INFRASTRUCTURE SUB-COMPONENT

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1. Program Management

A. General Description

The target allocation for Infrastructure is 20%-30% of the Real Return class. It is expected that Infrastructure investments will be privately-held (e.g., limited partnerships or equivalent). The Infrastructure Portfolio target is long term in nature (i.e., at least ten to fifteen years, if not longer) and for time-diversification purposes investment commitments may be drawn down over several years throughout a defined investment period with respect to certain investment vehicles (e.g., closed-end pooled funds). Accordingly, ERS Staff and the Consultants may recommend total investment commitments that reasonably exceed the total Infrastructure Portfolio allocation authorized for Portfolio investment (e.g., 150% of the authorized allocation amount) to build and maintain the allocation (over commit). The scheduled amounts of such investment commitments shall be recommended by Staff and Consultants and approved by the Board in the context of the Strategic Plan (see below).

B. Investment Structure

The Infrastructure Portfolio may include private equity and private debt investments in closed-end pooled funds. Private equity fund investments may include equity interests in Infrastructure assets, including energy, communications, transportation, and other types of assets. Private debt fund investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis.

C. Diversification

The Infrastructure Portfolio diversification is important in reducing portfolio risk and accomplishing risk-adjusted return expectations in the context of the larger Real Return strategic class that includes the Infrastructure component. The impact of Infrastructure investments on the Real Return portfolio's diversification, portfolio risk and risk-adjusted returns shall be considered when evaluating prospective investments.

D. Leverage

Leverage can be a significant risk factor, impacting the risk / return profile of the Infrastructure Portfolio. Staff and the Consultants will monitor closely the leverage level of each Infrastructure fund investment seek to maintain a risk/return level consistent with this Policy Statement. Average portfolio-level LTV is not expected to exceed 33% at cost.

2. Performance Measurement/Benchmarking

A. Portfolio Risk and Liquidity Attributes

Infrastructure investments are expected to be private; therefore, on-demand liquidity outside of income is not anticipated. Investments are expected to be "core" investments, equity or debt investment in high-quality infrastructure assets with lower risk/return attributes (e.g., a natural gas fired power plant with a long-term off-take contract with a creditworthy counterparty). Core investments are often regulated or contracted essential assets that may be characterized by a low correlation to GDP growth (e.g., regulated utilities). Net total returns historically have been in the 4%-8% range (inflation-adjusted and net of fund-level fees) and are typically comprised of greater levels of income with appreciation matching or exceeding inflation. Volatility levels are anticipated to be reduced by this focus on income-oriented investing.

B. Long-term Performance Benchmark

The long-term benchmark for the Infrastructure Sub-Component Portfolio is a net internal rate of return (net IRR) that exceeds annual CPI+4%/year. At least half of the net IRR should be attributable to ongoing cash flow versus capital appreciation due to asset sales toward the end of the investment horizon. Net internal rates of return (net IRRs) should also be calculated for the individual Agriculture investments as well as the aggregate Agriculture Portfolio. These net IRRs should be compared to similar investments in the marketplace.

3. Implementation

A. Strategic Plan

1. On at least a biennial basis, the General Consultant, in conjunction with Investment Staff, will prepare a Strategic Plan for the aggregate Real Return class, which reviews the current status of the Real Return class and its component portfolios, recent historical and prospective market conditions, and proposes actions to be taken over the next approximately 12-24 month period in Infrastructure as well as the other components. This document will recommend general capital allocations to the components and applicable investment strategies and the rationale and expectations for inclusion.
2. The Strategic Plan will then be presented to the Board of Trustees for approval.

B. Investment Approval Process

The following steps shall be followed in order for the ERS to commit to any prospective Infrastructure investment opportunity:

1. Staff and all consultants will seek to source attractive Infrastructure opportunities that are consistent with these guidelines.

2. In conjunction with the General Consultant, the CIO and appropriate senior staff will determine which specific opportunities warrant further exploration. The CIO will review the specific deal/fund search with the General Consultant to determine its appropriateness in the context of the Strategic Plan. Once the opportunity meets these criteria, the CIO will assign due diligence to a deal/fund team, which would include the appropriate staff and recommending consultant.

3. If, after the appropriate due diligence, staff and the recommending consultant determines that the investment opportunity merits a commitment from the ERS, the recommending consultant will take the following steps:

   - Discuss with Investment Staff the key findings during due diligence, including investment merits, risks and key conclusions.

   - Follow-up with Investment Staff on additional requests for information based on this discussion and complete an Investment Disclosure Form.

   - In conjunction with the ERS's legal review process, facilitate legal negotiation and closing into the investment opportunity.

4. The Board of Trustees shall be notified in the event of a disagreement between Investment Staff and the recommending consultant on an investment recommendation.

C. Monitoring and Reporting

The performance of private Infrastructure investments will be calculated on both a time-weighted and dollar-weighted (internal rate of return or IRR) basis, with primary emphasis being placed on the internal rate of return. The rate of return calculations will be net of all partnership/LLC fees and expenses.

ERS' Real Assets (or Real Estate) Consultant will be responsible for calculating and reporting net IRRs on the individual Infrastructure investments as well as the aggregate Infrastructure portfolio on at least a semi-annual basis. ERS' General Consultant, in conjunction with ERS' custodian, will produce time-weighted returns on each Infrastructure investment and the aggregate Infrastructure portfolio in the context of the broader Real Return portfolio.

So that the performance numbers reported by an Infrastructure manager and the custodian are the same, the manager will be responsible for reviewing the custodian's figures as to timing, amount, value of in-kind securities at distribution and reported net asset value, and reconciling and explaining any discrepancies. Investment Staff and/or the appropriate designated retained consultant will provide additional performance measurement information, if requested by the Board.

AGRICULTURE SUB-COMPONENT

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1. Program Management

A. General Description

The target allocation for Agriculture is 7%-13% of the Real Return class. It is expected that Agriculture investments will be privately-held (e.g., limited partnerships or equivalent). The Agriculture Portfolio target is long term in nature (i.e., at least ten to fifteen years, if not longer) and for time-diversification purposes investment commitments may be drawn down over several years throughout a defined investment period with respect to certain investment vehicles (e.g., closed-end pooled funds). Accordingly, ERS Staff and the Consultants may recommend total investment commitments that reasonably exceed the total Agriculture Portfolio allocation authorized for Portfolio investment (e.g., 150% of the authorized allocation amount) to build and maintain the allocation (over commit). The scheduled amounts of such investment commitments shall be recommended by Staff and Consultants and approved by the Board in the context of the Strategic Plan (see below).

B. Investment Structure

The Agriculture Portfolio may include private equity and private debt investments in closed-end pooled funds. Private equity fund investments may include equity interests in Agriculture assets, including farmland, delivery, storage, and other types of assets. Private debt fund investments may include structured investments, which provide for stated preferred returns, which may be accrued or paid on a current basis.

C. Diversification

The Agriculture Portfolio diversification is important in reducing portfolio risk and accomplishing risk-adjusted return expectations in the context of the larger Real Return strategic class that includes the Agriculture component. The impact of Agriculture investments on the Real Return portfolio's diversification, portfolio risk and risk-adjusted returns shall be considered when evaluating prospective investments.

D. Leverage

Leverage can be a significant risk factor, impacting the risk / return profile of the Agriculture Portfolio. Staff and the Consultants will monitor closely the leverage level of each Agriculture fund investment and seek to maintain a risk/return level consistent with this Policy Statement. Average portfolio-level LTV is not expected to exceed 33% at cost.

2. Performance Measurement/Benchmarking

A. Portfolio Risk and Liquidity Attributes

Agriculture investments are expected to be private; therefore, on-demand liquidity outside of income is not anticipated. Investments are expected to be "core" investments, equity or debt investment in high-quality Agriculture assets with lower risk/return attributes (e.g., farmland or ranchland that produce sustainable levels of income). Core investments may be characterized by a low correlation to GDP growth. Net total returns historically have been in the 4%-8% range (inflation-adjusted and net of fund-level fees) and are typically comprised of greater levels of income with appreciation matching or exceeding inflation. Volatility levels are anticipated to be reduced by this focus on income-oriented investing.

B. Long-term Performance Benchmark

The long-term benchmark for the Agriculture Sub-Component Portfolio is the NCREIF Farmland Index, which is computed on a time-weighted basis. At least half of the Portfolio's time-weighted return should be attributable to ongoing cash flow versus capital appreciation due to asset sales toward the end of the investment horizon. Net internal rates of return (net IRRs) should also be calculated for the individual Agriculture investments as well as the aggregate Agriculture Portfolio. These net IRRs should be compared to similar investments in the marketplace.

3. Implementation

A. Strategic Plan

1. On at least a biennial basis, the General Consultant, in conjunction with Investment Staff, will prepare a Strategic Plan for the aggregate Real Return class, which reviews the current status of the Real Return class and its component portfolios, recent historical and prospective market conditions, and proposes actions to be taken over the next approximately 12-24 month period in Agriculture as well as the other components. This document will recommend general capital allocations to the components and applicable investment strategies and the rationale and expectations for inclusion.
2. The Strategic Plan will then be presented to the Board of Trustees for approval.

B. Investment Approval Process

The following steps shall be followed in order for the ERS to commit to any prospective Agriculture investment opportunity:

1. Staff and all consultants will seek to source attractive Agriculture opportunities that are consistent with these guidelines.

2. In conjunction with the General Consultant, the CIO and appropriate senior staff will determine which specific opportunities warrant further exploration. The CIO will review the specific deal/fund search with the General Consultant to determine its appropriateness in the context of the Strategic Plan. Once the opportunity meets these criteria, the CIO will assign due diligence to a deal/fund team, which would include the appropriate staff and recommending consultant.

3. If, after the appropriate due diligence, staff and the recommending consultant determines that the investment opportunity merits a commitment from the ERS, the recommending consultant will take the following steps:

   - Discuss with Investment Staff the key findings during due diligence, including investment merits, risks and key conclusions.

   - Follow-up with Investment Staff on additional requests for information based on this discussion and complete an Investment Disclosure Form.

   - In conjunction with the ERS's legal review process, facilitate legal negotiation and closing into the investment opportunity.

4. The Board of Trustees shall be notified in the event of a disagreement between Investment Staff and the recommending consultant on an investment recommendation.

C. Monitoring and Reporting

The performance of private Agriculture investments will be calculated on both a time-weighted and dollar-weighted (internal rate of return or IRR) basis, with primary emphasis being placed on the internal rate of return. The rate of return calculations will be net of all partnership/LLC fees and expenses.

ERS' Real Assets (or Real Estate) Consultant will be responsible for calculating and reporting net IRRs on the individual Agriculture investments as well as the aggregate Agriculture portfolio on at least a semi-annual basis. ERS' General Consultant, in conjunction with ERS' custodian, will produce time-weighted returns on each Agriculture investment and the aggregate Agriculture portfolio in the context of the broader Real Return portfolio.

So that the performance numbers reported by an Agriculture manager and the custodian are the same, the manager will be responsible for reviewing the custodian's figures as to timing, amount, value of in-kind securities at distribution and reported net asset value, and reconciling and explaining any discrepancies. Investment Staff and/or the appropriate designated retained consultant will provide additional performance measurement information, if requested by the Board.