



## ILLINOIS SECURE CHOICE RETIREMENT SAVINGS PROGRAM INVESTMENT POLICY STATEMENT

### 1.0 PURPOSE OF THE POLICY

This Illinois Secure Choice Retirement Savings Program Investment Policy Statement (the “Policy”) sets forth the investment objectives of the Illinois Secure Choice Retirement Savings Program (“Secure Choice,” or the “Program”), in accordance with 820 ILCS 80/35 and 74 Ill. Adm. Code 721.330, and establishes policies and procedures to create the highest probability that these investment objectives are met in a prudent manner that is consistent with established guidelines for similar retirement savings programs, governing rules and regulations, and best practice standards adopted by the marketplace.

This Policy includes a risk management and oversight program that is designed to ensure that an effective risk management system is in place to monitor the risk levels of the Program and the underlying investment funds to ensure that the risks taken are prudent and properly managed, to provide an integrated process for overall risk management, and to assess investment returns. Additionally, the Program’s risk and oversight procedures are intended to assess investment returns to determine if the risks taken are adequately compensated compared to applicable performance benchmarks and standards.

This Policy covers the following:

- A. The Board’s investment objectives;
- B. The overarching investment framework of the Program, including the number and type of investment options offered to Secure Choice participants (“Participants”) and the composition of investment products;
- C. The general guidelines for providing suitable investment options for Participants and corresponding asset allocation and glidepaths associated with the necessary investment options offered to Participants;
- D. The guidelines for the selection of underlying investment funds to satisfy the Program’s investment objectives;
- E. The ongoing supervision of the investments, including a regular review of the roles and responsibilities of the Office of the Illinois State Treasurer (“Treasurer”), the Board, and various contractors;
- F. The monitoring and review of Program performance and investment characteristics of the investment options and/or the underlying investment funds offered; and
- G. The decisions that may be made regarding the addition, replacement, or elimination of the Program’s investment options and/or underlying investment funds offered.

All Board members must perform their duties in accordance with 820 ILCS 80/25, and act solely in the interest of the Program’s enrollees and beneficiaries with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of similar character and aims.

The Board may, within the bounds of applicable law and regulations, deviate from this Policy as it deems appropriate, including on a case-by-case basis with respect to any investment manager appointed by the Board. However, the Program Manager (defined in Section 6.0) is not permitted to deviate from this Policy without prior written Board approval.

This Policy describes the objectives, guidelines, and constraints for the investment of the Secure Choice assets and shall be used to develop an appropriate investment framework for the Program. This Policy will also be used as the basis for future investment performance measurement and evaluation. In general, this Policy is intended to provide sufficient flexibility to accommodate current and future economic and market conditions, as well as changes in applicable accounting, regulatory, and statutory requirements. The Board may amend this Policy at any time in writing, provided reasonable notice is given to all applicable parties.

## **2.0 ESTABLISHMENT AND AUTHORITY OF SECURE CHOICE**

In accordance with 820 ILCS 80/10, Secure Choice has been established as a retirement savings program in the form of an automatic enrollment payroll deduction Individual Retirement Account (“IRA”). Secure Choice was established to promote greater retirement savings for private-sector employees in a convenient, low-cost, and portable manner.

## **3.0 INVESTMENT PRINCIPLES**

The following investment principles shall guide the investment design, objectives, and operations of the Program (the following shall collectively be, the “Principles”):

- A. Low Cost – The investment options shall be constructed and administered in a manner that minimizes the Participants’ fees. The lowest cost index-based portfolios that meet this Policy’s criteria shall be viewed as the default standard in evaluating investment management fees.
- B. Open Architecture – The investment framework shall utilize an open architecture plan design, meaning it will not be required to use any proprietary funds. The open architecture design allows the Board to select the Program’s underlying investment funds. Further, the open architecture design shall provide the Board with: (1) access to best-in-class portfolio managers; (2) the ability to use nonproprietary products; (3) increased flexibility when choosing underlying strategies; and (4) the ability to obtain the lowest Participant fees for underlying investment funds and accounts.
- C. Market Performance – The investment options shall be constructed and administered in a manner that consistently tracks market performance, as measured in comparison to

applicable market benchmarks/peer groups, thus eliminating the potential for significant underperformance of the investment options.

- D. **Simplicity** – The investment options shall be constructed and administered in a manner that provides a range of clear, easily understood investment options (defined in terms of expected risk/return) in order to maximize participation and savings. Furthermore, the Program shall be designed and administered in a manner that strives to achieve full transparency by delineating accordant investment expenses, program management fees, and administrative expenses. In addition, the Program shall provide a clear and simple investment approach for participants who fail to elect an investment option.

#### **4.0 INVESTMENT PHILOSOPHY**

Long-term investment options offered to Participants, including target date funds and stand-alone investment funds, shall consist of or be constructed with funds that efficiently capture market returns (i.e., index funds). Furthermore, target date funds shall utilize an optimal, long-term diversified asset allocation strategy. The asset allocation components for target date funds may be divided into the following broad asset categories:

- A. Cash and/or Money Market funds;
- B. Fixed Income Investments;
- C. Real Estate Investment Trusts (“REITs”);
- D. Domestic Equity Investments; and
- E. International Equity Investments.

Contributions to Secure Choice will be directed by the Participant to one or more of the available investment options, each composed of a designated mix of underlying investment funds, or a single underlying investment fund. The Board shall determine the investment parameters of each investment option and take into account the financial characteristics of the investments in Secure Choice. The investment parameters will also give due consideration to the fact that the investment horizon for Participants will vary from a few months to over forty (40) years.

The Board, or its designee, will review the investment performance of each investment option and underlying investment fund at least quarterly and review this Policy at least annually. While the investment parameters offered under Secure Choice are developed by the Board, Participants bear the risk of the investment results. Individual Participants who seek investments materially different from those offered in Secure Choice may wish to select an investment alternative other than Secure Choice.

Participation in Secure Choice does not guarantee investment returns to Participants or preservation of capital. Each Participant is encouraged to seek appropriate financial advice as they deem necessary. The Board and the Program Manager should make reasonable efforts to communicate this to Participants.

#### **4.1 Preference for Diverse Investment Managers**

The Board strives to promote and encourage the use of businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans,

minority persons, women, or persons with a disability (collectively “MWVD Businesses”). In partnership with the Treasurer’s Office and ensuring consistency with the investment objectives and the Principles, the Board shall endeavor to identify and evaluate investment managers that are MWVD Businesses.

#### **4.2 Sustainability**

Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238) and consistent with the investment objectives and the Principles, the Board shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence, and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty. Sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and can be used to evaluate past performance and to plan future decision-making. As a complement to traditional financial analysis, an accounting of sustainability factors provides a more complete view of risks and value prospects that may materially impact an investment fund or portfolio company’s long-term value. As such, consistent with achieving the foremost investment objectives of the Board set forth herein, the Board will prudently exercise investment stewardship and integrate sustainability factors within such a framework predicated on the following:

- A. **Materiality** – The Board considers whether and to what extent a sustainability risk or opportunity exists that is reasonably likely to have a material impact on the financial condition or operating performance of a company, investment fund, or other investment vehicle.
- B. **Industry-Specific Information** – The Board considers whether and to what extent the financially material sustainability risk or opportunity in question is relevant and applicable to individual industries.
- C. **Integration of Material Sustainability Factors** – The Board prudently integrates material and relevant sustainability factors, including, but not limited to (1) corporate governance, financial incentives, and quality of leadership factors, (2) environmental factors, (3) social capital factors, (4) human capital factors, and (5) business model and innovation factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, prospective value proposition, risk management, and investment ownership in externally managed investment programs.
- D. **Regular Evaluation of Sustainability Factors** – The Board performs a recurring evaluation of sustainability factors, annually at minimum, to ensure the factors are relevant to the evolving marketplace.
- E. **Additional Relevant and Financially Material Factors** – The Board considers other relevant factors such as legal, regulatory, and reputational risks that contribute to an optimal risk management framework and are necessary to protect and create long-term investment value.

## **5.0 INVESTMENT OBJECTIVES**

The primary investment objective of Secure Choice is to offer low-cost, streamlined investment options that track relevant market performance. The Board intends to offer investment options that meet the following criteria:

- A. Investment options encourage prudent diversification, consistent with a Participant's goals and objectives;
- B. Each investment option has a risk profile consistent with its position in the overall set of choices;
- C. Costs for each investment option are not excessive when compared to alternative options of a similar style and available to equivalent programs; and
- D. When Participants invest in multiple investment options, such options shall increase or decrease risk and the opportunity for return.

## **6.0 INVESTMENT RESPONSIBILITIES**

The Board is responsible for this Policy, the choice of investment options offered to Participants, and the administration of the Secure Choice assets. The Board, or its designee, will engage a contractor(s) for administrative and investment management services (“Program Manager”). The Board shall also seek guidance from an external investment consultant for investment advisory services. In addition to its other responsibilities, the Program Manager shall be responsible for the implementation of the investment strategy outlined in this Policy. All parties shall fulfill their responsibilities in accordance with all applicable federal and state laws and regulations. Below is a list of the parties with investment responsibilities and their respective responsibilities.

- A. The Board shall be responsible for the following:
  - 1. Acting as a fiduciary in the sole interest of Participants;
  - 2. Administering the Secure Choice investment options;
  - 3. Establishing and maintaining this Policy;
  - 4. Selecting the investment options offered to Participants; and
  - 5. Monitoring and reviewing performance of the investment options, underlying investment funds, and investment managers on an annual basis at a minimum.
- B. The Treasurer shall be responsible for the following:
  - 1. Reviewing and overseeing the investment options and underlying investment funds for Secure Choice;
  - 2. Implementing Secure Choice’s internal investment processes and procedures, subject to the approval of the Board;
  - 3. Evaluating the investment framework and advising the Board as to the performance and continuing appropriateness of each investment manager; and
  - 4. Recommending to the Board any necessary modifications to the investment policies, objectives, guidelines, or management structure.
- C. The external investment consultant shall be responsible for the following:
  - 1. Monitoring and reviewing the performance of each investment option and underlying investment funds;

2. Providing periodic performance reports to the Board and Treasurer on investment options and/or underlying investment funds;
  3. Meeting with the Board and Treasurer on a regular basis to review the performance of each investment option and/or underlying investment fund;
  4. Analyzing the Program Manager's recommendations for investment options, underlying investment funds, investment guidelines, and this Policy;
  5. Assisting the Board in ensuring that Secure Choice complies with this Policy; and
  6. Updating the Board and Treasurer on current investment trends and issues.
- D. The Program Manager shall be responsible for the following:
1. Making recommendations on investment options, underlying investment funds, investment guidelines, and this Policy;
  2. Implementing Board-approved investment options and underlying investment funds;
  3. Providing periodic performance reports to the Board and Treasurer on investment options and/or underlying investment funds;
  4. Arranging meetings between each investment provider/manager and the Board and/or its designee(s), such as the Treasurer, to provide the following:
    - a. Verbal and/or written reviews of their performance and portfolio structure;
    - b. Summaries of key investment decisions, underlying rationales for such decisions, and the expected outcomes of such decisions;
    - c. Organizational updates; and
    - d. Outlooks for the market, economy, and other factors that may potentially impact investment performance.
  5. Notifying the Board and Treasurer immediately, in writing, of any changes in fund operation and personnel that may negatively impact performance (including any organizational or strategy changes that impact asset management);
  6. Providing information about Secure Choice and its investment options to Participants; and
  7. Assisting the Board and Treasurer in the day-to-day administration of Secure Choice.

The Board, Secure Choice, the Fund, and various contractor(s) engaged in administrative and investment management services are prohibited from borrowing for Secure Choice investment purposes under any circumstance.

## **7.0 INVESTMENT PARAMETERS & RISK MANAGEMENT**

Contributions will be invested in one or more of the available investment options, each composed of a designated mix of underlying investment funds or a single underlying investment fund. Target date funds may allocate assets among cash and/or money market funds, fixed income investments, real estate investments, domestic equity investments, international equity investments, and other investments that the Board determines are suitable. The Board may change the investment options and/or the underlying investment funds, consistent with this Policy, and all applicable federal and state laws and regulations.

The Board shall demonstrate care and effective risk management in selecting the investment options and structure of the underlying investment funds that best match the return, risk, diversification, liquidity, and cost requirements associated with each investment option.

The specific underlying investment funds chosen by the Board must have appropriate investment characteristics and be managed by organizations that, based on historical record and experience, have demonstrated sufficient investment expertise. Such underlying investment funds shall also meet the following criteria:

- A. Be well diversified;
- B. Have acceptable volatility, when compared to an appropriate peer group and benchmark;
- C. Have sufficient liquidity;
- D. Have reasonable fees and expenses; and
- E. Meet all other relevant requirements set forth in this Policy.

### **7.1 Review of Investment Policy**

The Board shall review this Policy at least annually and make necessary or appropriate amendments. The Board may amend this Policy at any time in writing and upon reasonable notice to all applicable parties. Implementation of such Policy will be effective at least 30 days after public notice.

The Board encourages the external investment consultant, Treasurer, and Participants to make recommendations to the Board regarding appropriate changes to this Policy.

### **7.2 Review of Investment Funds**

The Board or its designee will review the underlying investment funds at least once a year. The review(s) will focus on the following topics:

- A. Adherence to this Policy, and all applicable federal and state laws and regulations;
- B. Material changes in the structure of any underlying investment funds, such as those caused by changes in investment philosophy and personnel, or by acquisition or loss of major accounts; and
- C. Comparison of each underlying investment fund's performance to stated benchmarks and/or peer group.

The Board or its designee has the ability to add, remove, or replace investment options and/or underlying investment funds as appropriate at any time.

### **7.3 Watch List**

At its discretion, the Board, or its designee, may place an underlying investment fund on a list of funds that will be subject to more frequent monitoring ("Watch List"). However, Watch List status is not a required precursor to the termination of an underlying investment fund.

### **7.4 Emergency Changes**

The final authority to replace investment options and/or underlying investment funds under the Secure Choice investment framework shall be vested with the Board. However, in instances that material events occur such as, but not limited to, the departure of a fund's key investment personnel or its parent firm's senior executives, a sudden drop of seven percent (7%) or more in market value

in a single trading session, or allegations of fraudulence and misrepresentation (“Material Event(s)”), and the Board is unable to meet within twenty-four (24) hours of the Material Event to make responsive investment changes, the Board has delegated authority to the Treasurer to make investment changes pursuant to this Policy. The Treasurer, in consultation with the external investment consultant, may only replace underlying investment funds with similar types of investment funds or a capital preservation fund. At its next Board meeting, which shall be scheduled no later than thirty (30) days after any such changes, the Board shall a) ratify any changes made by the Treasurer, and/or b) make additional changes to the underlying investment funds.

### **7.5 Standard of Performance**

In consideration of Secure Choice’s Principles, investment philosophy, and investment objectives, market/benchmark indices will be used to evaluate investment performance.

### **8.0 INVESTMENT OPTIONS**

As a baseline, Secure Choice intends to offer the following investment options:

- A. Target Retirement Date Funds;
- B. Capital Preservation Fund;
- C. Growth Fund; and
- D. Conservative Fund.

Secure Choice may offer additional investment options and/or underlying investment funds in the future, at the discretion of the Board, pursuant to the enabling legislation<sup>1</sup>.

### **8.1 Target Retirement Date Investment Funds**

The target retirement date funds are intended to provide Participants with an asset allocation that changes dynamically over time. These funds emphasize asset growth for younger Participants and shift toward income generation and asset preservation as Participants age. The target retirement date funds are to be highly diversified and include a blend of asset classes to ensure adequate diversification. Performance and volatility expectations will vary, based on the asset allocation and risk profile of each fund in the target date series. This shall be the Default Investment Option for plan participants based on their respective target retirement year.

### **8.2 Capital Preservation Fund**

The capital preservation fund is intended to preserve capital and provide Participants the potential for income, consistent with cash and high-quality short-term securities. Risk, as measured by risk to principal and the volatility of returns, is intended to be very low. Due to its emphasis on safety, the fund may not provide protection against inflation and thus retains the possibility of liquidity and credit risk.

### **8.3 Growth Fund**

The growth fund investment option is intended to provide Participants with long-term growth of capital through investments in large capitalization U.S. common stocks. Risk, as measured by the

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<sup>1</sup> <https://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=3588&ChapterID=68>



volatility of returns, is expected to be moderate to high. Current income will not be a primary objective of this investment option.

#### 8.4 Conservative Fund

The conservative fund is intended to be a passively managed portfolio of high-quality government, corporate, and mortgage-related bonds. The allocation to U.S. Core Fixed Income provides exposure to the maturity, duration, yield, and overall risk levels intended to be consistent with the domestic bond market as a whole. Risk, as measured by the volatility of returns, is expected to be low to moderate. Current income will be a primary objective of this investment option.

#### 8.5 Overview of the Investment Options

The investment objectives, primary investments, levels of expected risk, and benchmarks/peer groups for the investments options within Secure Choice are shown in the tables below.

**Table 1 - Target Retirement Date Investment Funds**

| <b>Target Retirement Date Investment Fund(s)/Default Investment Option</b> |   |
|--|---|
| <b>Investment Option</b>   | <b>Target Retirement Date Investment Fund(s)/Default Investment Option</b>  |
| <b>Investment Objectives</b>   | The objective of this investment option is to invest in equity, fixed income, and/or money market instruments using asset allocations that adjust throughout glidepaths that are tailored to meet investment objectives based on various investor time horizons while maintaining an optimal balance of investment and risk, based on the Participant’s expected retirement date. Investment returns are expected to be derived from current income and/or capital appreciation, based on the target allocation of the particular fund. |
| <b>Primary Investments</b>   | Diversified Asset Classes   |
| <b>Expected Risk</b>   | Moderate to high, based on fund selected by Participant   |
| <b>Benchmark</b>   | BlackRock LifePath Index Custom Benchmarks  |
| <b>Peer Group</b>  | Morningstar Category U.S. Fund Target Date Series   |

**Table 2 - Growth Fund**

| <b>Growth Fund</b>       |                    |
|--------------------------|--------------------|
| <b>Investment Option</b> | <b>Growth Fund</b> |

|                              |  |
|------------------------------|--|
| <b>Investment Objectives</b> | The objective is to passively invest in the common stock of large capitalization U.S. companies. The investment strategy intends to fully replicate the market capitalization weighting of the S&P 500® stock index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. |
| <b>Primary Investments</b>   | U.S. Large Cap Equity  |
| <b>Expected Risk</b>         | High   |
| <b>Benchmark</b>             | S&P 500 Index  |
| <b>Peer Group</b>            | Passive U.S. Large Cap Equity Universe   |

**Table 3 - Conservative Fund**

| <b>Conservative Fund</b>     |  |
|------------------------------|--|
| <b>Investment Option</b>     | <b>Conservative Fund</b>   |
| <b>Investment Objectives</b> | The objective is to passively invest in a mix of government, corporate, and mortgage bonds and similar instruments. Credit quality is very high, which is intended to help preserve capital. The maturity of the portfolio is longer than that of a money market fund, which provides a higher yield on investments and reflects short-term interest rates, with the objective of producing a rate of return that is higher than inflation while avoiding exposure to credit (i.e., default) risk and market price fluctuations. |
| <b>Primary Investments</b>   | U.S. Government, Corporate, and Mortgage Bonds   |
| <b>Expected Risk</b>         | Low to moderate  |
| <b>Benchmark</b>             | Bloomberg Barclays Aggregate Bond Index  |
| <b>Peer Group</b>            | Core Fixed Income Portfolio Universe   |

**Table 4 - Capital Preservation Fund**

| <b>Capital Preservation Fund</b> |
|----------------------------------|
|----------------------------------|

|                              |  |
|------------------------------|--|
| <b>Investment Option</b>     | <b>Capital Preservation Fund</b>   |
| <b>Investment Objectives</b> | The objective is to achieve stability of principal through investment in U.S. dollar-denominated government money market securities. |
| <b>Primary Investments</b>   | U.S. government or agency securities; obligations issued by government-sponsored entities; and repurchase agreements.                |
| <b>Expected Risk</b>         | Low  |
| <b>Benchmark</b>             | ICE BofA 0-3 Month U.S. Treasury Bill  |
| <b>Peer Group</b>            | Morningstar Category Government Money Market   |

### **9.0 90 DAY REVOCATION PERIOD**

Participant contributions will be directed into a capital preservation investment selected by the Board during the account revocation period. As of the close of business on the last day of the revocation period (or the first day the New York Stock Exchange is open for trading, if later) the existing balance in the account will be invested in the Default Investment Option (“DIO”) selected by the Board unless a Participant has provided an alternate investment election. Participant contributions made subsequent to the end of the revocation period will be directed into the DIO at the default contribution rate approved by the Board, unless a Participant has provided an alternate investment election. The Board shall review the DIO at least annually and make necessary or appropriate changes.