though Opportunistic real estate strategies may be pursued on an ad hoc basis considering the risk within the real estate portfolio. Value-Added real estate may include equity and/or debt investments in traditional and non-traditional property types. Value-Added investments also feature current income as a significant component of total return but have a greater focus on capital appreciation through physical property enhancement processes (e.g., repositioning, renovation, and redevelopment strategies). Generally speaking, Value-Added strategies use more leverage than Core strategies but such leverage is generally limited to 70% on a loan-to-value basis. Non-Core investments offer ISBI the opportunity to obtain higher risk-adjusted returns arising from inefficiencies in private real estate markets or imbalances in real estate capital markets.

Opportunistic real estate strategies may include equity and/or debt investments in traditional and non-traditional property types. Such investments generally do not feature current income as a large component of total return and instead rely on potential appreciation in the value. Opportunistic real estate investments may include speculative development of commercial property, the purchase of distressed property, the purchase of mortgage debt as a means of controlling and/or owning property, real estate operating companies, and certain international strategies, et al.

C. Allocation of Assets

The Board, in accordance with the most recent asset allocation review performed by its general investment Consultant, shall target 10.4% of total fund assets for allocation to investments in real estate and target a real estate portfolio that is approximately 65% core investments and 35% non-core. This allocation shall be reviewed on a triennial basis to determine its appropriateness in light of current market conditions, changes in ISBI's investment return objectives and liquidity requirements, and other relevant factors.

D. Investment Objectives and Guidelines

The Board prefers to utilize separate account investment structures because of the greater control these investments provide over the decisions in connection with the ownership and management of the underlying real estate assets. Subject to the investment criteria adopted for each separate account, such investments shall be made in direct properties wholly-owned by ISBI ("Direct Investments"), or through co-investments with other real estate owners or operators, such as developers, public REITs, or real estate companies ("Joint Ventures") or comparable institutional investors ("Co-Investments").

The Board shall only consider investments that comply fully with all applicable federal, state and local laws and regulations, including all applicable environmental laws, regulations, and internal policies of the Board.

Investments in separate account structures shall be discretionary (i.e., the Board will delegate control of acquisition, disposition and other major asset management and financing decisions to the appropriate investment adviser), subject to the policies, guidelines and other criteria approved by the Board.

At no point shall a manager overseeing either separate or commingled accounts on behalf of the Board have a concentration of the Board's real estate portfolio that exceeds 25% of the Board's total real estate portfolio, based upon market value.

The portfolio shall adhere to the following property type and geographic ranges:

Property Type	**Ranges**
Office	Up to 50%
Retail	Up to 50%
Residential	Up to 50%
Industrial	Up to 50%
Hotels	Up to 20%
Other*	Up to 20%

* Other investible property types may include, but are not limited to, senior housing, student-housing, self-storage, and land.

Geography	**Ranges**
United States	Up to 100%
International	Up to 20%
United States by Region*	
West	Up to 45%
South	Up to 35%
East	Up to 45%
Midwest	Up to 35%

* US regions are defined by NCREIF.

Capital Structure	**Ranges**
Real Estate Equity	Up to 200%
Real Estate Debt	Up to 20%

The portfolio benchmark shall be the NFI-ODCE Property Index. However, each property type in the Board's real estate portfolio may be measured against the NCREIF Property Index sub-index for the same property type (i.e., office, multifamily, retail and industrial).

E. Scope of Real Estate Consulting Services

The Board's real estate Consultant will work closely with the Board's investment staff and will report regularly to the Board and the Board's Investment Policy Committee. The Board expects its real estate Consultant to provide the following services, at a minimum:

Strategic Real Estate Consulting.

1. Provide recurring recommendations concerning long-term investment policy, objectives and strategy for the real estate portfolio.
2. Prepare special analyses and/or research as requested by the Board's investment staff to better define goals and objectives, monitor portfolio risk and model program cash flows/commitment pacing.
3. Conduct and prepare comprehensive written research, analysis and advice on specific investment issues, or conduct special projects or other activities, as requested.
4. Appear as requested at Board meetings and/or its Investment Policy Committee meetings or other meetings to (i) present research, analyses, written reports and recommendations or (ii) respond to questions relating to the real estate portfolio or the real estate market or industry.
5. Attend meetings with the Board's investment staff, in order to provide advice and counsel on matters related to the real estate portfolio, as needed.
6. Coordinate and communicate with the Board, real estate investment advisers and real estate investment funds in the portfolio on an ongoing basis.
7. Provide other consulting services consistent with or required in connection with the real estate portfolio and its goals, strategies and objectives.

Deal Sourcing and Due Diligence.

1. Develop a proactive, structured search process to analyze the full universe of available investments, and efficiently identify those most appropriate for investment.
2. Conduct due diligence on those prospective investments that the Board selects for consideration, which must include whether the prospective investments will comply with state law requirements governing pension funds.
3. Present written recommendations to the Board and its investment staff, which will include: i) the results of the Board's real estate consultant's due diligence, ii) strategic considerations, iii) a detailed review of deal terms and iv) a description how the investment would fit within the Board's real estate portfolio.
4. Work with the Board's staff and legal counsel in the negotiation of contract terms and conditions.

Monitoring of the Real Estate Portfolio.

1. Take responsibility for the timely review and analysis of key events that may affect the real estate portfolio. Key events could include market changes, changes in management or substantial reductions in portfolio value. This review and analysis shall be conducted primarily through monitoring of the media, communication with professional industry contacts and the systematic review of the investment advisers' and funds' reporting.
2. Assist in actions taken to protect the interests of the Board as an investor and interact, where necessary, with portfolio investment advisers and funds to ensure compliance by each with contract terms.
3. Assist the Board's investment staff in attending partnership annual meetings,

and, where appropriate, serve on advisory boards.
4. Review and recommend courses of action for all fund document amendments.

Database Management.

1. Record all historical information on cash flows, net asset values, unfunded commitments, fee payments, cost basis and returns per investment.
2. Record performance data, including IRR and multiple calculations, and measure the recorded data against performance benchmarks.
3. Review cash flows and performance data by individual investment, asset class and the total portfolio over quarterly periods.

Reporting.

1. Quarterly performance reporting, which shall include, at a minimum:
    a. Allocation breakdown by geography, sector and industry
    b. Updates on each investment fund
    c. Listing of each investment fund by sector
    d. Date of commitment to each investment fund
    e. Commitment amount to each investment fund
    f. Drawdown amounts by investment fund
    g. Outstanding commitment by investment fund
    h. Distribution amounts by investment fund
    i. Investment Fund NAVs
    j. Multiples by investment fund
    k. IRR of each investment fund
    l. Items a – k aggregated for the total real estate portfolio.
2. The Board's real estate consultant shall reconcile the quarterly reporting with the custodian bank's reports and records for accuracy.

Other.

1. Provide educational workshops to Board Members on specific issues designated by the Board and/or recommended by its real estate consultant.
2. Provide comments and analysis on proposed federal and state legislation affecting the real estate portfolio.
3. Support the Board and its investment staff through written and/or oral presentations with government agencies, legislative committees, auditors etc.
4. Meet with the Board's investment staff quarterly to review the real estate portfolio, provide updates regarding the current market and new issues and advise regarding improvements to the real estate portfolio.

F. Authority to Make Investments

The final authority to make investment commitments under the Board's real estate asset allocation shall be vested solely with the Board.

G. Review and Modification of Real Estate Investment Guidelines

The Guidelines shall be reviewed periodically, but not less than annually, by the Board's investment staff and its real estate Consultant, to determine any additions or modifications that may be required.

XVI. Improving Access to the ISBI Investment Process

A. Diversity Policy- Emerging and Minority Investment Manager

It is the primary goal of ISBI to develop and maintain an investment program that will help secure the retirement benefits of the participating retirement plans. In order to achieve this objective, investment advisers are selected based on their long-term records of performance, depth of investment staff and consistency of approach among other characteristics.

However, the Board recognizes that even large, experienced and successful investment organizations were once small, start-up firms with few assets under management. Today many such firms are owned by minorities, women and persons with a disability. These firms are often started by experienced investment professionals, who show great promise, but find it difficult to compete with large majority owned organizations. The firms typically do not meet the minimum standards set for investment advisers by large investment programs such as ISBI. Consequently, they are not considered.

In order to take advantage of these emerging organizations, the Board has established an aspirational goal[25] to use emerging investment managers[26] for no less than 20% of the total portfolio funds under management within ISBI's investment program.

Furthermore, the Board goes beyond the utilization of emerging managers and has adopted goals for the utilization of minority investment managers[27]. The Board has established an aspirational goal to have no less than 20% of its investment advisors be minorities, females, and persons with a disability.

Goals for Utilization of Minority-Owned Businesses, Female-Owned Businesses, and Businesses Owned by Persons with a Disability

It is the goal of the Board that, subject to its fiduciary responsibility, the use of emerging investment managers shall be significant in each of the broad asset classes in which ISBI is invested and not concentrated in any particular asset class.

The Board has adopted the following minimum goals for the utilization of emerging and

[25] Effective January 1, 2016, Senate Bill 1334 requires the Board to establish certain aspirational goals for the utilization of Minority Investment Managers.

[26] Effective April 3, 2009, Public Act 96-0006 revised the definition of "emerging investment manager." As a result, the current definition applicable to ISBI is found in 40 Ill. Comp. Stat. § 5/1-109(4) and is defined as "a qualified investment adviser that manages an investment portfolio of at least $10,000,000 but less than $10,000,000,000 and is a 'minority owned business', 'female owned business' or 'business owned by a person with a disability' as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

[27] For purposes of this Policy, the term "Minority Investment Manager" includes emerging investment managers and/or minority owned business, female owned business, or business owned by a person with a disability as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

minority investment managers[28]:

Goals for Utilization of Emerging and Minority Investment Managers
By Investment Manager Classification

	Percent of Total Portfolio	
Classification	**Emerging**	**Minority**
Minority-Owned	5% - 7%	5%-7%
Female-Owned	3% - 5%	3% - 5%
Disabled	0% - 1%	0% - 1%

Goals for the Utilization of Emerging and Minority Investment Managers
By Asset Class

	Percent of Asset Class	
Asset Class	**Emerging**	**Minority**
Equities	8% - 10%	8% - 10%
Fixed Income	10% - 12%	10% - 12%
Alternatives*	1% - 5%	1% - 5%

* Alternative investments are not subject to the requirements set forth in Public Act 96-0006.

These goals will be reviewed annually by Investment Staff.

For purposes of this Policy, in order to be considered an emerging and/or minority investment manager by the Board, documentation of a current State of Illinois certification[29] must be provided to the Board before any asset allocation is received. In the event an emerging and/or minority investment manager is unable to obtain a State of Illinois certification due to the annual gross sales threshold requirement, such manager may appeal to the Board for recognition. Minority investment managers may represent any asset class within ISBI's asset allocation. Allocations of the Board's assets to minority investment managers will be made in accordance with the fiduciary standards under which all ISBI investment advisers operate.

Asset Management

[28] Public Act 96-0006 requires the establishment of "3 separate goals for (i) emerging investment managers that are minority owned businesses; (ii) emerging investment managers that are female owned businesses; and (iii) emerging investment managers that are businesses owned by a person with a disability."

[29] A "State of Illinois certification" is a certification granted by the Illinois Department of Central Management Services to a Minority Business Enterprise, a Female Business Enterprise or a Person with Disabilities Enterprise under the Business Enterprise Program for Minorities, Females, and Persons with Disabilities.

Investment Staff will review the statistical requirements for investment adviser searches as needed to provide better access to minority investment managers that have appropriate products.

Investment Staff will seek to include at least one minority investment manager in final Investment Staff interviews. Investment Staff will inform the Board of all minority investment manager candidates.

Investment Staff will regularly meet with Illinois-based minority investment managers on-site, and learn more about the Illinois-based minority investment manager community.

ISBI will make best efforts to include a meaningful representation of minority investment managers in the State Deferred Compensation Plan.

Investment Staff will encourage ISBI Consultants to be proactive and use creative approaches in achieving the Board's objectives with respect to the use of minority investment managers.

B. Diversity Policy- Minority and Illinois Brokerage

The Board seeks to increase access and business with state certified, minority-owned broker/dealers and Illinois-based broker/dealers; therefore, the Board, as a part of this Policy, has adopted minimum expectations for the use of minority-owned broker/dealers[30] by the Board's investment advisers. The minimum expectations are established based on the asset class in which the investment adviser invests. In addition, the Board will encourage its investment advisers to direct 25% of their trades to Illinois-based[31] broker/dealers. It is further the policy objective of the Board to encourage its investment advisers to seek to obtain best price execution at the Chicago Stock Exchange, which can be achieved by utilizing the Institutional Brokers of the Chicago Stock Exchange.

For purposes of this Policy, in order to be considered a minority-owned broker/dealer by the Board, documentation of a current state certification must be provided to the Board.

Transactions completed with minority-owned broker/dealers on behalf of the Board must be completed at rates fully competitive with the market. Subject to best execution, investment advisers for the Board's separately managed investment portfolios are strongly encouraged to direct the below percentages of total eligible commission dollars or eligible trading volume to minority-owned broker/dealers.

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[30] In accordance with Public Act 96-0006, "minority-owned broker dealer" means "a qualified broker-dealer who meets the definition of 'minority owned business', 'female owned business', or 'business owned by a person with a disability', as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

[31] The definition of an "Illinois-based" firm is consistent with the Illinois Pension Code which defines "Illinois business" as "a business, including an investment adviser, that is headquartered in Illinois." 40 Ill. Comp. Stat. § 5/1A-108.5(a).

Asset Class	**Minimum Goal as a Percentage**
U.S. Equity	30%
International Equity	20%
Fixed Income	20%
International Fixed Income	0 – 5%

These goals will be reviewed annually by Investment Staff.

Brokerage

1. Investment Staff will strongly encourage verbally and in writing the Board's domestic and international equity and fixed income investment advisers to directly utilize minority-owned brokers/dealers. Investment staff will add additional asset classes when appropriate.

Investment Staff will strongly encourage verbally and in writing investment advisers to direct 25% of their trades to Illinois-based broker/dealers.

Investment Staff will strongly encourage verbally and in writing investment advisers to obtain best price execution at the Chicago Stock Exchange ("CHX"), which may be achieved by utilizing the list of Institutional Brokers of the CHX. For purposes of this Policy, the most current list of Institutional Brokers of the CHX can be accessed via the CHX website.[7]

Investment Staff will provide verbally and in writing to minority-owned broker/dealers the contact information for the Board's domestic and international equity and fixed income investment advisers.

Investment Staff will monitor the use of Illinois-based broker/dealers and minority-owned broker/dealers by the Board's investment advisers, and report results to the Board on a quarterly basis. If an investment adviser reports less than their encouraged percentage of minority-owned broker/dealer utilization, Investment Staff will require the adviser to report in writing the reason for the shortfall, at which time the Board will decide if the adviser's practices are in accordance with this Policy.

Investment Staff will consider the use of Illinois-based broker/dealers and minority-owned broker/dealers when evaluating existing investment advisers.

Step outs and correspondence are prohibited. With regard to the emerging market asset class, best efforts by ISBI's investment advisers shall be applied.

Consequences of Non-Compliance

The Board continuously monitors investment advisers' compliance with this Policy and has established a series of consequences for those advisers who continually fail to meet the Board's expectations. The investment advisers are expected to achieve the desired levels of brokerage usage over a fiscal year period. The following steps will occur if the investment adviser continues to fall short of expectations:

1. A follow-up letter will be distributed to the investment advisers not achieving the minimum level of minority-owned broker/dealer usage. The investment advisers will be reminded of the brokerage usage expected by the Board.

2. Not achieving the desired level of minority-owned broker/dealer usage will be noted in the annual investment adviser review presented to the Board.

3. Investment Staff will conduct a meeting with the investment adviser to discuss the reasons for not achieving the desired level of brokerage usage.

4. Investment advisers not achieving the expected levels of minority-owned broker/dealer usage may be subject to a moratorium on additional funding.

5. If an investment adviser fails to comply with the request, they may be invited to appear before the Board to explain why they are unable to achieve the desired level of brokerage usage.

6. The investment adviser may be placed on the Investment Advisers Watch List.

C. Diversity Policy- Minority Contract and Service Utilization

Public Act 96-0006 ("PA 96-6") states that the Board shall adopt a policy which sets forth goals for the utilization of businesses owned by minorities, females, and persons with disabilities for all contracts and services. According to PA 96-6, "The goals shall be based on the percentage of total dollar amount of all contracts let to minority owned businesses, female owned businesses, and businesses owned by a person with a disability, as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act."

In furtherance of the Act, the Board, subject to its fiduciary responsibility, has set forth a minimum goal of 0-1% of the total dollar amount for all contracts for the utilization of businesses owned by minorities, females, and persons with disabilities.
In addition, pursuant to Pubic Act 099-0462 ISBI has set an aspirational goal to have no less than 20% of the total service contracts awarded for information technology, accounting, insurance brokerage, and legal services to be let to businesses owned by minorities, females, and persons with a disability, as those terms are defined in the Business Enterprise for Minorities, Females and Persons with Disabilities Act.

D. Diversity Policy- Fiduciary Diversification

The Board acts as fiduciary for the General Assembly Retirement System, the Judges' Retirement System of Illinois and the State Employees' Retirement System of Illinois. As a fiduciary, the Board is responsible for managing, investing, reinvesting, preserving and protecting fund assets.[32]

[32] *See* 40 ILCS 5/1-101.2

It is the policy objective of the Board to comply with all federal and state statutes, rules and regulations pertaining to the Board's investments. PA 96-6 encourages the Board to increase the racial, ethnic, and gender diversity of its fiduciaries, to the greatest extent feasible within the bounds of financial and fiduciary prudence.[33]

In furtherance of the Act, it is the goal of the Board to use its best efforts to increase the racial, ethnic, and gender diversity of its fiduciaries, including its consultants and senior staff, within the bounds of financial and fiduciary prudence.

Due to the small size of the staff and the number of individuals in these categories during the past fiscal year, there is no underutilization. As vacancies occur, the Board will make every effort to increase the racial, ethnic, and gender diversity of its consultants and senior staff in accordance with this Policy and within the bounds of financial and fiduciary prudence.

In accordance with its Affirmative Action Plan, the Board submits quarterly Workforce Analysis and Workforce Transaction Reports to the Department of Human Rights. The Board will continue to report to the Department of Human Rights on both a quarterly and an annual basis.

This goal will be monitored and reviewed annually in conjunction with the annual Affirmative Action Plan.

[33] *See* 40 Ill. Comp. Stat. § 5/1-109.1

XVII. Corporate Governance

A. Proxy Voting Policy

Rather than delegate proxy voting discretion to its Advisers, the Board has adopted its own proxy voting policy and guidelines based on the Taft-Hartley Advisory Services Proxy Voting Policy and Guidelines issued by Glass Lewis & Co. ("Glass Lewis"), the Board's proxy voting agent. The Fund's domestic and global equity proxies are voted solely in the interest of the retirement system participants and beneficiaries.

Votes are analyzed on a case-by-case basis, informed by the Board's proxy voting policy and guidelines, subject to the requirement that all votes are cast in the long-term interest of the participants and beneficiaries of the retirement systems. The Board receives quarterly voting records for all proxy votes cast on its behalf by Glass Lewis.

If the Board disagrees with a voting recommendation issued by Glass Lewis, the Board has authority to change its vote consistent with the Board's fiduciary duty.

B. Shareholder Resolution Policy

It is the policy objective of the Board, as fiduciary to the Fund, to pursue corporate governance reform of corporations in its portfolio. Public pension plans and their participants are adversely impacted by irresponsible corporate operation and governance. Any lack of corporate ethical standards at corporations negatively influences both investor confidence and portfolio performance.

Further, it is the Board's objective to engage in active ownership of its holdings by evaluating issues that may impact the value of ISBI's stock, voting its equity proxies and filing shareholder proposals when deemed in the best interests of ISBI.

The Shareholder Proposal Rule (Rule 14a-8 of the Securities and Exchange Act of 1934) allows shareholders to communicate with each other as well as with corporate management. Shareholder proposals typically specify an activity or policy change that the sponsor of the proposal is requesting a company to undertake. Proposals (also referred to as a shareholder resolution) can be filed with a company by any stockholder who has held a minimum amount of stock of the company (usually $2,000) for more than a year before the individual company-filing deadline.

The Board's Executive Director is responsible for recommending strategic, tactical and administrative policy to the Board, developing and implementing programs to accomplish Board objectives and overseeing the investment management of the funds under the Board's control.[34]

The Board recommends and authorizes the Executive Director, upon approval by the Chair of the Board, to submit shareholder proposals before the shareholders of corporations in which the Board holds shares, at the Executive Director's prudent discretion, that are fully consistent with the Board's policies, proxy guidelines and statutory authority.

In the event a shareholder proposal is submitted on the Board's behalf, the Executive Director will provide timely notice and information to the Board concerning the individual corporation and the nature and necessity of the proposal. In addition, the Executive Director will direct that certain of the Board's investment advisers hold a predetermined number of shares of the company stock where the Board has submitted a shareholder resolution, until further directed by the Board in writing. In the event any such company is expected to be dropped from an index, or if the investment adviser intends to otherwise sell the Board's position in the security, the investment adviser shall notify ISBI Staff as soon as possible, so that the investment adviser or ISBI Staff can take appropriate action to ensure that the Board continues to hold the predetermined number of shares of such company. The predetermined number of shares that the Board will continue to hold will be calculated as those shares having a market value of not less than

[34] ISBI Position Description, *Exec. Dir.* (Mar. 2003).

$10,000 and not more than $11,000. The period for which the Board will continue to hold the predetermined number of shares shall extend through the date of the meeting of shareholders of the company for which the shareholder resolution was submitted.

C. Securities Litigation Policy

As a fiduciary, the Board is responsible for pursuing the recovery of investment losses due to securities fraud within the Fund's portfolio. The Board has adopted this Securities Litigation Policy to establish the processes, responsibilities, and evaluative criteria through which ISBI will monitor the Board's portfolio for potentially actionable losses to protect the Board's interest and maximize any recoveries available from such actionable losses. The Policy has three parts: (i) asset recovery as absent class members in domestic securities actions; (ii) securities listed on a domestic exchange; and (iii) securities listed on a foreign exchange. This policy shall be modified with the approval of the Board when experience or changing circumstances demonstrate that modification would be prudent.

Asset Recovery as Absent Class Members in Domestic Securities Actions

Under U.S. federal law, securities class actions function as "opt-out" classes; investors, such as ISBI, do not need to participate as named parties in order to recover their pro rata share of a class action recovery. Rather, they need only submit a timely and valid proof of claim in order to realize recoveries.

Role of the Board's Custodian

The Board's Custodian is responsible for filing all proofs of claims, including the necessary supporting documents and information, in every securities class action pending in the U.S. in which the Board has an interest ("Claims Filing"). The custodial agreement between the Board and its Custodian memorializes the Custodian's Claims Filing responsibilities by setting forth formalized claims filing procedures, which shall include (i) identifying and reviewing all action recoveries (whether by settlement or trial); (ii) providing timely notice of each settlement recovery, with sufficient time to allow the Board to opt-out; (iii) filing complete and accurate proof of claim forms in a timely fashion on the Board's behalf; (iv) providing reports regarding these efforts; and (v) providing reports identifying all securities litigation proceeds recovered by the Board directly or on its behalf.

To the extent the Board switches custodians in the future, ISBI's General Counsel shall ensure that (i) the current custodian transfers all trading records in its possession to the new custodian in a prompt manner; and (ii) the new custodian undertakes to file proof of claims for all U.S. securities class actions in which the Board has an interest regardless of whether the custodian was engaged during the class period.

Role of ISBI Staff

ISBI Staff shall monitor potential class action filings by reviewing the reports prepared by the Custodian, ISBI's retained roster of qualified securities litigation legal service providers ("Preferred Providers"), and other available resources.

Role of the Preferred Provider

The Board has further requested its Preferred Providers to identify all U.S. class actions in which the Board has an interest and perform random audits to ensure that the Board's

Custodian is fulfilling its Claims Filing responsibilities. To establish a roster of Preferred Providers and make any changes thereto, ISBI shall initiate a Request for Competitive Proposal process, whereby legal service providers will forward proposals to ISBI's General Counsel, identifying their experience and qualifications.

Salient criteria in selecting a Preferred Provider for the roster shall be, among others: experience in representing institutional investors; experience and focus in securities litigation and independent securities fraud actions brought under federal law and/or state securities laws; experience in monitoring an institutional investor's portfolio, including having distinct processes for determining the relative merit and strength of varying claims and the degree to which the value of a fund's portfolio suffered any loss, as well as the use the legal service provider's own proprietary software for this determination; disclosure of all current, future or potential conflicts of interest; disclosure of all affiliations and relationships, written or oral, with Illinois counsel that will in any way aid or service the legal service provider's relationship with ISBI; disclosure of all fee sharing arrangements and certification that all such arrangements comply with the Illinois Rules of Professional Conduct, specifically Rule 1.5 of the Rules of Professional Conduct; ability to execute an agreement substantially similar to the "Master Legal Services Agreement for Securities Litigation," attached hereto as ***Exhibit A***.

Through evaluation of the proposals and analysis of all other necessary research, ISBI's General Counsel shall recommend a roster for the Board's approval. This roster shall consist of no more than five qualified Preferred Providers. Selection for the roster does not confer any rights to be retained contractually by ISBI in any matter. Rather, any legal service provider selected is merely a Preferred Provider. ISBI's relationship with the Preferred Providers is not exclusive. ISBI reserves the right to appoint counsel other than that on the roster of Preferred Providers for any matter relating to this policy.

ISBI shall permit all Preferred Providers to actively monitor ISBI's portfolio to evaluate pending cases that involve securities that ISBI bought and sold during the relevant class periods, to evaluate any settlements proposed and to file claims as necessary for ISBI to participate in distribution of funds. The Preferred Providers will provide this service at no cost to ISBI.

With minimal intrusion to the Custodial bank, ISBI shall authorize the Custodian to provide electronic access to ISBI's holdings and transactions, allowing the Preferred Providers to monitor the portfolio. Any costs resulting from the electronic access are the debt and responsibility of the Preferred Providers.

Securities Listed on a U.S. Exchange

It is the purpose of the Board to create an evaluation process to provide guidance regarding when and how the Board will become actively involved in domestic securities litigation, including seeking lead plaintiff status in any particular class action. When time is of the essence, the Board must be able to prudently evaluate and pursue lead plaintiff status and other alternatives as deemed appropriate.

Preferred Providers shall promptly notify ISBI of any significant portfolio losses due to suspected fraud and all requisite legal and factual analyses. The Preferred Provider shall differentiate and identify every possible meritorious securities fraud claim by ISBI; prioritize these claims in a hierarchy suited to positive recovery outcomes, and; derive an exhaustive analysis of future litigation requirements.

Where a Preferred Provider or any other external counsel alerts ISBI of a pending securities fraud claim and ISBI bought or sold securities during the applicable class period, evaluation of the alternatives will begin with an initial assessment of the size of the potential claim.

Where a potential loss is less than $1 million, further action will ordinarily be limited to evaluating any proposed class action settlements and filing any claims necessary for ISBI to participate in the distribution of funds through its Custodian.

Where a potential loss is greater than $1 million, the Board's General Counsel shall evaluate whether the class action is meritorious and deserves closer examination. The Board will review available information regarding the lawsuit before considering whether to seek any of the following alternative courses of action:

1. Monitoring the course of the securities class action suit and filing a claim to participate in the distribution of funds through its Custodian.

2. Monitoring the course of a securities class action suit, but objecting to a proposed settlement if there are reasons to object.

3. Seeking to control a securities class action suit by seeking designation as lead plaintiff, either singly or with others.

4. Opting out of a securities class action suit and filing a separate suit, either singly or with others.

Where the Board authorizes ISBI to seek designation as lead plaintiff of a securities class action suit, either singly or with others, ISBI shall take all actions and make all decisions regarding its role as lead or co-lead plaintiff based on its status as a fiduciary to the class, and shall appropriately document its basis for all such decisions and actions.

Where the Board authorizes ISBI to opt out of a securities class action suit, the decision shall be based upon the fiduciary duty of ISBI, the efficient and effective use of fund resources, and the potential long and short-term benefits to ISBI.

The relative merits of each alternative will be weighed and considered by the Board. The Executive Director may make a recommendation to the Board of any course of action beyond participating in securities litigation as a passive member of the class. The Board will have authority to approve any course of action beyond monitoring the case.

Prior to taking an active role in domestic securities litigation, the Board shall consider the following:

- Is it a viable case based on an initial assessment of certain key elements including, for example, alleged misrepresentations and/or omissions, scienter and loss causation, recognizing the heightened pleading standard of the Private Securities Litigation Report Act?
- What can ISBI bring to the litigation to improve the outcome?
- Assuming plaintiffs can prevail, will there be sources of recovery available to satisfy a judgment or settlement?
- Is ISBI eligible to pursue lead plaintiff status?
- Is another sophisticated and reliable lead plaintiff planning to come forward?
- Can or should ISBI team up with other funds as a co-lead plaintiff?
- What is ISBI's monetary loss?
- What internal resources are available to ISBI in order to undertake the active management strategy?
- What is the potential for differing interests among class members?

The Board shall further conduct an analysis to determine whether the benefits of involvement in the case outweigh the costs by considering the following:

- Are there claims against auditors or other third parties that are not being pursued?
- Is ISBI the best fund to represent the class for any reasons other than the monetary loss, such as lending credibility to a less obvious claim?
- What are ISBI's potential recoverable damages?
- Was there egregious activity within the company such that a personal recovery from the defendants appears to be the most expedient way to prevent similar future corporate behavior?
- What are the corporate governance changes that could be considered to address causes of the fraud?
- Will ISBI's involvement increase the likely recovery to be realized from this action?
- Does ISBI have the internal resources necessary to be an active participant in the case, recognizing that there will be discovery and other time consuming matters?

Where the Board has determined that the interests of ISBI will be best served by seeking designation as lead plaintiff or opting out of a class action, the Board will choose appropriate counsel from the roster of Preferred Providers or another external legal service provider and will memorialize any retention through an agreement substantially similar to the "Master Legal Services Agreement for Securities Litigation," attached hereto as Exhibit A. ISBI will give due consideration to the first legal service provider to contact ISBI about the particular matter, whether a Preferred Provider or not. However, the ultimate decision of which legal service provider to retain will be made at the Board's discretion.

All legal actions authorized or taken shall be reported to the Board. The Board shall receive periodic updates on the status of all such actions.

In the event that the Board has determined that the interests of ISBI will be best served by seeking designation as lead plaintiff or opting out of a class action, the Board will promptly notify the Office of the Illinois Attorney General (the "Attorney General").

Securities Listed on a Foreign Exchange

Unlike the U.S. class action process, in foreign actions investors are generally required to join as named plaintiffs or "opt-in" at the commencement of the case. This "opt-in" process requires affirmative decisions early in the process to join the case in order to recovery anything on the Board's losses. In these instances, the Board's Custodian is unable to fulfill its Claims Filing responsibilities; the Attorney General is responsible for determining whether further prudent action should be taken by the Board with regard to securities listed on a foreign exchange.

D. Responsible Contractor Policy for Infrastructure

Purpose

This Responsible Contractor Policy (the "Policy") of the [insert fund name] (the "Fund") is designed to guide, in a manner consistent with the Fund's fiduciary responsibility and prudence in managing its investments, the selection of independent contractors, including all operating company managers and their employees, and their subcontractors (collectively the "contractors") who provide construction, repairs, maintenance and infrastructure operating services (each individually a "Service") to assets and companies (collectively "operating companies") in which the Fund invests. The Policy seeks to ensure that the selection process for independent contractors will include among other things, a demonstrated ability to provide reliable and high quality Services which may be evidenced by their compliance with applicable statutes and payment of fair compensation and benefits to employees, as well as by their relevant experience, reputation, dependability, and ability to provide cost-efficient services, thereby enhancing the value of the Fund's investments.

Introduction

The Fund supports a safe and healthy and profitable business environment through selective negotiation, market competition, small business development, and control of operating costs. The Fund also supports and encourages fair compensation and fair benefits for workers employed by contractors to the extent possible, and in a manner consistent with the duties of the Fund manager to discharge its fiduciary duties with respect to the Fund. The Fund manager will act:

1. With the care, skill, prudence, and diligence required by the Fund manager pursuant to the terms of the Fund Limited Partnership Agreement; and

2. Will diversify the investments pursuant to the terms of the Limited Partnership Agreement.

In keeping with these overriding objectives, the Fund has adopted the Policy described herein in order to support and promote the engagement of independent contractors who can be expected to provide both competitive and high quality Services to Fund investments, utilizing appropriately trained and fairly compensated employees, subject to the above-cited fiduciary principles. The Fund believes that the utilization of such contractors adds value to its investments by ensuring that Services are provided by adequately-trained, experienced and motivated workers who deliver high quality products and services.

Furthermore, in circumstances where the Fund is working with a State, local or municipal agency to establish public/private partnerships and/or to bid on public offers for the sale, lease or management of public assets, the Fund shall endeavor in good faith to recognize the important role and contribution of public employees to the development and operation of such assets. In particular, the Fund shall, at its discretion, make good faith efforts to ensure that such transactions minimize any potentially adverse impacts on employees.

These efforts may include working directly with public employees, government officials, or collective bargaining groups, as appropriate, to both understand and to be considerate of any such potentially adverse effects.

The preceding paragraphs shall not preclude the Fund from (i) making any investment including any follow-on investment that it would otherwise be permitted to make pursuant to the Limited Partnership Agreement, or (ii) entering into negotiated arrangements and joint ventures with contractors on an exclusive or preferred basis (i.e. on a non-competitive bid basis) that have the potential to offer strategic value to the Fund's investments.

Initial Requirements of the Policy

The Policy provides that the following requirements shall be met, subject to the Fund manager's fiduciary duty:

1. Best Practices: On applicable contracts, contractors for Services shall be selected through a process that includes consideration of competitive risk-adjusted returns and factors such as, but not limited to, demonstrated skill, experience, dependability, fees, safety record, and adherence to the Policy.

2. Local, State and National Laws: All operating company managers, contractors, and their subcontractors shall observe all local, state and national laws including, but not limited to, those pertaining to insurance, withholding taxes, minimum wage, labor relations, health, and occupational safety.

If the initial requirements as stated above are satisfied, it is a Fund preference that a Responsible Contractor be hired.

On an annual basis, the Fund shall review summary compliance data provided by operating company managers for good faith evidence of monitoring and enforcement.

Definition of a Responsible Contractor

A Responsible Contractor, as used in this Policy, is an independent contractor who provides high quality Services to operating companies on a comparable and relevant basis in the applicable local market consistent with the desired contracting criteria, and pays workers a fair wage and fair benefits as evidenced by payroll and employee records. "Fair benefits" are defined as including, but not limited to: employer-paid family health care coverage, pension benefits, and training and/or apprenticeship programs. What constitutes a "fair wage" and a "fair benefit" will depend on the wages and benefits paid on comparable infrastructure projects, based upon local market factors that include the nature of the project (*e.g.*, municipal or commercial; public or private), comparable job or trade classifications and the scope and complexity of Services provided. In determining "fair wages" and "fair benefits" concerning a specific contract in a specific market, items that may be considered include local wage practices, state laws, prevailing wages, labor market conditions and other items.

Transition, Enforcement, Monitoring and Administration

1. Applicable Investments and Phasing: The Policy shall apply to all U.S. infrastructure equity investments where the Fund owns a 50% or greater ownership and exercises a controlling interest. The Policy shall not apply to hybrid debt, commingled funds, opportunity funds, mezzanine debt, and indirect, specialty investments lacking equity features. However, when the Policy is not applicable by its terms as set out in the previous sentence, operating company managers shall be encouraged to make a good faith effort to comply with the spirit of the policy, consistent with their fiduciary duty. Good faith efforts shall include, but are not limited to, encouraging the use of and advocating for Responsible Contractors, supplying the Fund with timely information on all applicable bidding opportunities for interested Responsible Contractors, and facilitating meetings with interested stakeholders, when possible.

   Contracts existing at the time of the Fund's investment in an operating company shall not be subject to this policy until they are evaluated for renewal; voluntary compliance is encouraged.

2. Notification: The Fund shall provide all Fund Investment staff and operating company managers with a copy of this Policy.

3. Solicitation Documents: All requests for proposals and invitations to bid covered by this Policy shall include the terms of this Policy. Responses by bidders shall include information to assist Fund Investment staff in evaluating a bid.

4. Contracts and Renewals: All contracts entered into after the effective date of this Policy that pertain to applicable infrastructure investments and are covered by the Policy, including renewals of such contracts, shall include the terms of this Policy. Responsible Contractor compliance will be part of the contract renewal consideration.

5. Responsibilities: The responsibilities of Fund Investment staff, operating company managers and contractors are defined as follows:

   a. Investment staff: Fund Investment staff shall have the following responsibilities:

      i. communicate the Policy to all operating company managers;

      ii. secure agreements to comply with the Policy from operating company managers;

      iii. review the relevant operating company managers' annual reports regarding compliance with the Policy and make recommendations as needed for action to correct any pattern of non-compliance; and

      iv. furnish annual reports to the Fund investors with a management comment regarding the Fund's compliance with this Policy.

b. Operating Company Managers: Operating company managers will have responsibility for the following:

i. communicate the Policy to independent contractors seeking to secure applicable Service contracts;

ii. communicate the Policy to any interested party;

iii. ensure there is a selection process that includes potentially eligible Responsible Contractors, where applicable and commercially reasonable;

iv. require independent contractors seeking to secure applicable Service contracts to provide a Responsible Contractor Self-Certification Form (Appendix 1) to the operating company manager. The Fund reserves the right to disclose the contents of the Self-Certification Form at its discretion;

v. provide operating company level annual report information to the Fund manager;

vi. maintain documentation for contractors that have secured applicable Service contracts;

vii. incorporate any trade union/service union input received, where applicable and commercially reasonable, in the development of Responsible Contractor lists;

viii. maintain a list of any interested Responsible Contractors (names, addresses and telephone numbers) to which the Responsible Contractor Policy may be applicable.

c. Contractors: Contractors will have the responsibility for the following:

i. submit to the operating company manager a Responsible Contractor self-certification on a form approved by the Fund;

ii. communicate the Policy to subcontractors; and

iii. provide Responsible Contractor documentation to operating company manager.

6. Outreach: The Fund manager will maintain a list of all Fund investments covered by this Policy. The list will include the operating company name, address, operating company manager, and the phone numbers of the operating company manager. The Fund will provide a Fund investor with a copy of this list upon request to allow the

Fund investor to assess the implementation of this Policy and, in particular, whether Responsible Contractors are being included in the selection process in a timely fashion.

7. Minimum Contract Value: The Policy shall apply to all applicable Service contracts to independent contractors involving new construction capital works with an aggregate minimum value of $50 million, ongoing capital works with an aggregate minimum value of $25 million and operating or other maintenance contracts not involving capital works with an annual minimum value of $5 million. Minimum contract value refers to the aggregate value of a project contract including all of the discrete Services required to complete the project, and does not allow for any disaggregation by trade or task. Disaggregation designed to evade the requirements of the Policy is not permitted. The Fund manager may, at its sole discretion, lower the minimum contract value for specific investments as it sees appropriate. When the Policy is not applicable by its terms, the Fund manager shall encourage operating company managers to make a good faith effort to comply with the spirit of the policy in a manner consistent with their fiduciary duty.

8. Fair Wages and Fair Benefits: The Policy avoids a narrow definition of "fair wage" and "fair benefits" that might not be practical in all markets. The Policy looks to local practices concerning type of trade and type of project. The Policy recognizes that practices and labor market conditions vary across the country and that flexibility in implementation is important.

   In determining "fair wages" and "fair benefits" concerning a specific contract in a specific market, items that may be considered include local wage practices, state laws, prevailing wages, labor market conditions and other items.

9. Selection Process: Given the time and expense required to solicit and evaluate potential contractors, it is not essential that operating company managers solicit all potential contractors.

   The operating company manager must ensure, to the extent commercially reasonable, that there is a selection process that is inclusive of potentially eligible Responsible Contractors. Competitive bidding does not necessarily assure inclusion of Responsible Contractors. Care must be taken that if applicable Service contracts covered by this policy are competitively bid, then bidders include potentially eligible Responsible Contractors. However, for the avoidance of any doubt, operating company managers will retain full commercial discretion to conduct the bidding process in a manner that is consistent with their overriding fiduciary responsibilities to enhance investment value for investors, co-investors and joint venture partners and to seek to minimize or control costs while ensuring the provision of relevant and high quality services.

10. Neutrality: The Fund supports a position of neutrality in the event there is a legitimate attempt by a labor organization to organize workers performing Services at a Fund-

owned operating company. Accordingly, contractors shall observe their legal obligations to recognize a union as the collective bargaining representative of its employees upon showing (on cards) that a majority of the contractor's employees favor unionization

Resolution of any interjurisdictional trade disputes shall be the responsibility of the trades and the various state and national building trades councils. This Policy does not call for any involvement by the Fund or an operating company manager in interjurisdictional trade disputes.

11. Enforcement: The Fund shall place a non-complying operating company manager on a watch list. If the operating company manager does not modify this pattern of conduct after discussions with the Fund's Investment staff, the Fund shall consider this pattern of conduct along with other information when it reviews the operating company manager contract for future renewal. A key indicator is a pattern of conduct that is inconsistent with the provisions of the Policy.

E. Responsible Contractor Policy for Real Estate

Purpose

This Responsible Contractor Policy (the "Policy") of the[insert fund name] (the "Fund") is designed to guide, in a manner consistent with the Fund's statutory standards of fiduciary responsibility and prudence in managing its investments, the Fund's selection of independent contractors and their subcontractors (collectively the "contractors") who provide building operations services, hotel management services, construction, renovation, maintenance and any other services (each individually a "Service") to properties in which the Fund invests. The Policy seeks to ensure that Fund contractors will be selected based upon demonstrated ability to provide high quality services, thereby enhancing the value of the Fund's properties and overall investments, as evidenced by their record of compliance with applicable statutes and payment of fair compensation and benefits to employees, as well as by their experience, reputation, responsiveness, fees and dependability.

Introduction

The Fund supports a healthy and profitable business environment through market competition, small business development and control of operating costs. The Fund also supports and encourages fair compensation and fair benefits for workers employed by its contractors, subject to the duties of a fiduciary to discharge his or her duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries and:

1. For the exclusive purpose of:

    a. providing benefits to participants and their beneficiaries; and

    b. defraying reasonable expenses of administering the retirement system or pension fund;

2. With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims;

3. By diversifying the investments of the retirement system or pension fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

    In keeping with that concern, the Fund has adopted the Responsible Contractor Policy described herein in order to support and promote the engagement of contractors who can be expected to provide high quality Services to Fund properties and investments, utilizing properly-trained and fairly compensated employees, subject to the above-cited fiduciary principles of loyalty, care, skill, prudence and diligence.

The Fund believes that the utilization of such contractors adds value to its investments by ensuring that Services are provided by adequately-trained, experienced and motivated workers, who deliver a high quality product and service.

Initial Requirements of the Policy

1. Duty of Loyalty: Notwithstanding any other considerations, assets shall be managed for the exclusive benefit of the participants and the beneficiaries of the Fund. The Fund and its advisors' duties to the participants and their beneficiaries shall take precedence over any other duty.

2. Prudence: The Fund, its Investment staff and advisors are charged with the fiduciary duty to exercise the care, skill, prudence and diligence appropriate to the task.

3. Competitive Return: To comply with duties of loyalty and prudence, all investments and services must be made and managed in a manner that produces a competitive risk-adjusted return
4. Best Practices: Contractors for Services shall be selected through a process that includes consideration of loyalty, prudence, competitive risk-adjusted returns and factors such as, but not limited to, experience, reputations for honesty, integrity, timeliness, dependability, fees, safety record and the adherence to the Responsible Contractor Policy. If the competitive bidding process is not utilized, the manager must define the alternative process, outline why the alternative process was in the best interest of the Board, and explain the rational for the resulting selection.

5. Local, State and National Laws: All advisors, property managers, contractors, and their subcontractors shall observe all local, state and national laws (including, but not limited to, those pertaining to insurance, withholding taxes, minimum wage, labor relations, health and occupational safety).

Selection of Responsible Contractor
If the initial requirements stated above are satisfied, the Fund expresses a strong preference that a Responsible Contractor be hired. If advisors, partners, managers, contractor or Investment staff become aware that a responsible contractor can not or has not been hired, they shall report this information to the Fund and information regarding the circumstances.

A Responsible Contracting annual report shall be required by this policy. The advisors/partners shall present summary data in a format approved by the Fund in an annual review. The annual review shall provide the Fund Investment staff with good faith evidence of monitoring and enforcement.

Definition of Responsible Contractor A Responsible Contractor, as used in this Policy, is a contractor who provides high quality Services and pays workers a fair wage and fair benefits as evidenced by payroll and employee records. "Fair benefits" are defined as

including, but are not limited to, employer-paid family health care coverage, pension benefits and training and/or apprenticeship programs. What constitutes a "fair wage" and "fair benefits" depends on the wages and benefits paid on comparable real estate or other investment projects, based upon local market factors, that include the nature of the project (*e.g.*, residential or commercial; public or private), comparable job or trade classifications and the scope and complexity of Services provided. Responsible Contractors will adhere to the following guidelines based on the type of Services provided and the market(s) in which they operate:

1. All on-site construction, renovation, or maintenance work in markets subject to a master collective bargaining agreement shall be performed by contractors who pay prevailing wages and benefits in those markets as measured by the applicable collective bargaining agreement;

2. In markets where a majority (as measured by the square footage in large buildings) of the market in a given building service sector (*i.e.*, commercial cleaning, maintenance, security or residential) is subject to a master collective bargaining agreement, the Fund's managers will seek to hire and retain contractors to Fund Properties who pay prevailing wages and benefits in those markets as measured by the applicable master collective bargaining agreement; and

3. In markets where the Services are not covered in 1 or 2 above, the Fund's managers will seek and hire and retain contractors to Fund Properties who agree to abide by the provisions of Section VI.I below.

Transition, Enforcement, Monitoring and Administration

1. Applicable Investments and Phasing: The Policy shall apply to all future real estate advisors/partners and joint ventures and partnerships where ISBI owns 50% or greater ownership interest and their contractors who provide services to ISBI properties. The Policy shall not apply to hybrid debt, commingled funds, opportunity funds, mezzanine debt, and indirect, specialty, and mortgage investments lacking equity features and their respective advisors.

   However, when the Policy is not applicable by its terms as set out in the previous sentence, The Fund expresses a strong preference that advisors/partners make a good faith effort to comply with the spirit of the policy, consistent with their fiduciary duty. Good faith efforts shall include, for example, encouraging the use of and advocating for responsible contractors, supplying the Fund with information on all portfolio holdings, allowing responsible contractors to bid on potential work, and facilitating meetings with interested stakeholders.

   In addition, reasonable efforts will be made to include fund managers that have adopted responsible contractor policies for all of their real estate holdings and seek

out investment opportunities that have responsible contractor policies in place for investment consideration.

2. Notification: The Fund shall provide all applicable current and prospective real estate advisors with a copy of this Policy

3. Solicitation Documents: All requests for proposal and invitations to bid covered by this Policy shall include the terms of this Policy. Responses by bidders shall include information to assist Fund Investment staff in evaluating a bid.

4. Contracts and Renewals: All contracts entered into after the effective date of this Policy that pertain to applicable real estate investments and are covered by the Policy, including renewals of such contracts, shall include the terms of this Policy.

5. Responsibilities: The responsibilities of Fund Investment staff, advisors, property managers, contractors and unions are defined as follows:

a. Investment staff: Fund Investment staff shall have the following responsibilities:

i. review the advisors' annual certification statement regarding compliance with the Policy;

ii. provide a copy to inquiring parties of the lists of all Fund Properties developed by each advisor;

iii. furnish annual reports to the Board on each advisor's compliance with this Policy, and make recommendations as needed for action to correct any pattern of non-compliance; and

iv. secure agreements to comply with the Policy from prospective advisors.

b. Advisors: Advisors' responsibilities shall include:

i. communicate the Policy to all property managers;

ii. review a contract listing for each property prepared by each property manager;

iii. develop and maintain contact lists for all Fund Properties (owned either directly or through an investment vehicle) and provide a copy to Fund Investment staff;

iv. maintain a simplified summary for each applicable contract, which should include identifying the contract, successful contractor and contractor's status as a Responsible Contractor;

v. maintain an annual report in their home office, describing their own efforts, as well as those by property managers and their contractors and subcontractors, in furtherance of the Policy;

vi. monitor and enforce the Policy, including investigation of potential violations; and

vii. annually, the signatory to the Fund contract will file a certification stating that their firm complied with the Policy for the preceding year, including, upon request, written substantiation of such compliance, which will be subject to periodic audits.

viii. facilitate meetings with interested stakeholders

c. Property Managers: Property managers will have responsibility for the following:

i. communicate the Policy to contractors seeking to secure Service contracts;

ii. communicate the Policy to any interest party;

iii. ensure there is a selection process that is inclusive to potentially eligible Responsible Contractors;

iv. require contractors seeking to secure Service contracts to provide to the property manager a Responsible Contractor Self-Certification Form (Appendix 1). The Central Fund reserves the right to disclose the contents of the Self-Certification Form at its or its Advisors/Partners discretion;

v. prepare and send to advisors a listing of applicable Service contracts for each property under management; to which the building trades, service trades and other potential contractors seeking to secure Service contracts will have access;

vi. provide advisors with a simplified summary of contractor proposals or bids, if applicable, for each contract;

vii. provide property level annual report information to advisor;

viii. maintain documentation for contractors that have secured Service contracts;

ix. seek from trade unions/service unions input in the development of Responsible Contractor lists;

x. maintain a list of any interested Responsible Contractors (names, addresses and telephone numbers); and

xi. property managers and advisors, where applicable, shall notify a national contact at trade/service unions as pursuant to Section VI.E. 5.e. if the property manager or advisor is expanding into new areas so that trade/service unions can provide the manager/partner contact information of local trade councils and union halls in the market where expansion is occurring.

d. Contractors: Contractors will have the responsibility for the following:

i. submit to property manager a Responsible Contractor self-certification on a form approved by the Fund;

ii. communicate to subcontractors the Policy; and

iii. provide to property manager Responsible Contractor documentation.

e. Unions: Trade unions/service unions shall be asked to perform the following tasks:

i. deliver to the property manager or advisor lists of names and phone numbers of Responsible Contractors;

ii. refer interest and qualified Responsible Contractors to the property manager;

iii. continually monitor the local labor markets to update the lists;

iv. provide technical input as appropriate; and

v. deliver to the property manager or advisor a national contact person/address where current information can be sent as well as notification of expansions into new areas. In addition, provide contact information (address, phone number and contact person) of local trade councils and union halls in all markets in which the responsible contractor policy is applicable to the property manager or advisor/partner.

6. Outreach: The Fund's advisors will develop, maintain and provide to Fund Investment staff a list of all Fund Properties covered by this Policy. The list will include the property name, address, property manager, and the phone numbers of the property manager and real estate advisor. Fund Investment staff will provide this list to anyone who requests a copy. Actual contract expiration inquiries will be referred to the property manager. Property managers shall provide solicitation documents to any potential contractor who has, in writing, expressed an interest in securing an applicable Service contract.

7. Minimum Contract Size: The Policy shall apply to all Service contracts of a minimum size of $25,000, individually or annually as applicable. Minimum contract size refers to the total project value of the Services being contracted for and not to any disaggregation by trade or task. For example, a $25,000 contract to paint two buildings in a single office complex would not be treated as two $12,500 contracts, each less than the minimum contract size. Disaggregation designed to evade the requirements of the Policy is not permitted.

8. Selection Process: Given the time and expense required to solicit and evaluate potential contractors, it is not essential that advisors, property managers and contractors solicit all potential contractors.

   The property manager must ensure that there is a selection process that is inclusive of potentially eligible Responsible Contractors. Competitive bidding does not necessarily assure inclusion of Responsible Contractors. Care must be taken that if Service contracts are bid competitively, bidders include potentially eligible Responsible Contractors.

   Although the Policy does not require hiring union workers, trade unions and service unions will be invited to (1) deliver to the property manager or advisor lists of names and phone numbers of Responsible Contractors including those Responsible Contractors who have expressed any interest in securing an applicable Service contract, and (2) continually monitor the local markets to update the lists, which the property manager shall maintain.

9. Neutrality: The Fund recognizes the rights of employees to representation. All parties associated with any Fund Property shall adopt a position of neutrality in the event there is a legitimate attempt by a labor organization to organize workers performing Services at any Fund Property. Accordingly, in furtherance of this legal right, a contractor shall provide union representatives with employee information and access to the Fund Property for the purpose of communicating with employees, shall recognize the union as the collective bargaining representative of its employees upon a showing [on cards] that a majority of the contractor's employees favor unionization, and, upon recognition, shall bargain in good faith with the union to reach a fair and reasonable contract. Furthermore, if there is reasonable evidence that a party has broken the law (for example a complaint issued by the National Labor Relations Board against a contractor for violating workers' rights under the National Labor Relations Act) that party may be precluded from qualifying as a Responsible Contractor.

   Resolution of any inter-jurisdictional trade disputes will be the responsibility of the trades and the various state and national building trades councils. This Policy does not call for any involvement by the advisors, property managers, or contractors in inter-jurisdictional trade disputes.

10. Enforcement: If an advisor becomes aware of non-compliance with this Policy by a property manager, contractor or subcontractor at an Fund Property, and the non-complying party does not modify its conduct after discussions with the advisor or contractor, then the advisor or contractor shall seek to cancel the Service contract in accordance with the cancellation provisions in the applicable contract, and solicit other contractors for the contract according to the provisions of Section VI.H above, subject always to the fiduciary principles of loyalty and prudence embodied in Section III of this Policy. If Fund Investment staff becomes aware of non-compliance by an advisor, the Plan will place the non-complying advisor on a probation watch list. If the advisor does not modify its pattern of conduct even after discussions with Fund Investment staff, the Plan will consider this pattern of conduct along with other information when it reviews the advisor contract for possible renewal.

F. SEC Comment Policy

The mission of the Securities and Exchange Commission ("SEC") is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. To facilitate its mission, the SEC regularly seeks comments from the public regarding Proposed Rules and other Releases; less frequently comments are invited for Final Rules, Interpretive Releases and Policy Statements. Consistent with the Board's objective to engage in active ownership of its holdings by evaluating issues that may impact the value of ISBI's stock, the Board has adopted this SEC Comment Policy (the "Policy") to respond to the SEC's invitation for public comment on matters pertaining to the Board.

Upon notice of the SEC's invitation for public comment on an issue applicable to the Board, ISBI's Executive Director and/or General Counsel may provide commentary to the SEC on behalf of the Board. Any and all commentary provided under this Policy shall be representative of the Board's policies, consistent with the Board's fiduciary duty, and submitted in accordance with the methods provided for by the SEC.

ISBI's Executive Director and/or General Counsel shall notify the Board in advance of the issuance of any commentary under this Policy.

XVIII. Derivatives Policy

The Illinois State Board of Investment ("ISBI" or the "Board") has adopted this Derivatives Policy (the "Policy") to provide a broad strategic framework for managing the Board's financial derivatives in its investment portfolio. Derivatives shall only be used to manage asset and risk exposures consistent with this Policy and other approved ISBI investment guidelines. This Policy does not apply to registered or private investment funds.

For purposes of this Policy, the term "derivative" is defined as a financial instrument whose value is derived from, in whole or in part, the value of any one or more underlying securities or assets of an index of securities or assets (such as bonds, stocks, commodities and currencies).
The scope of this Policy includes the following types of derivatives:

- Those derivatives that are non-securities based exchange traded futures, options on futures, and options. These derivatives are generally standardized instruments which are exchange-traded, cleared through a clearinghouse and subject to regulation.
- Those derivatives that are non-securities based over-the-counter ("OTC") transactions. These derivatives are customized for the parties engaged in the transaction. Examples include total return swaps, swaptions, interest rate swaps, credit default swaps, and currency forwards.

Derivatives excluded from this Policy include those derivatives that are securities-based and are traded either on an exchange or OTC. Examples include Exchange Traded Funds, rights, warrants, convertibles and depositary receipts, asset-backed securities, mortgage-backed securities, Treasury strips, inflation-linked bonds, interest only and principle only securities, convertibles, yield curve notes and equity or commodity linked bonds. These types of derivatives are similar in many respects to other securities such as stocks and bonds and are thus monitored under other aspects of ISBI's Investment Policy.

Derivatives may be used to manage the Board's asset exposures and risks in a prudent, timely and cost-effective manner. Derivatives shall only be used to acquire asset and risk exposures consistent with approved ISBI investment guidelines and not for speculative purposes.

<u>Permitted Strategies using Derivatives</u>
Derivatives can be used to assist in achieving investment goals within a particular investment strategy, including to:

- Manage overall asset allocation of an ISBI investment account or the overall ISBI portfolio, including rebalancing activity;
- Manage transition of assets between ISBI's investment managers;
- Hedge cash balances to replicate the performance of a permitted asset class; and
- Hedge or manage exposure to equity markets, commodities, currencies, duration, total return, yield or credit, interest rates, sectors, sub-sectors, and countries.

Risk Management

Prior to, and on an ongoing basis, any use of a permitted strategy that employs derivatives requires:

- Identification and assessment of the purpose of the derivatives and specific risks associated with such derivatives;
- Creation of derivative and counterparty guidelines, controls and monitoring reports; and
- Creation of operational procedures to assure adequate controls and monitoring of activity.

Exhibit A

ILPA Private Equity Principles

Best Practices in Private Equity Partnership

Alignment of Interest

- The agreed profit split in commingled funds has typically worked well to align interest, but tighter distribution provisions must become the norm in order to avoid clawback situations.
- Clawbacks must be strengthened so that when they are required they are fully and timely repaid.
- Management fees should cover normal operating costs for the firm and its principals and should not be excessive.
- All transaction and monitoring fees charged by the general partner should accrue to the benefit of the fund, including offsetting management fees and partnership expenses during the life of the fund.
- The general partner should have a substantial equity interest in the fund to maintain a strong alignment of interest with the limited partners, and a high percentage of the amount should be in cash as opposed to being contributed through the waiver of the management fee.
- Changes in tax law that personally impact members of a general partner should not be passed on to limited partners in the fund.
- Fees and carried interest generated by the general partner of a fund should be directed predominantly to the professional staff and expenses related to the success of that fund.

Governance

- General Partners should reinforce their duty of care. The "gross negligence, fraud, and willful misconduct" indemnification and exculpation standard should be the floor in terms of what is agreed to by limited partners. Recent efforts by the general partner to (i) reduce all duties to the fullest extent of the law, (ii) demand the waiver of broad categories of conflicts of interest and (iii) allow it to act in its sole discretion even where a conflict exists should be avoided.
- Investments made by the general partner should be consistent with the investment strategy that was described when the fund was raised.
- The general partner should recognize the importance of time diversification during the stated investment period as well as industry diversification within the portfolio.
- A supermajority in interest of the limited partners should have the ability to elect to dissolve the fund or remove the general partner without cause. A majority in interest of the limited partners should have the ability to elect to effectuate an early termination or suspension of the investment period without cause.

- A “key-person” or “for cause” event should result in an automatic suspension of the investment period with an affirmative vote required to reinstate it.
- The auditor of a private equity fund should be independent and focused on the best interests of the partnership and its limited partners, rather than the interests of the general partner.
- Limited Partner Advisory Committee (“LPAC”) meetings processes and procedures should be adopted and standardized across the industry to allow this sub-body of the limited partners to effectively serve its role.

Transparency

- Fee and carried interest calculations should be transparent and subject to limited partner and independent auditor review and certification.
- Detailed valuation and financial information related to the portfolio companies should be made available as requested on a quarterly basis.
- Investors in private equity funds should have greater transparency as required with respect to relevant information pertaining to the general partner.
- All proprietary information should be protected from public disclosure.

Private Equity Preferred Terms

Alignment of Interest

1. Waterfall Structure
    - A standard all-contributions plus preferred-return-back-first model should be recognized as a best practice.
    - Enhance the deal-by-deal model:
        - Return of all realized cost s of given investment with continuous makeup of partial impairments and write-offs, and return of all fees and expenses to date (as opposed to pro rata for the exited deal);
        - For purposes of waterfall, all unrealized investments should be valued at lower of cost or market; and
        - Require carry escrow accounts with significant reserves (30% of carry distributions or more) and require additional reserves to cover potential clawback liabilities.
    - Carry should only be paid on recapitalizations once full amount of invested capital is realized on each investment that was recapitalized.
    - The preferred return should be calculated from the day capital is contributed to the point of distribution.
2. Calculation of Carried Interest
    - Carried interest should be calculated on the basis of net profits (not gross profits).
    - No carry should be taken on current income.
    - Carried interest should be calculated on an after-tax (i.e., foreign or other taxes imposed on the fund should not be treated as distributions to the partners).
3. Clawback

- Clawback liabilities, if any, should be determined and clearly disclosed to the limited partners as of the end of every reporting period. The disclosure should be accompanied by a plan by the general partner to resolve the clawback.
- All clawback amounts should be gross of taxes paid and paid back no later than two years following recognition of the liability.
- Joint and several clawbacks should exist to encourage effective escrows and other general partner mechanisms to ensure clawback repayment.

4. Management Fee Structure
   - The General Partner should provide prospective limited partners with a fee model for the fund at formation to be used as a guide to set management fees.
   - Management fees should be based on reasonable operating expenses and reasonable salaries, so that fees are not excessive.
   - Management fees should step down significantly upon the formation of a follow-on fund and at the end of the investment period.
5. Expenses
   - The management fee should encompass all normal operations of a general partner to include, at a minimum, overhead, staff compensation, travel, and other general administrative items as well as interactions with limited partners.
   - The LPAC should review partnership expenses annually.
   - Placement agent fees and general partnership insurance should be expense borne entirely by the general partner.
6. Term of Fund: Fund extensions should be permitted in 1 year increments only.
7. General Partner Fee Income Offsets: All transactions, monitoring, directory, advisory, and exit fees charged by the general partner should accrue 100% to the benefit of the fund.
8. General Partner Commitment
   - The general partner should have a substantial equity interest in the fund to maintain a strong alignment of interest with the limited partners, and a high percentage of the amount should be in cash as opposed to being contributed through the waiver of management fees.
   - Principals should be restricted from transferring their interest in the general partner in order to ensure alignment with the limited partners.
9. Standard for Multiple Product Firms
   - Key-persons should devote substantially all their business time to the fund and its parallel vehicles. No general partner or any principal may close or act as general partner for a fund with substantially equivalent investment objectives and policies until after the investment period ends, or the fund is invested, expended, committed or reserved for investments and expenses.
   - The general partner should not invest in opportunities that are appropriate for the fund through other investment vehicles unless such investment is made on a pro-rata basis under pre-disclosed co-investment agreements established prior to the close of the fund.

- Fees and carried interest generated by the general partner of a fund should be directed predominately to the professional staff and expenses related to the success of that fund.

Governance

1. Fiduciary Duty
    - Generally, reinforce the fiduciary duties of the general partner.
    - Avoid provisions that allow general partner to reduce all fiduciary duties to the fullest extent allowed by law.
    - Avoid provisions that allow general partner to use its sole discretion and weigh its own self-interest against the interest of the fund.
    - Avoid provisions where limited partners acknowledge and waive broad category of conflicts or affiliated transactions.
    - Require general partner to present all conflicts of which it is aware of to the LPAC for review and seek prior approval for any material conflicts and/or non arm's length interactions or transactions.
    - Require a review of all affiliated transactions and approval by the LPAC.
    - Allow general partner removal for bad acts upon preliminary determination, not by a final court decision not subject to appeal. The termination of the individual responsible for such actions should not be deemed to be a cure or remedy.
    - Avoid provisions that allow general partner and its affiliates to be exculpated or indemnified for conduct constituting a material breach of the partnership agreement, breach of fiduciary duties, or other "for cause" events/
    - Cap indemnification expenses as a percentage of total fund size.
    - Situations impacting a principals' ability to meet the specified "time and attention" standard should be disclosed to all limited partners and discussed with, at a minimum, the Limited Partner Advisory Committee.
    - Any amendment to the limited partnership agreement should require the approval of a supermajority in interest of the limited partners.
2. Style Drift/investment Purpose
    - The investment purpose clause should clearly and narrowly outline the investment strategy.
    - Any changes or modifications to investment strategy should be disclosed and approved by a supermajority in interest of the limited partners.
    - The general partner should recognize the importance of time diversification during the stated investment period to avoid over-concentration in short time periods by considering limitations on the amount of capital that can be called on an annual basis from limited partners. Funds should have appropriate limitations on investment and industry concentration (excluding sector-focused funds).
    - Explicit limitations or restrictions should be place don investments in debt instruments, publicly traded securities, and pooled investment vehicles.
3. Stronger No-Fault Rights and Withdrawal Rights

- No fault rights upon majority in interest vote of limited partners for the following:
    - Suspension of commitment period; and
    - Termination of commitment period.
- No fault rights upon a two-thirds of interest vote of limited partners for the following:
    - Removal of the general partner; and
    - Dissolution of the fund.

4. Key-Man, Time and Attention, and For Cause Provisions: Automatic suspension of investment period, which will become permanent unless two-thirds of limited partners in interest vote to re-instate within 180 days, when a key-man event is triggered or for cause (fraud, material breach of fiduciary duties, material breach of agreement, bad faith, and gross negligence).

5. Independent Auditor and Independent Fund Counsel
    - The external auditor of the funds should not perform other services for the general partner and/or its affiliates whenever practicable.
    - Limited partners should ratify any change in the independent external auditor of the fund.
    - The external auditor should certify that allocations and distributions have been done pursuant to the partnership agreement and that capital accounts are correct. Management fee and carried interest calculations should be reviewed and certified by the auditor.
    - The external auditor should review the partnership expenses charged to the partnership and certify that any charges were consistent with the partnership agreement.
    - Upon request of the LPAC, the fund should make available to the LPAC separate counsel that is independent from the general partner and does not perform work for the general partner or its affiliates.

Transparency

1. Management and Other Fees: All fees (i.e., transactions, financing, monitoring, management, redemption, etc.) generated by the general partner should be periodically disclosed and classified in each audited financial report and with each capital call and distribution notice.

2. Capital Calls and Distribution
    - With each distribution, the general partner should disclose the exact amount of carry and provide build-up to carry calculation.
    - Greater detail on all capital calls should be provided, including percentages for each limited partner and detail in calculation (including offsets) of management fees.

3. Disclosure Related to the General Partner
    - As requested, the economic arrangement of the general partner, the principals and any other third-party investors in the general partner as well as the organized structure of the general partner and its affiliates shall be fully disclosed to prospective limited partners as part of the due diligence process. Specifically, the following should be disclosed as requested:

    - The capitalization of the fund;
    - Profit sharing splits among the principals, including vesting schedules; and
    - Individual commitment amounts by the principals making up the general partner commitment.
- Carried interest and other general partner related cash or stock incentives taken by the general partner as a part of its role and responsibilities on partnership investments should be disclosed to the limited partners.
- The economic arrangement of the general partner and its placement agents should be fully disclosed as part of the due diligence material provided to prospective limited partners.
- Any inquiries by the United States Securities and Exchange Commission or any other regulatory bodies in other jurisdictions must be immediately disclosed to limited partners.
- Limited partners should be notified of any changes to personnel and immediately notified when "key-man" provisions are violated.

4. Management Company Activities
    - Other activities related to the management company of the general partner should be disclosed in writing to limited parties. Such activities include but are not limited to:
        - Formation of public listed vehicles;
        - Sale of ownership of management company to other limited partner(s);
        - Public offering of shares in management company; and
        - Formation of other funds dedicated to alternative strategies.
5. Financial Information
    - **Annual Reports.** Funds should provide the following information at the end of each year (within 75 days of year-end) to investor:
        - Audited financial statements (including a clean opinion letter form auditors and a statement from the auditor detailing other work performed for the fund);
        - Internal Rate of Return ("IRR") calculations prepared by the fund manager (that clearly set forth the methodology for determining the IRR);
        - Schedule of aggregate carried interest received;
        - Breakdown of fees received by the manager as management fees, from portfolio companies or otherwise;
        - Breakdown of partnership expenses;
        - Certification by auditor that allocations, distributions and fees were effected consistent with the governing documentation of the fund;
        - Summary of all capital calls and distribution notices;
        - Schedule of fund-level leverage, including commitments and outstanding balances on subscription finances lines or any other credit facilities of the fund;
        - Management letter describing the activities of the fund directed to the LPAC but distributed to all investors; and

    - Political contributions made by placement agents, the manager or any associated individuals to trustees or elected officials on the investment board.
- **Quarterly Reports.** Funds should provide the following information at the end of each quarter (within 45 days of the end of the quarter) to investors:
    - Unaudited quarterly profit and loss statements also showing year-to-date results;
    - Schedule showing changes form the prior quarter;
    - Schedule of fund-level leverage, including commitments and outstanding balances on subscription financing lines or any other credit facilities of the fund;
    - Information on material changes in investments and expenses;
    - Management comments about changes during the quarter;
    - If valuations have changed to quarter-to-quarter changes; and
    - A schedule of expenses of the general partner.
- **Portfolio Company Reports.** A fund should provide quarterly a report on each portfolio company with the following information:
    - Amount initially invested in the portfolio company (including loans and guarantees);
    - Any amount invested in the portfolio company in follow-on transactions;
    - A discussion by the fund manager of recent key events in respect of the portfolio company; and
    - Selected financial information (quarterly and annually) regarding the portfolio company including:
        - Valuation (along with a discussion of the methodology of valuation);
        - Revenue;
        - Debt (terms and maturity);
        - EBITDA;
        - Profit and loss;
        - Cash positions; and
        - Cash burn rate.

6. Due Diligence

- **Fund Marketing Materials.** Marketing materials in respect of a fund should include the following information:
    - Values for each unrealized portfolio company in prior funds based on most recent audited financials;
    - Explanation by the general partner of those values that deviate form the audited statements;
    - Description of any pending or threatened litigation;
    - Performance information for prior funds using both IRR calculation and multiple of invested capital model;
    - IRR information for prior funds on both a gross and net basis;
    - An explanation of the derivation of IRR;

    - Whether the general partner provides performance information to be included in any standard private equity benchmark;
    - Disclosure of agents and sub-agents used; and
    - Political contributions made by placement agents, the manager or any associated individuals to trustees or elected officials on investor boards.
- **LP Information.** A fund should provide the following information to all limited partners promptly upon closing, and should update such information when it changes:
    - A list of limited partners, including contact names and contact information, excluding those limited partners that specifically request to be excluded from the list; and
    - Closing documents for the fund, including the final version of the partnership agreement and side letters.

Limited partners receiving sensitive information as described above must keep such information confidential. Agreements should clearly state that limited partners may discuss the fund and its activities amongst themselves. Limited partners should support the general partner in taking appropriate sanctions against any limited partner that breaches this confidentiality.

Limited Partnership Advisory Committee

LPAC Formation
During the formation of the LPAC, the general partner should adhere to the following protocol:

1. The general partner should issue a formal invitation to those limited partners it has agreed to invite. Such invitations should provide:
    - Information about the meeting schedule;
    - Expense reimbursement procedures;
    - An outline of the LPAC's responsibilities under the partnership agreement; and
    - A statement of indemnification.

2. Simultaneously with each closing, the general partner should compile a list of LPAC members and their contact information and circulate this list to all limited partners, providing an updated list if and when any information is changed.

3. The LPAC generally should be made up of seven to eight voting representatives of limited partners, with larger funds having as many as 12 members, representing a diversified group of investors. A reasonable number of non-voting observes seats should be made available to certain limited partners.

4. At any time during the life of the partnership, any additions/substitutions of new LPAC members should be done by mutual consent of the LPAC and general partner with timely notification to all limited partners.

5. A standing LPAC meeting agenda should be developed and a calendar established as far in advance as possible.

6. Clear voting thresholds and protocols should be established, including requiring a quorum of 50% of LPAC members when votes are taken.

7. LPAC members should receive no remunerations, but the partnership should reimburse their reasonable expenses in serving on the LPAC.

LPAC Meeting Protocol

The general partner should use the following protocol during the organization and holding of LPAC meetings:

1. LPAC meetings should be held in person at least twice a year with an option to dial-in telephonically.

2. There should be separate LPAC meetings for separate funds as opposed to meetings that cover multiple funds. Any meeting requiring a vote of the LPAC should be held with on the members of that specific fund's LPAC in attendance. For convenience, LPAC meetings and/or members may be pooled when general topics are discussed.

3. A portion of each LPAC meeting will be set aside for an "in camera" session with only the limited partners present. Limited partners may elect one to three members of the LPAC to lead the discussion and report back to the general partner.

4. At any time, any two members of the LPAC should have the right to call for an LPAC meeting. This meeting should be arranged by the general partner if requested.

5. At any time, any member of the LPAC may add an agenda item to the LPAC meeting agenda subject to a reasonable notice requirement (10 days) to the general partner.

6. With any request for consent or approval by a fund's LPAC, the general partner will send to each LPAC member a memorandum providing background information on the matter at least 10 days in advance of the meeting.

- A conference call should be scheduled by the general partner with the fund's LPAC members to discuss the consent or amendment under consideration and address any questions or comments.
- The LPAC should reserve the right to request that the general partner send the consent or amendment to the broader limited partner base for vote even if the limited partnership agreement allows the LPAC to make the

decision. The LPAC reserves the right to express their opinion on the matter to other limited partners.

7. All decision made by the LPAC shall be provided to all limited partners within a reasonable time period.

8. The LPAC should have access to partnership auditors to discuss valuations. A representative from the audit firm should attend each year-end LPAC meeting.

9. The LPAC should have access to independent auditors, advisors and legal counsel at the expense of the partnership or of the general partner.

10. The partnership should indemnify members of the LPAC.

11. The general partner should take minutes at all LPAC meetings. LPAC meeting minutes should be circulated to LPAC members within 30 days and submitted for approval at the next LPAC meeting.

12. The general partner should record all votes taken during conference calls or at meetings and maintain a copy of consents obtained in writing, by facsimile, or by email. Detailed voting records should promptly be made available by the general partner to any LPAC member upon request.

LPAC Duties

LPACs should have the core responsibilities of approving transactions that pose conflicts of interest, such as cross-fund investments and approving the methodology used for portfolio company valuations. In addition, the LPAC is ideally suited to engage with the general partner on discussions of partnership operations, including but not limited to:

- Auditors- disclosure of conflicts, discussion regarding changes;
- Operations- disclosure of the general partner's operating budget, income statement and balance sheet;
- Compliance- with the partnership agreement (e.g., investment purpose and restrictions);
- Partnership expenses- disclosures of costs expensed to the partnership verses absorbed as part of the management fee;
- Investments by the general partner outside of the fund that create or may create conflicts with their fiduciary duty to the fund;
- Fees and carried interest calculations- disclosure to LPAC and subject to independent auditor review and certification;
- Human resources- disclosure of material changes in personnel;
- Strategy- discussion of changes to the investment strategy;
- New business initiatives of the firm- discussion with LPAC in advance; and
- Valuation of portfolio companies- valuation policy and practices should be documented by the general partner and reviewed with the LPAC. Changes in policy, practices, or application should be discussed with the LPAC. Valuation of portfolio companies should be reviewed with LPAC no less than quarterly.

Limited partners serving on the advisory committee and receiving sensitive information as described above must keep such information confidential. LPAC members should support the general partner in taking appropriate sanctions against any limited partner that breaches this confidentiality.

LPAC Member Responsibilities

Limited partners that accept a seat on the LPAC should commit the necessary time and attention to the fund. LPAC members should participate in all LPAC meetings, be properly prepared, and responsibly fulfill the duties of their role. LPAC members should be able to take into account their own interest in voting on the LPAC.