**Educational Employees' Supplementary Retirement System of Fairfax County**
Exhibit A to the Investment Management Agreement dated February 25, 2020

# Private Markets Investment Guidelines

Approved: February 27, 2020

## Responsibilities and Delegations

The Board shall, from time to time, approve and amend both this Policy and the annual Strategic Plan as presented by the Consultant. In addition, the Board shall oversee the PE Program's performance and will act in a fiduciary capacity in the exercise of its duties.

**Investment staff shall:**

1. Oversee day-to-day investment operations not performed by the Consultant and ensure the availability of cash to fund investment commitments.

2. Assist Consultant in making recommendations to the Board on written guidelines and policies.

3. Assist Consultant in working with ERFC Counsel on legal matters.

4. Coordinate on-going reporting to the Board.

**Consultant shall:**

1. Coordinate the development and implementation of the Program.

2. Be responsible for discretionary management and control of the assets allocated to the Program subject to the limitations of this policy and any veto right retained by staff, and direct all decisions to buy, hold, and sell Program assets.

3. Conduct due diligence on investment opportunities under consideration and negotiate agreements on behalf of ERFC in conformance with contract and side letter templates and provisions established by ERFC's legal counsel.

4. Acknowledge and act as a fiduciary to ERFC.

5. Monitor individual partnerships, including compliance with established investment mandates and negotiated agreements as part of its process for monitoring the total portfolio.

6. Prepare the annual Strategic Plan that includes an annual pacing plan and present such to the Board for approval, as soon as practicable after the first of the year.

7. Promptly alert the Board and Staff of any changes or events that would reasonably be expected to have a significant impact on the Program.

8. Notify investment staff as soon as practicable prior to the required funding of capital calls.

9. Provide quarterly performance reports to the Board and investment staff that assess investment performance of partnerships and include, among others, the following items:
    - Market overview and outlook
    - Risk exposures (e.g., by vintage year, strategy, etc.)
    - Performance information
    - Investment commitment activity and key developments during the quarter

10. Perform other duties as outlined in the Investment Management Agreement dated February 25, 2020.

## A. Private Equity Portfolio Investment Guidelines

### I. Overview

The Private Equity Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and ERFC Board and investment staff engage in prudence and reasonableness while investing the ERFC Private Equity Program ("PE Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the PE Program. The Board has engaged a specialist consultant ("Consultant") to oversee and manage the PE Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the PE Program. The Consultant is also the investment manager of the PE Program.

The specific objectives and investment constraints for this portfolio are detailed in the following sections.

### II. Strategic Objectives

The strategic objective of the Program is to develop a diversified Private Equity portfolio capable of achieving investment returns commensurate with Program targets. Private Equity investments ("Investments") are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional public market investments.

They are expected to have a low correlation to other investment classes and therefore contribute to enhancing the risk-return of a total portfolio. Investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Enhance the System's performance result by generating strong long-term results consistent with the characteristics of a diversified portfolio of private equity funds, the investment constraints put forth below, and the System's tax-exempt status.

2. Provide diversification to ERFC's overall investment program

### III. Performance Objective and Benchmark

The objective of the PE Program is to provide long-term risk-adjusted returns that meet or exceed the PE Program Benchmark. The Consultant will pursue investments expected to provide returns that adequately compensate for assumed investment risks. The PE Program Benchmark is the Thomson U.S. All Private Equity peer benchmark return. Use of the peer benchmark measures the return of the PE Program versus other similar funds.

Benchmarks are used as a point of reference for investors to assess the risk and performance of their own portfolio. Given the nature of the asset class, including fee drag during the deployment phase of the investments, and the difficulty of benchmarking shorter-term results, there may be significant deviations between PE Program results and benchmark performance over shorter time periods.

## IV. Asset Allocations

The PE Program is expected to be diversified by industry sector, strategy, vintage year, geographic location, and investment managers. The majority of investments will be made through primary partnership vehicles. However, the PE Program may opportunistically invest in fund of funds, to gain diversified exposure to certain types of private market investments that may otherwise be difficult to access (e.g., venture capital, which is an area where access to top managers is paramount and can be difficult to achieve). Additionally, the Program may pursue direct secondary investments or a secondary focused fund of funds when there is a compelling tactical or strategic rationale for doing so (e.g., during times of market dislocation). The Consultant shall report to the Board prior to making a secondary investment or Fund-of-Funds if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments.

**Industry Sector**
The Consultant will monitor industry sector exposure and will adjust future capital commitments if a given industry sector concentration becomes high. Exposure to one industry may be considered high at 25-30% of the Program.

**Strategy**
The Manager may utilize only assets drawn from the permissible asset types listed below. However, the Manager has discretion as to the exact mix of asset types and the selection of individual assets, subject to the additional guidelines and restrictions set forth below and in Appendix A.

1. Private Equity Assets
    - U.S. Buyout Partnership Interests
    - U.S. Venture Capital Partnership Interests
    - Non-U.S. Private Equity Partnership Interests
    - Private Equity Fund-of-Funds (including Secondary Funds)
2. Co-investments
    - Interests in individual assets held within private equity funds as described above. Co-investments are typically made alongside individual funds to which the investor has committed capital and are often made available to investors at significantly reduced or zero fees and carried interest. Co - investments can also be made through vehicles specifically designed to hold co-investments, either single asset or a diversified pool.
3. Secondaries
    - Secondary market purchases of the funds described above, either on a standalone basis or within a fund structure.

4. Public Equity Assets

   - Shares of publicly traded equity securities distributed by private equity partnerships, which in general will be liquidated as soon as practicable.

5. Cash Equivalents

   - STIF accounts of the custodian bank
   - Funds managed by a cash manager specifically designated by the Trustees

The Manager shall generally be prohibited from investing in assets, types of assets, or transactions not listed above.

**Vintage Year**
Vintage year diversification for the PE Program shall be maintained through annual commitment pacing and the Consultant will commit capital to private market partnerships on an on-going basis at a pace commensurate with achieving and maintaining the Retirement System's target investment allocation to the private market asset classes. A commitment pacing model and plan will be prepared and presented to the Board annually for approval as part of the Strategic Plan.

**Geographic Guidelines**
The Program is expected to remain focused primarily in North America, with additional exposure to Europe, Asia, and Rest of World. Appendix A outlines non-U.S. geographic target exposures for the program.

**Manager Relationships**
Consultant will continue to exercise due diligence in reviewing the entire private equity market for investment opportunities. In order to ensure proper portfolio diversification, the Program will limit exposure to any single partnership or manager.

- Once each Private Market asset class portfolio is fully matured (i.e., it has reached its target allocation level): No more than 30% of the System's target private equity allocation shall be committed to a single private equity manager; no more than 15% of the System's target private equity allocation shall be committed to a single private equity partnership; and no more than 5% of an asset class's target Net Asset Value ("NAV") shall be committed to a single co-investment. At the time of investment, co-investments shall not comprise more than 10% of an asset class by NAV.

- Once the PE Program portfolio is fully matured (i.e., it has reached its target allocation level), at least 12 private equity partnerships shall be held. Fund-of-funds count as only a single partnership for the purposes of this limitation.

If any of the above limitations on specific investments is violated due to circumstances beyond the Manager's control, e.g., due to changes in the relative market values of portfolio holdings, the manager must return the portfolio to compliance as soon as is practical, unless the Manager determines it would be inconsistent with its fiduciary obligations under this Agreement.

## V. Specific Risk Parameters

The Program will be exposed to specific risks that are associated with investing in private equity, including, but not limited to:

1. Operating and Business Risk: Investments entail above average operating and business risk.

2. Liquidity Risk: Investments lack liquidity and typically have time horizons of 5 to 10 plus years.

3. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include specific termination provisions in partnership transactions or the removal of general partners.

4. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

5. Leverage Risk: Investments may employ a substantial degree of leverage, which, depending on the specific terms, could result in significant risk.

6. Sovereign Risk: Investments outside the U.S., and particularly in developing markets, could face risks associated with political, economic, and currency instability.

## VI. Quality Control Process

The Consultant shall employ a quality control process to track investment performance, manage risk, and monitor Program efficiency.

1. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.
2. Risk Control: The Program's standards are maintained through the following processes:
   - Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.
   - Assessing manager and investment vehicle business and operational risks.
   - Documenting due diligence activities.

3. Process Monitoring: monitor transaction processing to insure timely decision-making and an effective process.

## B. Private Real Estate Portfolio Investment Guidelines

### I. Overview

The Private Real Estate Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and ERFC Board and investment staff engage in prudence and reasonableness while investing the ERFC Private Real Estate Program ("RE Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the RE Program. The Board has engaged a specialist consultant ("Consultant") to oversee and manage the RE Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the RE Program. The Consultant is also the investment manager of the RE Program.

The specific objectives and investment constraints for this portfolio are detailed in the following sections.

### II. Strategic Objectives

The strategic objective of the Program is to develop a diversified Private Real Estate portfolio capable of achieving investment returns commensurate with Program targets. Private Real Estate investments ("Investments") are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional public market investments. They are expected to have a low correlation to other investment classes and therefore contribute to enhancing the risk-return of a total portfolio. Investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Enhance the System's performance result by generating strong long-term results consistent with the characteristics of a diversified portfolio of private equity funds, the investment constraints put forth below, and the System's tax-exempt status.

2. Hedge against inflation

3. Provide diversification to ERFC's overall investment program

### III. Performance Objective and Benchmark

The objective of the Program is to provide long-term risk-adjusted returns that meet or exceed the RE Program Benchmark. The Consultant will pursue investments expected to provide returns that adequately compensate for assumed investment risks. The RE Program Benchmark is the NCREIF ODCE Net index, reflecting the current core real estate orientation of the portfolio and should be reviewed periodically for appropriateness as the portfolio shifts towards value-added and opportunistic strategies.

Benchmarks are used as a point of reference for investors to assess the risk and performance of their own portfolio. Given the nature of the asset class, including fee drag during the deployment phase of the investments, and the difficulty of benchmarking shorter-term results, there may be significant deviations between Program results and benchmark performance over shorter time periods.

## IV. Asset Allocations

The RE Program is expected to be diversified by strategy, vintage year, geographic location, property type, and investment managers. Investments will include open-end and closed-end commingled funds with an expectation that, once the RE Program is fully mature, a larger portion of the portfolio will be invested in closed-end commingled funds. Additionally, the RE Program may pursue direct secondary investments or a secondary focused fund of funds when there is a compelling tactical or strategic rationale for doing so (e.g., during times of market dislocation). The Consultant shall report to the Board prior to making a secondary investment or Fund-of-Funds if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments.

1. Open-end funds: Open-end funds have liquidity provisions where investors can seek redemption, typically on a quarterly basis, although there may be periods of time when open-end funds have gates erected and liquidity is limited.

2. Closed-end funds: Closed-end funds generally have a set investment period and a defined termination date. Closed-end funds typically have durations of seven to ten years. The vehicles call capital over a typically three to five year investment period and often commence returning capital prior to being fully invested. As a result, the Consultant may from time to time overcommit the portfolio above the target allocation.

To the extent the open-end funds and other liquid investments allow, open-end funds may be used to rebalance the portfolio to target allocations.

**Sector**
The program is to be diversified across the following sectors: Core, Value-Added and Opportunistic. Appendix A outlines Consultant's investment sub-strategy target ranges and exposures for the Program.

**Strategy**
The strategy for the overall RE Program is designed to provide long-term returns that meet or exceed the Program Benchmark. Appendix A outlines Consultant's investment sub-strategy target ranges and exposures for the Program.

The Manager may utilize only assets drawn from the permissible asset types listed below. However, the Manager has discretion as to the exact mix of asset types and the selection of individual assets, subject to the additional guidelines and restrictions set forth below.

1. Private Real Estate Assets
    - Open-end Real Estate Funds
    - Closed-End Real Estate Funds
    - Non-U.S. Real Estate Partnership Interests

2. Co-investments
    - Interests in individual assets held within private real estate funds as described above. Co-investments are typically made alongside individual funds to which the investor has committed capital and are often made available to investors at significantly reduced or zero fees and carried interest. Co-investments can also be made through vehicles specifically designed to hold co-investments, either single asset or a diversified pool.

3. Secondaries
    - Secondary market purchases of the funds described above.

4. Public Equity Assets
    - Shares of publicly traded equity securities distributed by private real estate partnerships, which in general will be liquidated as soon as practicable.

5. Cash Equivalents
    - STIF accounts of the custodian bank
    - Funds managed by a cash manager specifically designated by the Trustees

The Manager shall generally be prohibited from investing in any of the assets, types of assets, or transactions not listed above.

**Vintage Year**

Vintage year diversification for the RE Program shall be maintained through commitment pacing and the Consultant will commit capital to private real estate partnerships on an on-going basis at a pace commensurate with achieving and maintaining the Retirement System's target investment allocation to the private real estate asset classes. A commitment pacing plan and model will be prepared and presented to the Board annually for approval as part of the Strategic Plan.

**Geographic Guidelines**
The RE Program is expected to remain focused primarily in North America, with additional exposure to non-U.S. investments. Appendix A outlines non-U.S. geographic target exposures for the program.

**Manager Relationships**
Consultant will continue to exercise due diligence in reviewing the entire private real estate market for investment opportunities. In order to ensure proper portfolio diversification, the Program will limit exposure to any single partnership or manager.

- Once the RE Program portfolio is fully matured (i.e., it has reached its target allocation level): No more than 30% of the System's target private real estate allocation shall be committed to a single private real estate manager; no more than 15% of the System's target private real estate allocation shall be committed to a single private real estate partnership, other than open-ended vehicles; and no more than 5% of an RE Program's target Net Asset Value ("NAV") shall be committed to a single co-investment.

- At the time of investment, co-investments shall not comprise more than 10% of the asset class by NAV. The preceding limitations are not intended to apply to open-end managers or funds.

- Once the RE Program portfolio is fully matured (i.e., it has reached its target allocation level), at least 10 private real estate partnerships shall be held.

If any of the above limitations on specific investments is violated due to circumstances beyond the Manager's control, e.g., due to changes in the relative market values of portfolio holdings, the manager must return the portfolio to compliance as soon as is practical, unless the Manager determines it would be inconsistent with its fiduciary obligations under this Agreement.

## V. Specific Risk Parameters

The Program will be exposed to specific risks that are associated with investing in private real estate, including, but not limited to:

1. Operating and Business Risk: Investments entail above average operating and business risk.

2. Liquidity Risk: Investments lack liquidity and typically have time horizons of 5 to 10 plus years. Open-end funds provide liquidity to the extent that certain withdrawal parameters are met and the manager has sufficient funds to pay the withdrawal.

3. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include specific termination provisions in partnership transactions or the

removal of general partners.

4. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

5. Leverage Risk: There shall be a limit of 65% Loan to Value limit of the total RE Program. Leverage is an inherent component of real estate investments and the use of leverage can be an effective means to increase overall returns from time to time on a risk-adjusted basis. However, highly leveraged investments carry additional risks that shall be monitored by the Consultant within the context of the overall real estate portfolio.

6. Sovereign Risk: Investments outside the U.S., and particularly in developing markets, could face risks associated with political, economic, and currency instability.

## VI. Quality Control Process

The Consultant shall employ a quality control process to track investment performance, manage risk, and monitor Program efficiency.

1. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.

2. Risk Control: The Program's standards are maintained through the following processes:
   - Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.
   - Assessing manager and investment vehicle business and operational risks.
   - Documenting due diligence activities.

3. Process Monitoring: monitor transaction processing to insure timely decision-making and an effective process.

## C. Private Infrastructure Portfolio Investment Guidelines

### I. Overview

The Private Infrastructure Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and ERFC Board and investment staff engage in prudence and reasonableness while investing the ERFC Private Infrastructure Program ("IS Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the IS Program. The Board has engaged a specialist consultant ("Consultant") to oversee and manage the IS Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the IS Program. The Consultant is also the investment manager of the IS Program.

The specific objectives and investment constraints for this portfolio are detailed in the following sections.

### II. Strategic Objectives

The strategic objective of the Program is to develop a diversified Private Infrastructure portfolio capable of achieving investment returns commensurate with Program targets. Private Infrastructure investments ("Investments") are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional public market investments. They are expected to have a low correlation to other investment classes and therefore contribute to enhancing the risk-return of a total portfolio. Investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Preserve investment capital
2. Provide diversification to ERFC's overall investment program
3. Provide a hedge against inflation
4. Provide cash yield as a component of the overall investment return

### III. Performance Objective and Benchmark

The objective of the Program is to provide long-term risk-adjusted returns that meet or exceed the IS Program Benchmark. The Consultant will pursue investments expected to provide returns that adequately compensate for assumed investment risks. The IS Program Benchmark is the CPI-U index plus four percent (4%). The use the CPI-U index reflects the expected stable nature of the infrastructure asset class and inflation protection, with a premium for risk and illiquidity.

Benchmarks are used as a reference for investors to assess the risk and performance of their own portfolio. Given the nature of the asset class, including fee drag during the deployment phase of the investments, and the difficulty of benchmarking shorter-term results, there may be significant deviations between Program results and benchmark performance over shorter time periods.

## IV. Asset Allocations

The IS Program is expected to be diversified by strategy, vintage year, geographic location, property type, and investment managers. Investments will include open-end and closed-end commingled funds with an expectation that, once the IS Program is fully mature, a larger portion of the portfolio will be invested in open-end funds. Additionally, the IS Program may pursue direct secondary investments or a secondary focused fund of funds when there is a compelling tactical or strategic rationale for doing so (e.g., during times of market dislocation). The Consultant shall report to the Board prior to making a secondary investment or Fund-of-Funds if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments.

1. Open-end funds: Open-end funds have liquidity provisions where investors can seek redemption, typically on a quarterly basis, although there may be periods of time when open-end funds have gates erected and liquidity is limited.

2. Closed-end funds: Closed-end funds generally have a set investment period and a defined termination date. Closed-end funds typically have durations of seven to ten years. The vehicles call capital over a typically three to five year investment period and often commence returning capital prior to being fully invested. As a result, the Consultant may from time to time overcommit the portfolio above the target allocation.

To the extent the open-end funds and other liquid investments allow, open-end funds may be used to rebalance the portfolio to target allocations.

**Sector**
The program is to be diversified across the following sectors: Core, Value-Added and Opportunistic. Appendix A outlines Consultant's investment sub-strategy target ranges and exposures for the Program.

**Strategy**
The strategy for the overall IS Program is designed to provide long-term returns that meet or exceed the Program Benchmark. Appendix A outlines Consultant's investment sub-strategy target ranges and exposures for the Program.

The Manager may utilize only assets drawn from the permissible asset types listed below. However, the Manager has discretion as to the exact mix of asset types and the selection of individual assets, subject to the additional guidelines and restrictions set forth below.

1. Private Infrastructure Assets

- Open-end Infrastructure Funds
- Closed-End Infrastructure Funds
- Non-U.S. Infrastructure Partnership Interests

2. Co-investments

- Interests in individual assets held within private infrastructure funds as described above. Co-investments are typically made alongside individual funds to which the investor has committed capital and are often made available to investors at significantly reduced or zero fees and carried interest. Co-investments can also be made through vehicles specifically designed to hold co-investments, either single asset or a diversified pool.

3. Secondaries

- Secondary market purchases of the funds described above.

4. Public Equity Assets

- Shares of publicly traded equity securities distributed by Private Infrastructure partnerships, which in general will be liquidated as soon as practicable.

5. Cash Equivalents

- STIF accounts of the custodian bank
- Funds managed by a cash manager specifically designated by the Trustees

The Manager shall generally be prohibited from investing in any of the assets, types of assets, or transactions not listed above.

**Vintage Year**
Vintage year diversification for the Program shall be maintained through commitment pacing and the Consultant will commit capital to private infrastructure partnerships on an on-going basis at a pace commensurate with achieving and maintaining the Retirement System's target investment allocation to the private infrastructure asset classes. A commitment pacing plan and model will be prepared and presented to the Board annually for approval as part of the Strategic Plan.

**Geographic Guidelines**
The IS Program is expected to have geographic exposure that is global in nature. While at least half of assets are expected to be in the U.S., Infrastructure investing often involves assets in other geographies, including Western Europe and Australia, amongst others. Appendix A outlines non-U.S. geographic target exposures for the program.

**Manager Relationships**
Consultant will continue to exercise due diligence in reviewing the entire infrastructure market for investment opportunities. In order to ensure proper portfolio diversification, the IS Program will limit exposure to any single partnership or manager.

- Once the IS Program portfolio is fully matured (i.e., it has reached its target allocation level): No more than 30% of the System's target private infrastructure allocation shall be committed to a single private infrastructure manager; no more than 15% of the System's target private infrastructure allocation shall be committed to a single private infrastructure partnership, other than open-ended vehicles; and no more than 5% of the asset class's target Net Asset Value ("NAV") shall be committed to a single co-investment. At the time of investment, co-investments shall not comprise more than 10% of the asset class by NAV.

- The preceding limitations are not intended to apply to open-end managers or funds.

- Once the IS Program portfolio is fully matured (i.e., it has reached its target allocation level), at least 10 private infrastructure partnerships shall be held.

If any of the above limitations on specific investments is violated due to circumstances beyond the Manager's control, e.g., due to changes in the relative market values of portfolio holdings, the manager must return the portfolio to compliance as soon as is practical, unless the Manager determines it would be inconsistent with its fiduciary obligations under this Agreement.

## V. Specific Risk Parameters

The Program will be exposed to specific risks that are associated with investing in infrastructure, including, but not limited to:

1. Operating and Business Risk: Investments entail above average operating and business risk.

2. Liquidity Risk: Investments lack liquidity and typically have time horizons of 5 to 10 plus years. Open-end funds provide liquidity to the extent that certain withdrawal parameters are met and the manager has sufficient funds to pay the withdrawal.

3. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include specific termination provisions in partnership transactions or the removal of general partners.
4. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

5. Leverage Risk: Investments may employ a substantial degree of leverage, which, depending on specific terms, could result in significant risk.

6. Political and Public Risk: Infrastructure investments in particular often require political and/or public support.

7. Environmental Risk: Investments could be impacted by environmental conditions and climate change.

8. Labor Risk: Investments in public-sector infrastructure and other sub-asset classes could be impacted by labor relations as a result of concerns related to public sector outsourcing.

9. Sovereign Risk: Investments outside the U.S., and particularly in developing markets, could face risks associated with political, economic, and currency instability.

## VI. Quality Control Process

The Consultant shall employ a quality control process to track investment performance, manage risk, and monitor Program efficiency.

1. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.

2. Risk Control: The Program's standards are maintained through the following processes:
   - Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.
   - Assessing manager and investment vehicle business and operational risks.
   - Documenting due diligence activities.

3. Process Monitoring: monitor transaction processing to insure timely decision-making and an effective process.

## D. Private Debt Portfolio Investment Guidelines

### I. Overview

The Private Debt Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and ERFC Board and investment staff engage in prudence and reasonableness while investing the ERFC Private Debt Program ("PD Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the PD Program. The Board has engaged a specialist consultant ("Consultant") to oversee and manage the PD Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the PD Program. The Consultant is also the investment manager of the PD Program.

The specific objectives and investment constraints for this portfolio are detailed in the following sections.

### II. Strategic Objectives

The strategic objective of the PD Program is to develop a diversified Private Debt portfolio capable of achieving investment returns commensurate with PD Program targets. Private Debt investments ("Investments") are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional public market debt investments. They are expected to have a low correlation to other investment classes and therefore contribute to enhancing the risk-return of a total portfolio. Investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Enhance the System's performance result by generating strong long - term results consistent with the characteristics of a diversified portfolio of private debt funds, the investment constraints put forth below, and the System's tax-exempt status.

2. Preserve investment capital

3. Provide diversification to ERFC's overall investment program

4. Provide cash yield as a component of the overall investment return

### III. Performance Objective and Benchmark

The objective of the Program is to provide long-term risk-adjusted returns that meet or exceed the Program Benchmark. The Consultant will pursue investments expected to provide returns that adequately compensate for assumed investment risks. The PD Program Benchmark is the Barclays High Yield index plus one and a half percent (1.5%). Use of the Barclays High Yield index reflects the opportunity cost of investing in alternative investments versus publicly traded corporate debt with a premium added to account for added risk and illiquidity.

Benchmarks are used as a point of reference for investors to assess the risk and performance of their own portfolio. Given the nature of the asset class, including fee drag during the deployment phase of the investments, and the difficulty of benchmarking shorter-term results, there may be significant deviations between Program results and benchmark performance over shorter time periods.

## IV. Asset Allocations

The PD Program is expected to be diversified by strategy, vintage year, geographic location, and investment managers. The majority of investments will be made through primary partnership vehicles. Additionally, the Program may pursue direct secondary investments or a secondary focused fund of funds when there is a compelling tactical or strategic rationale for doing so (e.g., during times of market dislocation). The Consultant shall report to the Board prior to making a secondary investment or Fund-of-Funds if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments. The Consultant shall report to the Board prior to making a secondary investment or Fund-of-Funds if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments.

**Industry Sector**
The Consultant will monitor industry sector exposure and will adjust future capital commitments if a given industry sector concentration becomes high. Exposure to one industry may considered high at 30% of the Program.

**Strategy**
The strategy for the overall PD Program is designed to provide long-term returns that meet or exceed the Program Benchmark. Appendix A outlines Consultant's investment sub-strategy target ranges and exposures for the Program.
The Manager may utilize only assets drawn from the permissible asset types listed below. However, the Manager has complete discretion as to the exact mix of asset types and the selection of individual assets, subject to the additional guidelines and restrictions set forth below.

1. Private Debt Assets

   - U.S. Private Debt Partnerships focused on directly originated loans or bonds
   - U.S. Private Debt Partners focused on purchasing existing debt, loans, or high yield bonds
   - Partnerships focused on asset backed lending or other special situations investments with debt-like cash flow characteristics and risk profile (e.g., aviation leasing or pharmaceutical royalty interests)
   - Non-U.S. Private Debt Partnership Interests

2. Co-investments

   - Interests in individual assets held within private debt funds as described above. Co-investments are typically made alongside individual funds to which the investor has committed capital and are often made available to investors at significantly reduced or zero fees and carried interest. Co-investments can also be made through vehicles specifically designed to hold co-investments, either single asset or a diversified pool.

3. Secondaries

   - Secondary market purchases of the funds described above.

4. Public Equity Assets

   - Shares of a broad market equity index fund selected by the Trustees for the purposes of serving as a funding account.
   - Shares of publicly traded equity securities distributed by private debt partnerships

5. Cash Equivalents

   - STIF accounts of the custodian bank
   - Funds managed by a cash manager specifically designated by the Trustees

The Manager shall generally be prohibited from investing in any of the assets, types of assets, or transactions not listed above.

**Vintage Year**

Vintage year diversification for the PD Program will be maintained through commitment pacing and the Consultant will commit capital to private debt partnerships on an on-going basis at a pace commensurate with achieving and maintaining the Retirement System's target investment allocation to the private debt asset classes. A commitment pacing plan and model will be prepared and presented to the Board annually for approval as part of the Strategic Plan.

**Geographic Guidelines**

The PD Program is expected to remain focused primarily in North America, with additional exposure to non-U.S. investments. Appendix A outlines non-U.S. geographic target exposures for the program.

**Manager Relationships**

Consultant will continue to exercise due diligence in reviewing the entire private debt market for investment opportunities. In order to ensure proper portfolio diversification, the Program will limit exposure to any single partnership or manager.

- Once the PD Program portfolio is fully matured (i.e., it has reached its target allocation level): No more than 30% of the System's target private debt allocation shall be committed to a single private debt manager; no more than 15% of the System's target private market allocation shall be committed to a single private market partnership, other than open-ended vehicles; and no more than 5% of an asset class's target Net Asset Value ("NAV") shall be committed to a single co-investment. At the time of investment, co-investments shall not comprise more than 10% of an asset class by NAV.

- Once the PD Program portfolio is fully matured (i.e., it has reached its target allocation level), at least 10 private debt partnerships shall be held.

If any of the above limitations on specific investments is violated due to circumstances beyond the Manager's control, e.g., due to changes in the relative market values of portfolio holdings, the manager must return the portfolio to compliance as soon as is practical, unless the Manager determines it would be inconsistent with its fiduciary obligations under this Agreement.

## V. Specific Risk Parameters

The PD Program will be exposed to specific risks that are associated with investing in private debt, including, but not limited to:

1. Operating and Business Risk: Investments entail above average operating and business risk.

2. Liquidity Risk: Investments lack liquidity and typically have time horizons of 5 to 10 plus years.

3. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include specific termination provisions in partnership transactions or the removal of general partners.

4. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

5. Leverage Risk: Investments may employ a substantial degree of leverage, which, depending on specific terms, could result in significant risk.

6. Legal Jurisdiction Risk: Investment outcomes may be subject to bankruptcy court judgements or other legal actions and creditors' rights may be enforced inconsistently across different legal jurisdictions.

7. Sovereign Risk: Investments outside the U.S., and particularly in developing markets, could face risks associated with political, economic, and currency instability.

## VI. Quality Control Process

The Consultant shall employ a quality control process to track investment performance, manage risk, and monitor Program efficiency.

1. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.

2. Risk Control: The Program's standards are maintained through the following processes:
   - Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.
   - Assessing manager and investment vehicle business and operational risks.
   - Documenting due diligence activities.

3. Process Monitoring: monitor transaction processing to insure timely decision-making and an effective process.

**Appendix A: Target Allocation Framework**

For the purpose of risk diversification, MIG will seek to diversify the Account's investments generally in accordance with the target allocation schedule provided below:

| | Target Allocation (%) | Target Allocation Range (%) | Sub-Allocation Range (%) |
|---|---|---|---|
| Private Equity | 7.0 | 5 - 10 | |
| Buyout | | | 65 - 80 |
| Venture & Growth Equity | | | 10 - 25 |
| Opportunistic | | | 0 - 20 |
| *International** | | | *10 - 40* |
| Private Debt | 4.0 | 2 - 6 | |
| Yield Strategies | | | 30 - 50 |
| Total Return Strategies | | | 50 - 70 |
| *International** | | | *0 - 40* |
| Real Estate | 9.0 | 7 - 12 | |
| Core | | | 20 - 60 |
| Value-Added | | | 25 – 45 |
| Opportunistic | | | 15 – 35 |
| *International** | | | *0 - 30* |
| Infrastructure | 4.0 | 2 - 6 | |
| Core | | | 50 - 80 |
| Value-Added | | | 15 - 45 |
| Opportunistic | | | 0 - 10 |
| *International** | | | *20 - 50* |

*International ranges are intended to be an overlay covering the broader allocations to each asset class.