

# INVESTMENT POLICY STATEMENT

## STATE OF MICHIGAN INVESTMENT BOARD

### **I. Introduction**

This Investment Policy Statement (the “Policy”), effective upon the date this Policy is signed below, provides the framework for the investment activities carried out by the State of Michigan Investment Board (the “Board”). Pursuant to state law and Executive Order 2018-10 (the “Order”), the Board is the investment fiduciary for each of the systems which comprise the component units of the State of Michigan Retirement System: the Michigan Public School Employees’ Retirement System; the Michigan State Employees’ Retirement System, the Michigan State Police Retirement System; the Michigan Judges Retirement System; the Military Retirement System; and Other Post-Employment Benefit funds associated with each of the component units (the “OPEB”, and together with each of the component units listed above, the “DB Plan”). The Bureau of Investments (the “BOI”) – an operating bureau within the Michigan Department of Treasury – is delegated the responsibility, pursuant to the Order and this Policy, to invest and manage the assets of the DB Plan on behalf of the Board. The Board is responsible for approving changes to the investment manager lineup for the State of Michigan’s 401(k) and 457 plans (the “DC Plans”) upon recommendation from the BOI. The authority of the BOI to act on behalf of the Board in carrying out investments is grounded in the Public Employee Retirement System Investment Act, 1965 Public Act 314 (“Public Act 314”), the Order, and other applicable laws of this state (with Public Act 314 and the Order, the “Authorizing Statutes”) and as delegated by this Policy.

The DB Plan assets shall be invested with a long-term horizon in mind. This Policy and its objectives are intended to allow the BOI to invest over, and account for, the long-term while also having sufficient flexibility in the investment management process to take advantage of investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program. The Board and the BOI, with such authority as delegated pursuant to the Order and this Policy, shall act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with these matters would use in the conduct of an enterprise with similar aims, in accordance with the Authorizing Statutes, specifically Section 13(3) of Public Act 314, and other applicable state laws.

The investment divisions of the BOI are generally divided into the asset classes described below. With the approval of the Board, the Chief Investment Officer (“CIO”) of the BOI may add additional asset classes based on market changes and the overall investment landscape, with such changes presented to the Board for discussion and approval:

- Domestic Equity Division (DED)
- Fixed Income Division (FID)
- International Equity Division (IED)

- Private Equity Division (PED)
- Real Estate & Infrastructure Division (REID)
- Real, Opportunistic and Absolute Return Division (ROAD)
- Venture Capital Division (VCD)

The BOI also houses the following divisions:

- Defined Contribution, Trusts & Agencies Division (DCTA)<sup>1</sup>
- Trust Accounting Division (TAD)
- Compliance & Corporate Governance Division (CCGD)

## **II. BOI Structure and Responsibilities**

The BOI is alone authorized to invest the DB Plan assets. All such investment of the DB Plan assets shall be in accordance with the fiduciary duties established (i) by Public Act 314, the Order, and other applicable state statutes and (ii) pursuant to this Policy. The exclusive authority to invest the assets of the DB Plan includes the power to execute all contracts, agreements, or other such legal documents necessary to effectuate the investment, protection, and management of funds, and the authority to delegate all applicable powers and duties, including the powers and authorities conferred upon the CIO under this Policy, to BOI staff, pursuant to all applicable laws and this Policy.

- A. Pursuant to the Order, the job specification as set by the Michigan Civil Service Commission (the “Civil Service”), and this Policy, the CIO serves as the senior executive administrator of the BOI and the chief investment officer of the DB Plan pension funds, reporting directly to the State Treasurer within the Department of Treasury. No other deputy treasurer, senior staff, other employee of the Department of Treasury not employed by the BOI, or employee of any other state agency, unless explicitly stated otherwise under statute or delegated by the Board, shall be authorized as an investment fiduciary over DB Plan funds. The CIO shall be an appointing authority for the BOI and shall develop and implement the goals for the BOI as well as direct all investment and non-investment operations in compliance with statutory requirements, prudent investment principles, Civil Service rules, sound business practices, and this Policy; the CIO may delegate power or authority to the staff of the BOI to effectuate the prudent investment, protection, and management of the DB Plan assets.
- B. Approval from the Board is required for new investments made by (i) REID, PED, ROAD, VCD, IED, and FID in amounts greater than 1% of DB Plan assets, or (ii) DED in amounts greater than 1.5% of DB Plan assets; in each case, such investment shall be measured against the DB Plan’s most recent combined quarter-ending market value of the assets. Approval from the State Treasurer is required for new private market investments in amounts greater than 0.65% of DB Plan assets. The Board’s or State Treasurer’s approval

---

<sup>1</sup> DCTA is tasked with overseeing the lineup of the DC Plans in addition to directing the investment activity of this State of Michigan’s non-retirement funds, trusts, and agency funds.

shall not be required for any public market investments being made in a neutrally weighted market index position. Regardless of the investment amount, Board or State Treasurer approval shall not be required for purchases of United States Treasury securities or other such obligations issued, assumed, or guaranteed by the United States, its agencies, or United States government-sponsored enterprises. Investment decisions for amounts which are less than the percentages stated in this paragraph are delegated to the BOI and shall not require Board or State Treasurer approval.

- C. The total value of the securities lending program entered into pursuant to Public Act 314 and Article III, Paragraph B. 9 of this Policy shall not exceed eight percent (8%) of the total market value of the DB Plan's portfolio, unless the Board votes to approve a value that exceeds such percentage limitation.
- D. The BOI is permitted to commit or invest DB Plan assets and is permitted to create legal entities to facilitate a commitment or investment, in public or private market investments through partnerships, limited liability companies, or other legal structures, consistent with Public Act 314, to add return and diversification profiles to the DB Plan portfolio.
- E. For the DB Plan funds, the BOI shall report investment returns and strategy quarterly to the Board for review in conjunction with the Board's quarterly meeting.
- F. Pursuant to the Order, the Board shall approve any recommended changes to the investment options of the DC Plans and review the performance of the investment options of the DC Plans, which shall be incorporated into the Board's quarterly information reports. The Board delegates the authority to create, and amend as conditions necessitate, in consultation with the Michigan Office of Retirement Services, a specific investment policy for the DC Plans to BOI. Individual participants in the DC Plans will continue to have the authority and responsibility to direct contributions, and any accumulated balances in their DC Plan accounts, to any of the investment options offered by the DC Plans.
- G. The CIO, on behalf of and under the direction of the Board, shall do the following for the DB Plan:
  - 1. Conduct, or cause to be conducted, asset liability studies approximately every two years for the DB Plan component units and present study results to the Board for discussion of asset allocation changes, if any.
  - 2. Review the fund's long-term asset allocation targets and ranges, which are approved by the Board in a separate document from this Policy (the "Asset Allocation Strategy"), approximately every two years. Tactical shifts in allocations, but within the approved ranges, may be the result of short-term market fluctuations or due to identified market opportunities. Any material tactical shift shall be reported to the Board at its next quarterly meeting. An Asset Allocation Strategy remains in effect until a new strategy can be approved by the Board, including if the Board determined no changes should be made following a review. However, if changes are deemed prudent following an asset allocation review, a revised Asset Allocation Strategy shall be implemented upon the Board's approval. If market or other conditions result

in the DB Plan's asset allocation to fall outside of the ranges approved by the Board, the BOI is not required to immediately bring the allocations within the target ranges; rather, the BOI shall (i) continue to prudently manage the assets in light of the then-current circumstances, and (ii) present the current asset allocation to the Board for its review and discussion at the next scheduled public meeting and, if instructed by the Board, endeavor to prudently bring the allocation within the approved target ranges within a reasonable period of time.

3. By means of this Policy and any updates hereto, establish delegation of authority and investment responsibility to the BOI for the proper investment, protection, and management of the DB Plan assets.

H. Pursuant to the Order and this Policy, the BOI shall be exclusively responsible to:

1. Collect the principal and interest or other income and dividends of investments when due and payable and pay the principal and interest or other income and dividends, when so collected, into the appropriate fund as directed by the applicable Authorizing Statutes.
2. Account for all principal, interest, other income and dividends, and expenses of and related to investment of the DB Plan's assets and other funds that the Board invests;
3. Negotiate with, select, and retain: investment managers and service providers; portfolio systems services; consultants; investment information resources; and any other sources of expertise, research, or services necessary to conduct investment activities, protect the assets of the DB Plan, or to otherwise support the management of assets of the DB Plan, in accordance with applicable state law, prudent business practices, and this Policy.
4. Exercise any shareholder or other voting rights arising from an investment.
5. Perform necessary due diligence to source new investment opportunities and monitor existing investments, which may include on-site meetings with current or potential investment managers and investment funds, on-site inspection of physical assets, or on-site investor meetings necessary for the proper management of the assets of the DB Plan.
6. Take any other authorized action pursuant to the Order, the Authorizing Statutes, and other applicable law.

### **III. BOI Mission Statement, General Objectives and Policies**

The Mission Statement outlines the purpose and guiding values adopted by the BOI. The general objectives detailed below define the specific goals to be achieved through the management of the assets that are subject to this Policy. General policies provide guidelines for the Board or the BOI, as fiduciaries, to follow in meeting the general objectives.

#### **A. Mission Statement**

The BOI continually strives to provide quality investment management services, broad professional expertise, and independent advice to the State of Michigan Investment Board as fiduciary of the State of Michigan Retirement Systems. Independent of the Board, on behalf of the State Treasurer, the BOI also provides investment management services to various Michigan trust funds and the State's common cash.

## B. General Objectives

1. DB Plan: The overall objective of the DB Plan is to provide retirement, survivor, and disability benefits to its members through the investment of contributions and other DB Plan assets.
  - i. This objective will be attained by following the below goals:
    - (a) Maintaining sufficient liquidity to pay benefits.
    - (b) Meeting or exceeding the actuarial assumption over the long term.
    - (c) Performing in the top half of the public plan universe over the long term.
    - (d) Diversifying assets to reduce risk.
    - (e) Exceeding individual asset class benchmarks over the long term.
  - ii. The primary investment objective for the DB Plan funds is to earn the approved actuarial rate of return on the total investment portfolio over the long term, consistent with a high degree of prudence and sufficient diversity to reduce risk and to meet the actuarial assumption for the investment rate of return, at a reasonable cost. Subject to the standards discussed in C.2. below, it is understood that to meet the return objective of the fund, investment and equity market risks must be assumed – which in the short term can vary significantly.

## C. General Policies

1. All transactions undertaken on behalf of the DB Plan shall be for the sole benefit of plan participants.
2. All BOI personnel involved in the investment process, the Board and external investment service providers shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, in accordance with Public Act 314, this Policy and any applicable contract.
3. All BOI personnel involved in the investment process, the Board and external investment service providers shall refrain from personal business activity that conflicts with the proper execution and management of the investment program, or that impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create a conflict of interest in their unbiased involvement in the investment process.

4. Investments shall be made without distinction between return generated from income as opposed to capital gains. Diversification, need for liquidity, and the potential for gain and loss will be monitored on an on-going basis.
5. Professional investment management firms, which are registered investment advisors, or which are appropriately exempt from registration under the Investment Advisers Act of 1940, may be retained to assist in managing the assets of the DB Plan. Investments shall be sufficiently diversified to reduce the risk of material losses from a single investment relative to the size of a particular fund. Each external investment manager will function under an Investment Management Agreement (“IMA”) that delineates responsibilities and appropriate performance expectations. Investment guidelines and administrative requirements for management of each portfolio is to be provided to each external manager. BOI investment personnel will review the investment returns of these external managers against stated objectives on a regular basis. Individual external managers will be judged according to benchmarks which reflect the objectives and characteristics of the strategic roles their portfolios are to fulfill as outlined in the applicable IMA. External investment managers are retained to exercise a certain level of discretion over investments, however, any action must be taken in accordance with fiduciary duties, state law, this Policy, and the IMA.
6. The BOI, in accordance with this Policy, will allocate contributions within the component units of the DB Plan on an on-going basis to balance the overall asset allocation against targets when deviations occur because of capital market fluctuations. Such allocations may be made even if contributions to managers or asset classes have recently experienced poor performance, if investment personnel believe the future outlook to be favorable. If such poor performance is the result of an occurrence other than expected market-related volatility, then a reassessment of that investment shall be undertaken.
7. The BOI may utilize the services of an investment consultant(s) for, among other things, performance review, asset allocation studies, asset liability studies, risk budgeting, manager screening and selection, educational materials, white papers and any other relevant topical studies. The comments and recommendations of the consultant will be considered by the Board or the BOI in conjunction with other available information for the purpose of making an informed and prudent decision.
8. The BOI will utilize the services of a master custodian bank that will be responsible for the general custody and holding of the DB Plan assets. The BOI may contract with such master custodian bank to deliver related services and products in support of this custodial relationship.
9. The BOI may retain the services of a securities lending provider to generate additional return for the DB Plan at acceptable levels of risk. The program will be administered in accordance with the securities lending policy negotiated with the provider.

10. It is the responsibility of the BOI to administer the investments of the DB Plan at reasonable industry standard cost, being careful to avoid sacrificing quality and opportunity for gain. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs, incentive fees, carried interest, and other administrative costs chargeable to the DB Plan.
11. The Board shall be required to approve any investment, or any action pursuant to an investment, which is outside of the scope of this Policy, but which otherwise conforms with all applicable laws.
12. The Board and the BOI will operate investments of the DB Plan in compliance with all applicable state and federal, laws and regulations concerning the investment of pension assets.

#### **IV. Investment Return Objectives**

The investment returns of the fund will be measured against objectives for the total DB Plan and component units and against objectives for individual portfolio components (the “Benchmarks”). The CIO may recommend changes in the Benchmarks to the Board, which will take effect only upon approval by the Board. Investment returns shall be measured against these targets no less than quarterly. Due to the nature of capital markets fluctuations and given the duration of the liability stream, the investment return relative to objectives and goals is to be judged over a period of a market cycle as well as standard annualized periods of three, five, seven, and ten years. Consistent with the DB Plan’s investment time horizons, long-term results carry greater weight.<sup>2</sup>

- |                           |  |
|---------------------------|--|
| A. <u>DB Plan Total</u>   | Exceed the actuarial assumed rate of return.   |
|                           | Exceed the calculated Total Plan Policy Benchmark rate of return. <sup>3</sup>   |
|                           | Rank above median in a public pension plan universe greater than \$10 billion.   |
| B. <u>Domestic Equity</u> | Exceed the total return of the S&P Composite 1500 index net of fees for three, five, seven, and ten-year periods and a market cycle. |
|                           | Rank above median in a public plan universe of domestic equity investments.  |
|                           | Rank above median in a universe of managers possessing a similar market cap and style characteristics.                               |

---

<sup>2</sup> Peer universes may only be available for these comparisons on a gross-of-fees basis and should be considered when evaluating returns. In addition, benchmark and peer data may change from time to time as markets/industries evolve.

<sup>3</sup> As described in the Quarterly Investment Review Report.

- C. Fixed Income Exceed the Bloomberg Barclays U.S. Aggregate Index, net of fees for three, five, seven, and ten-year periods and a market cycle.
- Rank above median in a public plan universe of fixed income investments.
- Rank above median in a nationally recognized universe of managers possessing a similar duration and credit exposure.
- D. International Equity Exceed the total return of the MSCI ACWI ex USA Index net of fees for three, five, seven, and ten-year periods and a market cycle.
- Rank above median in a public plan universe of non-U.S. equity investments.
- Rank above median in a universe of managers possessing a similar market capitalization, style, and geography characteristics.
- E. Private Equity and Venture Capital Exceed the S&P 500 index by 300 basis points net of fees lagged by three months over three, five, seven, and ten-year periods and a market cycle.
- Rank above median in a public plan universe of private equity investments.
- F. Real Return Exceed the rate of inflation, as measured by the United States Consumer Price Index (CPI), by 400 basis points annually net of fees over three, five, seven, and ten-year periods and a market cycle.
- If available, rank above median in a nationally recognized universe of managers possessing a similar style.
- G. Opportunistic Exceed the actuarial rate of return.
- H. Absolute Return Exceed U.S. T-bills by 400 basis points net of fees over a market cycle.
- Exceed the appropriate HFN Fund of Funds Aggregate Index median net of fees over three, five, seven, and ten-year periods and a market cycle.
- If available, rank above median in a public plan universe of hedge fund investments.
- I. Real Estate & Infrastructure Exceed the NCREIF Property Index over the three, five, seven, and ten-year periods and a market cycle, less 130 basis points.

Meet or exceed the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) over three, five, seven, and ten-year periods and a market cycle.

If available, rank above median in a public plan universe of real estate investments.

## **V. General Investment Manager Guidelines and Requirements**

- A. Purchases and sales, security selection, and portfolio implementation of investment strategies may be delegated to the discretion of external investment manager (“Investment Managers”), subject to compliance with DB Plan investment policies, individual contracts, and Public Act 314. If a commingled vehicle or mutual fund is utilized, the investment policies of that fund shall be considered the operative policy document.
- B. Purchases of any securities or execution of any transaction not authorized by Public Act 314 are prohibited.
- C. Transactions shall be executed at a reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- D. All Investment Managers shall comply with reporting requirements imposed by Public Act 314 or through IMAs and side letters.
- E. All BOI investment personnel and Department of Technology, Management and Budget (“DTMB”) employees who are subject to the BOI’s Investment Personnel Supplemental Code of Ethics and Standards of Conduct shall annually affirm adherence to Public Act 314; the Standards of Conduct for Public Officers and Employees Act, 1973 PA 196; Michigan Civil Service Rules governing gifts, disclosure, and travel; CFA Institute Code of Ethics and Standards of Professional Conduct; the Michigan Department of Treasury Policy on Ethical Conduct and Supplemental Employment; and the BOI Investment Personnel Supplemental Code of Ethics and Standards of Conduct; the BOI Prohibition of Insider Trading Policy and corresponding Frequently Asked Questions.
- F. Investment Managers and investment service providers must comply with federal and state Pay-to-Play Rules placing limits on political contributions made to governmental officials who could influence the hiring of a service provider to either the DB Plan or DC Plans. Prior to becoming a service provider, Investment Managers shall certify that no political contributions that exceed prescribed limitations pursuant to Section 13e of Public Act 314, the federal pay-to-play rule as described in 17 CFR 275.206(4)-5, and the Order have been made to a governmental official who could influence the hiring of a service provider to either the DB Plan or DC Plans and shall agree to inform the State Treasurer if the statement should no longer be accurate.
- G. All Investment Managers will be expected to provide the BOI, the custodian, and their investment consultant, on a timely basis each quarter, such data as is required for proper monitoring.
- H. The direct use of index futures, puts, options, calls, swaps or other types of derivatives, in accordance with Public Act 314 and on a fully collateralized basis, are permitted. Use of

these derivatives may be used for purposes of diversification, protecting DB Plan assets, enhancing returns in a prudent manner, or capturing cost efficiencies. However, derivatives shall not be used to materially increase volatility of the DB Plan investment portfolio. Direct derivative investments where the net of all positions, long and short, divided by total portfolio assets available to invest exceeds one percent (1%) are not permitted.

- I. The REID portfolio may (through various legal structures) invest in properties located inside or outside of the United States through standard industry legal structures. No property may be purchased directly in fee simple.
- J. Investment return objectives are to be met on a net-of-fees basis.
- K. Investment Managers must comply with state laws – including, Public Act 314 and the Divestment from Terror Act, 2008 Public Act 234 (“Public Act 234”) – prohibiting the Board from investing public monies in companies engaged in active business operations in countries designated as a state sponsor of terror by the United States Department of State. The BOI will provide Investment Managers with a list of prohibited companies each quarter. Investment Managers must refrain from acquiring securities in companies that appear on the lists and divest from such companies if directed by the BOI.

## **VI. Other Policies**

The BOI is delegated the responsibility to develop and maintain policy documents that detail the actions and procedures that will implement the below applicable general policy guidelines:

### **A. Prohibition of Insider Trading Policy**

Buying or selling securities while aware of material non-public (“inside”) information concerning the issuer of the securities, or improperly disclosing to others such inside information, may constitute fraud under federal and state securities laws and a violation of other legal and regulatory requirements. Inside information also includes information that any BOI investment personnel, or DTMB affiliate, may have concerning DB Plan securities positions or trading activity.

The BOI has a Prohibition of Insider Trading Policy that is maintained by the CIO in conjunction with the BOI’s Chief Compliance Officer and General Counsel (“CCO”). This policy provides a process for guarding against violations of state, federal, and foreign securities laws that prohibit insider trading. To this end, the BOI maintains and regularly updates a list of securities that BOI investment personnel and DTMB affiliates may not personally trade because the BOI has identified the securities as inside information. The securities identified as such are listed as restricted in the BOI’s Personal Trade Approval System (“PTAS”). Before any BOI personnel can execute trades for their personal accounts, including those of household members and accounts over which the individual exercises investment discretion, the PTAS must be consulted to see if the security is restricted. This process is intended to prevent misuse of inside information. All personal trades must be disclosed quarterly to the BOI’s CCO. The policy institutes safeguards designed to prevent the sharing of inside information between public and private market investment division investment personnel. All internal portfolios will be managed in compliance with the BOI Prohibition of Insider Trading Policy.

## B. Ethics Policy

BOI personnel and DTMB affiliates are held to the highest ethical standards and must comply with a number of directives aimed at ensuring integrity at the BOI. All BOI personnel and DTMB affiliates must conduct themselves in a way that promotes public confidence in the BOI and the State Treasurer. The BOI fulfills this directive by following and adhering to ethical guidelines established by the following sources: Public Act 314; Standard of Conduct for Public Officers and Employees; Michigan Civil Service Rules; CFA Institute Code of Ethics and Standards of Professional Conduct; and the BOI Prohibition of Insider Trading Policy. Each year, all BOI personnel and DTMB affiliates must affirm adherence to these policies, statutes, guidelines, and directives by signing an annual affirmation. Violations, or suspected violations, of any of these policies, statutes, guidelines, or directives must be immediately reported to the Deputy Chief Investment Officer or Chief Compliance Officer.

## C. Proxy Voting Policy

Given the Board and BOI's long-term investment horizon, active voting of proxies is an integral part of meeting investment goals. Active voting also serves the interests of members of the DB Plan by advancing strong corporate governance and ensures that companies held as investments remain viable over the long-term. To support these activities, a Proxy Voting Policy shall be developed and maintained by the CIO in conjunction with the CCO. The BOI is delegated all necessary power and authority to effectuate the policy, including the power to appoint a proxy voting agent to vote proxies in accordance with the Proxy Voting Policy or other applicable policy.

In accordance with the Proxy Voting Policy, the BOI will timely vote proxies in all shareholder meetings where the DB Plan is a shareholder and entitled to vote. The Proxy Voting Policy shall be periodically reviewed and revised as needed to reflect changes in state law and best practices in corporate governance. The proxy voting agent shall vote all shareholder ballots in accordance with the Proxy Voting Policy. However, the BOI shall retain the authority to manually vote any proxies dependent on the facts and circumstances surrounding any particular shareholder vote.

## D. Securities Litigation Policy

Securities litigation shall be used to recover money when the DB Plan has realized damages or other losses due to securities fraud. The Board views securities claims as assets of the DB Plan, which shall be managed with the goal of maximizing total recovery. These objectives shall be fulfilled by (i) actively monitoring securities litigation, (ii) evaluating and identifying potential cases, (iii) monitoring proof of claim filing deadlines, (iv) ensuring that proofs of claim are timely filed, and (v) managing costs so as to reflect the level of service being provided to the BOI. These objectives will be documented in a separate Securities Litigation Policy (the "Securities Litigation Policy"). The Securities Litigation Policy, and any updates thereto, shall take effect upon the signature of the CIO and CCO.

In nearly all cases where it is eligible under applicable securities laws, the Board will participate in all securities class actions as a passive member of a filing class. Notwithstanding this general approach, the Board may analyze whether to opt-out of class actions and seek a direct or derivative action or seek lead plaintiff status in any securities litigation matter where the DB Plan's stock position is greater than an index position and where the DB Plan's potential recoverable damages exceed \$35 million. In these instances, the BOI will work with an independent securities litigation consultant (an "Evaluation Consultant") to analyze and evaluate the merits of the case. Opt-out, derivative, lead plaintiff, or other direct action shall be sought only upon a recommendation of the Evaluation Consultant and the approval of the Board of such recommendation at a public meeting. All action taken with respect to securities litigation shall be done in accordance with the Order and the Securities Litigation Policy.

E. Divestment Policy

Public Act 314 and Public Act 234 require that the Board quarterly review DB Plan internal and external holdings to ensure no public monies are invested in companies engaged in active business operations in any country that is designated as a "State Sponsor of Terror" by the United States Department of State.

BOI personnel, with assistance from a divestment screening vendor, will monitor DB Plan investment portfolios for compliance with state divestment statutes that prohibit ownership of securities in companies with active business operations in state sponsors of terror (collectively, all such divestment statutes, the "Divestment Acts"). When appropriate, and in accordance with applicable law, the BOI will (i) engage those companies that are found to violate the terms of the Divestment Acts and (ii) take necessary responsive actions in order to allow the BOI to comply with the Divestment Acts. If engagement is not successful, then the DB Plan must divest its holdings in the company in accordance with the applicable statutory divestment schedule.

F. Indemnification Policy

A member of the Board, the State Treasurer, or an officer, appointee, or employee of the BOI shall not be subject to personal liability when acting in good faith within the scope of his or her authority, or on account of liability of the Board. A member of the Board is indemnified against liability arising out of any action taken in good faith and within the scope of his or her official duties under this policy. The State Treasurer or an officer, appointee, or employee of the BOI is indemnified against personal liability for actions taken in connection with the discharge of his or her official duties, but only to the extent that (i) such actions are lawful, duly authorized, and taken in good faith, (ii) within the scope of that individual's official duties, and (iii) such individual is not subject to, or otherwise covered by, governmental immunity under any applicable law.

G. Socially-Driven Investment

The Board relies on Public Act 314 as the source of its investment authority and direction with respect to categories of investments. Historically, the Michigan Legislature has determined which social constructs ("ESG"), from a public policy standpoint, warrant

changing or directing investment activities involving Michigan public plan assets, including those of the DB Plan; see, e.g., Public Act 234; Section 13a of Public Act 314; Section 13c of Public Act 314; and Section 13d of Public Act 314. The Board shall follow all ESG directives set by the Michigan Legislature.

## **VII. BOI Travel Authorization**

- A. All BOI personnel travel is required to be for the purposes of investment monitoring, due diligence, or for educational purposes. These purposes are consistent with the obligations of an investment fiduciary and align with the objective to increase state restricted revenues by maximizing investment returns for the DB Plan.
- B. Travel expenditures for BOI personnel must stay within annual budget allocations for each fiscal year. All BOI travel shall comply with Treasury, DTMB, and Civil Service travel policies and guidelines, and where applicable, investment management and partnership agreements.
- C. The CIO or BOI senior management staff shall review and approve all BOI travel requests. The CIO's travel and expense reimbursement requests shall be reviewed and approved by the State Treasurer or other designated Department of Treasury staff, which may be approved via email.
- D. Treasury Form 1941, or other applicable form(s), will be completed and maintained by the BOI for out-of-state travel requests, in accordance with Treasury's or the State's record retention policy.
- E. Members of the Board shall not individually meet with any manager, broker, consultant, investment manager, or other provider of investment related services that has, or reasonably may be in a position to have, business with the Board for the purpose of discussing matters related to official Board business without approval of a majority of members of the Board. However, the State Treasurer, as chairperson, shall be permitted to meet with service providers or potential service providers.

## **VIII. Conduct of Public Meetings**

- A. Consistent with the Order, all Board meetings and decisions of the Board shall be conducted in compliance with the Open Meetings Act, 1976 Public Act 267. The State Treasurer, as chairperson, shall chair the meetings. If the State Treasurer attends a meeting of the Board through electronic means or is unable to attend a meeting, the State Treasurer shall appoint, from the members physically present at such meeting, a member of the Board to serve as chairperson of that meeting only.
- B. At the conclusion of each meeting, time shall be reserved for public comment from members of the public who wish to speak. Any such individuals shall be asked to identify themselves before speaking during the public comment section of the meeting.
- C. Unless waived by the chairperson, individual members of the public shall have a limit of five (5) minutes to speak during the public comment section of the meeting. In the event

multiple individuals from a group are present to speak, the chairperson may ask one individual to speak on behalf of the group.

**IX. Public Posting of Investment Policy Statement**

This Policy shall be made available to the public via the BOI page on the Department of Treasury website.

Approved and implemented by official resolution of the Board:

By:

  
\_\_\_\_\_  
Nick A. Khouri, State Treasurer of the State of Michigan  
as Chair of State of Michigan Investment Board and  
Appointing Authority, Michigan Department of Treasury

Date:

11/27/18

# Exhibit A

## State of Michigan Investment Board Asset Allocation Strategy A Targets with Ranges<sup>1, 2</sup> As of 12/31/24

Asset Class	Weights			Current Asset Allocation Ranges	Proposed Asset Allocation Ranges
	As of 9/30/24	Current Target	New Target		
<b>Domestic Equity</b> <i>S&amp;P Composite 1500 Index</i>	21.4%	25.0%	21.0%	17% - 32%	13% - 27%
<b>Private Equity</b> <i>S&amp;P 500 Index + 300 bps</i>	21.2%	16.0%	16.0%	13% - 27%	13% - 27%
<b>International Equity</b> <i>MSCI ACWI ex USA Index</i>	14.3%	15.0%	14.0%	12% - 22%	10% - 20%
<b>Real Return &amp; Opportunistic</b> <i>Custom<sup>3</sup></i>	9.4%	10.0%	9.0%	8% - 18%	5% - 15%
<b>Long Term Fixed Income</b> <i>Bloomberg U.S. Aggregate Bond Index</i>	10.2%	13.0%	15.0%	8% - 18%	10% - 20%
<b>Real Estate &amp; Infrastructure</b> <i>Custom<sup>4</sup></i>	8.9%	10.0%	8.0%	8% - 18%	5% - 15%
<b>Absolute Return</b> <i>HFRI Fund of Funds Conservative Index</i>	10.0%	9.0%	13.0%	5% - 11%	7% - 18%
<b>Short Term Fixed Income</b> <i>30-Day U.S. Treasury Bill</i>	4.6%	2.0%	4.0%	1% - 8%	1% - 8%
<b>TOTAL</b>	100.0%	100.0%	100.0%		

<sup>1</sup> Information in this table is based upon an asset liability study performed by Aon and presented at the State of Michigan Investment Board's January 8, 2025 quarterly meeting.

<sup>2</sup> Allocation and ranges are applicable to the following component units of the State of Michigan Retirement System: the Michigan Public Schools Employees' Retirement System; the Michigan State Employees' Retirement System; the Michigan State Police Retirement System; the Military Retirement System; and the OPEB funds associated with each of the Michigan State Employees' Retirement System and the Michigan State Police Retirement System.

<sup>3</sup> The custom benchmark is composed of 50% (CPI + 4%) and 50% (actuarial rate).

<sup>4</sup> The custom benchmark consists of NCREIF Property Index less 130 basis points.

# State of Michigan Investment Board

## Asset Allocation Strategy B Targets with Ranges<sup>1, 2</sup>

### As of 12/31/24

Asset Class	Weights			Current Asset Allocation Ranges	Proposed Asset Allocation Ranges
	As of 9/30/24	Current Target	New Target		
<b>Domestic Equity</b> <i>S&amp;P Composite 1500 Index</i>	21.4%	25.0%	16.0%	17% - 32%	10% - 20%
<b>Private Equity</b> <i>S&amp;P 500 Index + 300 bps</i>	21.2%	16.0%	16.0%	13% - 27%	13% - 27%
<b>International Equity</b> <i>MSCI ACWI ex USA Index</i>	14.3%	15.0%	11.0%	12% - 22%	7% - 13%
<b>Real Return &amp; Opportunistic</b> <i>Custom<sup>3</sup></i>	9.4%	10.0%	7.0%	8% - 18%	5% - 15%
<b>Long Term Fixed Income</b> <i>Bloomberg U.S. Aggregate Bond Index</i>	10.2%	13.0%	26.0%	8% - 18%	20% - 30%
<b>Real Estate &amp; Infrastructure</b> <i>Custom<sup>4</sup></i>	8.9%	10.0%	5.0%	8% - 18%	5% - 15%
<b>Absolute Return</b> <i>HFRI Fund of Funds Conservative Index</i>	10.0%	9.0%	15.0%	5% - 11%	10% - 20%
<b>Short Term Fixed Income</b> <i>30-Day U.S. Treasury Bill</i>	4.6%	2.0%	4.0%	1% - 8%	1% - 8%
<b>TOTAL</b>	100.0%	100.0%	100.0%		

<sup>1</sup> Information in this table is based upon an asset liability study performed by Aon and presented at the State of Michigan Investment Board's January 8, 2025 quarterly meeting.

<sup>2</sup> Allocation and ranges are applicable to the following component units of the State of Michigan Retirement System: the OPEB funds associated with each of the Michigan Public Schools Employees' Retirement System and the Michigan Judges' Retirement System; and the Michigan Judges' Retirement System.

<sup>3</sup> The custom benchmark is composed of 50% (CPI + 4%) and 50% (actuarial rate).

<sup>4</sup> The custom benchmark consists of NCREIF Property Index less 130 basis points.

## **EXHIBIT B**

### **DIVESTMENT FROM RUSSIA AND BELARUS POLICY**

The Russian Federation (“Russia”) has instituted an unjust war of aggression against the country of Ukraine and its citizens without provocation in violation of international law and standards of morality, and the Republic of Belarus (“Belarus”) has provided material aid to Russia’s war efforts. The State of Michigan Retirement System serves to provide benefits to active and retired civil servants and other individuals who have worked for the benefit of the State of Michigan. This aim cannot be fulfilled through investments in companies that may provide direct or indirect support to the war against Ukraine. Michiganders stand united with the people of Ukraine in their fight for freedom. To help staunch any financial or other support that Russia may rely on in its efforts to prolong or expand its unjust war efforts, the State of Michigan Retirement System will divest itself from investments, where practical, in institutions or companies headquartered or that have their principal place of business in Russia or Belarus and refrain from new purchases of such investments subject to current or future laws, regulations, market conditions, rules, and legal or contractual obligations in applicable markets, exchanges, or local jurisdictions.