Stanislaus County Employees' Retirement Association
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Stanislaus County Employees' Retirement Association

Private Markets Investment Policy Statement

Adopted: September 25, 2018

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1. **Scope**

This Private Markets Investment Policy ("PM Policy") governs all investments in the private equity and private credit asset classes made by StanCERA. The PM Policy is subject to all provisions of applicable law and the applicable limitations and requirements of StanCERA's Investment Policy Statement ("IPS") and related directives and procedures. If there is any conflict between this PM Policy and StanCERA's IPS pertaining to investments in the Private Markets asset class, the PM Policy prevails.

The StanCERA Board ("Board") reserves the right to amend, supplement, or rescind this PM Policy at any time. This PM Policy is a living document and changes will be made from time–to-time to reflect experience, evolving investment products, and opportunities and changes in the economic and capital market environment.

2. **Purpose**

The purpose of this Policy is to 1) set forth the private markets policies and guidelines which are deemed to be appropriate and prudent; 2) establish criteria against which private markets opportunities are to be measured; and 3) serve as a review document to guide the ongoing oversight of StanCERA's Private Markets Portfolio ("PM Portfolio") on a consistent basis. The Policy also defines roles and responsibilities of the Board, the StanCERA Investment Staff ("Investment Staff"), the StanCERA PM Consultant ("Consultant"), and the Investment Managers ("Investment Managers") hired by StanCERA to manage its assets. For purposes of this policy, "Investment Staff" shall be defined as the Executive Director and anyone in the Retirement Investment Officer classification.

3. **Governance**

The delineation of roles and responsibilities is important for effective administration of StanCERA's PM Portfolio. The duties and responsibilities of the Board, Investment Staff, Consultant, and Investment Managers are as follows:

A. **Board**

The Board retains responsibility for approving this PM Policy and approving the annual investment plan of StanCERA's PM Portfolio. The Board, with input from Investment Staff and Consultant, shall review this PM Policy to determine whether amendments are necessary. The Board also retains responsibility for reviewing and approving all Private Markets investments with individual commitments exceeding Investment Staff's delegated authority as described in paragraph B.

B. **Investment Staff**

The Executive Director shall be responsible for oversight of StanCERA's PM Portfolio. Investment Staff's responsibilities shall include:

1. Developing and recommending all necessary changes to this PM Policy with input from Consultant;
2. Developing and maintaining specific procedures, if necessary, to comply with the approved PM Policy;

3. The Executive Director shall be permitted to approve Consultant's Private Markets investment proposals (both new proposals and "re-ups" with existing managers) with each individual commitment up to 10% of the target allocation of the total PM Portfolio or $25 million (whichever is lesser) to managers in good standing upon completion of a thorough review and due diligence process with satisfactory results. Investment Staff and Consultant shall provide the Board with reports as described in Appendix I and Appendix II.
4. Monitoring the PM Portfolio for performance and compliance with this PM Policy;
5. Monitoring the performance of the underlying Investment Managers and their compliance with a) the investment guidelines as set forth in their respective contracts; b) this Policy; and c) applicable requirements of StanCERA's IPS, Directives, and Procedures;
6. Conducting annual reviews of StanCERA's PM Portfolio;
7. Reporting to the Board any violations of the PM Policy with appropriate recommendations;
8. Assisting StanCERA's counsel in contract negotiations with the selected Investment Managers;
9. Evaluating Private Market investment opportunities with Consultant's input on an on-going basis; and
10. Evaluating and making recommendations for retention and termination of Investment Managers.

C. **Consultant**

The Consultant is hired by the Board as a fiduciary to StanCERA. Consultant shall independently and continuously monitor and analyze the performance of StanCERA's PM Portfolio and make related recommendations to serve the best interests of the Plan. Consultant shall assist Investment Staff in developing this PM Policy and recommending all necessary changes to it. Consultant shall also be responsible for the following:

1. Analyzing the asset allocation of the PM Portfolio by type, implementation vehicle, geography, industry, and vintage year, and making recommendations for reallocation of assets, as appropriate;
2. Developing an investment plan for StanCERA's PM Portfolio every 1 to 3 years;
3. Developing a search strategy for highly qualified Private Markets investments and maintaining a robust database containing information on Investment Managers;
4. Recommending highly qualified Private Markets fund investments to Investment Staff and/or the Board upon completion of a thorough due diligence process and providing the required reports listed in the Appendix I of this PM Policy to Investment Staff;
5. Ongoing monitoring of the investment performance of StanCERA's PM Portfolio and individual investments in the Portfolio;
6. Conducting ongoing due diligence of Investment Managers, notifying StanCERA of any significant developments and adverse events and providing analysis and advice on such issues;
7. Ongoing monitoring of Investment Managers' compliance with a) their respective investment guidelines as set forth in their contract; b) this PM Policy; and c) applicable requirements of StanCERA's IPS, Directives, and Procedures;

8. Assisting Investment Staff in contract negotiations with the selected Investment Managers;
9. Making recommendations for retention or termination of Investment Managers;
10. Attending meetings as needed; and
11. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

D. **Investment Managers**

Investment Managers are fiduciaries and shall prudently manage StanCERA's assets in the best interest of StanCERA and its members. Investment Managers shall abide by all applicable policies and procedures established by StanCERA, and fully comply with applicable law. Investment Managers shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) this PM Policy; and c) applicable requirements of StanCERA's IPS, Directives, and Procedures. Investment Managers shall be responsible for all aspects of portfolio management as set forth in their respective contracts with StanCERA. They shall also:

1. Communicate with Investment Staff and/or Consultant promptly regarding investment strategy, investment results, and any non-conforming issues that may have significant and/or negative impact on the portfolio;
2. Cooperate fully with Investment Staff, Consultant, StanCERA's custodian, and other StanCERA vendors concerning requests for information;
3. Submit reports to Investment Staff and Consultant in accordance with their contract terms; and
4. Attend meetings as needed, either in-person or via conference call.

4. Objectives of investing in Private Markets

The Board believes the Fund's overall returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in private equity and private credit. The strategic objective of such investments is to generate returns superior to those available in the public equity and credit markets to compensate for the long-term and illiquidity associated with private investing.

The Board recognizes that performance of investments in private equity and private credit may be difficult to measure during the first several years and possibly longer. However, this PM Policy establishes ongoing monitoring and reporting duties for each investment and for the PM Portfolio as a whole. These duties are designed to address these challenges and are described in detail later in this PM Policy.

Portfolio construction will be designed to produce a diversified mix of returns, subject to the guidelines and constraints outlined under each sub-category. Diversifiable risks associated with this Portfolio include position in the capital structure, the timing and amounts of cash flows, the size of the individual investments, and their sensitivities to business cycles. The risks associated with Private Markets will be viewed within the context of the entire Fund.

5. Strategic Allocation to Private Markets

The long-term target allocation to the Private Equity and Private Credit asset classes is measured by market value of the investments (not by dollars committed to the investment strategies). As portfolio construction shall be driven by careful manager selection, and due to the illiquid nature of investments, the allocation to Private Markets can range from 0% to 16%, with exposure to sub-asset classes as follows:

	Allocations as a percent of total plan assets		
	Min	Target	Max
Private Equity	0%	6%	8.0%
Benchmark: Russell 3000 + 3%			
Buyouts	0%	4%	5.0%
Venture Capital	0%	2%	3.0%
Private Credit	0%	6%	8.0%
Benchmark: S&P / LSTA Leveraged Loan Index + 2%			
Direct lending	0%	4%	5.0%
Special situations	0%	2%	3.0%

While the target allocations outlined above will be used to ensure consistency with the investment program's strategic asset allocation, the range between the minimums and maximums may be used to improve the risk and return positioning based on an assessment of the relative attractiveness of all available opportunities.

As commitments and investments are expected to be made over time, the Private Markets Portfolio is expected to reach and maintain its long-term target allocation within 4-6 years (subject to availability of quality managers and general market conditions) from the most recent date of change in allocation targets.

Over commitment. Because timing of both contributions and distributions is at the discretion of each private fund manager, commitments do not equal money at work. In order to reach target allocations, it is, therefore, necessary to commit more than the stated target of 12% to reach the Plan's target exposure within the four- to six-year timeframe. Pacing studies are effective tools to manage the level of over commitment. At times, particularly during corrections in public equity markets, it is possible that the Plan's level of over commitment may result in the allocation to private markets exceeding the maximum of 16%. If such a situation were to arise, the pacing study would, if possible, reflect lower future allocations until the Plan's exposure returns to appropriate levels.

6. Guidelines

StanCERA will gain exposure to private markets investments by hiring external investment managers either directly or through participation in secondary markets. Typically, the Plan will subscribe as a limited partner to limited partnership vehicles sponsored by specialty external investment managers.

The Private Markets Portfolio is to be diversified over 4 to 6 years from the most recent date of change in allocation targets as follows:

A. **Sub-asset class**
The private markets sub-asset classes include private equity buyout strategies, venture capital, and debt-related / special situations strategies. The target allocations and ranges are outlined in the Strategic Allocation to Private Markets section.

B. **Vintage year**
It is expected that roughly equal amounts of new funding will be committed in each calendar year, with deviations permitted to accommodate market opportunities and to facilitate initial entry into the asset class.

C. **Investment manager**
No more than 20% of the target allocation to the private markets may be committed to any one investment manager.

D. **Geography**
While the investments made by each investment strategy will be governed by the investment guidelines corresponding to each strategy, the overall private markets exposure is expected to have the majority of its investments domiciled in the United States.

E. **Sector**
As noted in the Strategic Allocation to Private Markets section above, it is expected that the Private Markets exposure will be diversified by sector as follows:

1. BUYOUTS
Buyout investments typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established, privately held company. Investments are typically made in years one through three and returns typically occur in years three through six of the limited partnership.

   No more than 35% of the target value of capital invested of the buyout portfolio may be invested in a single sector of the domestic or international economy.

2. VENTURE CAPITAL
Venture Capital investments are typically made in privately-held companies at varying stages of development. Investments are often made in years one through five and returns typically occur in years four through ten of the limited partnership. Depending on stage or risk profile of investments, a large portion of investments may result in losses, while a few provide substantially outsized returns. Other types of Private Equity Investments with similar risk/return profiles may be considered for the Fund under this category.

   No more than 50% of the target value of capital invested in the venture capital portfolio may be invested in a single industry within a particular sector.

3. PRIVATE CREDIT

Private Credit investments are highly negotiated, private debt investments in middle market companies through a variety of transactions including growth financings, recapitalizations, and acquisition-related financings. Investments are typically made in years one through three of the partnership with a high level of current income. Special Situations investments can encompass any variety of private investments in debt or equity, typically to generate returns from the turnaround or dissolution of stressed and distressed assets, including opportunistic real estate investments.

The portfolio commitment will not represent greater than 20% of a single fund.

7. Due diligence process for Private Markets Investment Selection

StanCERA recognizes that a proper due diligence process is essential to control the risks associated with Private Markets investments and, therefore, establishes the following due diligence processes for both its Consultant and Investment Staff:

A. Consultant

Consultant shall conduct extensive, documented due diligence before making any Private Markets investment recommendations to Investment Staff and the Board. Consultant shall involve Investment Staff in the due diligence process, as necessary. Duties of the Consultant include:

- Assess the reputation of the individuals who manage the investments, consider background checks, internet searches, and in-person meetings or conference calls with these individuals, etc.;
- Conduct on-site visits to the offices of the Investment Managers;
- Check references from other investors that have invested in these investments, and, when advisable, from competitors;
- Determine that the investment funds are audited, at least annually, by a reputable and recognized external independent auditing firm;
- Review Investment Managers investment strategies, policies, operating procedures, and historical performance;
- Review and understand the valuation procedures employed by the Investment Managers;
- Review business terms of all legal agreements and other related documents for the investments under consideration, such as offering memorandum, legal agreements, and Forms ADV, as available;
- Review the investments for potential exposure to Unrelated Business Taxable Income (UBTI); and
- Assess what exit strategies exist to liquidate existing investments owing to poor performance and, if necessary, to avoid future investments in similar funds

B. Investment Staff

Investment Staff shall ensure that Consultant has conducted extensive, documented due diligence on all Private Equity investment proposals recommended to Investment Staff and the Board. Investment Staff shall participate in Consultant's due diligence process when appropriate and shall also be responsible for:

- Reviewing the comprehensive analysis report prepared by Consultant on its recommended investments;
- Verifying the compliance of each recommended investment with this PM Policy, the annual investment plan for StanCERA's portfolio and other applicable investment policies;
- Discussing all issues related to the recommended investments with Consultant and if necessary, with Investment Managers;
- Arranging presentations of select investment opportunities to the Board as described under Section 3.B.3;
- Conducting an on-site due diligence visit to each manager's headquarters office when necessary and practicable; and
- Completing Appendix II of this document for each proposal.

8. Portfolio Monitoring

In addition to the portfolio monitoring responsibilities outlined in the IPS, the Consultant and Investment Staff will closely monitor and analyze the PM Portfolio so that the strategic objective of the Portfolio can be met.

Investment Managers shall submit all reports to Investment Staff, Consultant, StanCERA's custodian, and other StanCERA vendors in accordance with their respective contracts.

9. History of Policy Revisions

POLICY APPROVAL DATE: September 25, 2018

Policy Review

This Board shall review this policy at least every three years.

Reviewed and amended by the Board of Retirement

Rick Santos, Executive Director

Approval/Adoption Date: 9/25/2018

Appendix I

List of Reports Required for Each Investment Recommendation/Approval

Report	Source
Recommendation/Approval memo	Investment Staff
Recommendation/Approval memo	Consultant
Executive Summary of the Fund	Consultant
Compliance Checklist	Investment Staff
Comprehensive Due Diligence Report (available to Trustees upon request due to confidentiality)	Consultant
Manager Pitchbook	Investment Manager

Investment Staff will provide an abbreviated Executive Summary Report that is available for review upon request by the Trustees.

Appendix II

Executive Summary Report [Template]

[Fund Name]

Section I: General Information
Fund Name; Total AUM of the Firm; Current Target Fund Size; Previous Fund Size; Fund Focus; etc.

Section II: Investment Management
Organization Structure; Management Group; Experience; Personnel Turnover; etc.

Section III: Investment Strategy
Investment Philosophy; Investment Strategy; Investment Process; Investment Objective; etc.

Section IV: Risk Management
Risk Control Methodology; Exit Strategy; etc.

Section V: Investment Rationale

Section VI: Investment Concerns

Section VII: Performance (example)

Benchmark:

Performance History

	YTD	1-yr	3-yr	5-yr	Since Inception
Fund					
Benchmark					
Out/(under)performance					

Section VIII: Key Terms

Fund Term; Preferred Return; Investment Period; Management Fee; Other Fees; General Partner Carry; GP Commitment; Advisory Board; Clawback; No-Fault Divorce; Key-Person Events; Closing Schedule; Drawdown Schedule; etc.

List of items to be addressed as appropriate.