Affiliate Fund Policy Amendments - Second Reading

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Introduction

In June 2026, the Board approved Asset Liability Management (ALM) recommendations for the Legislators' Retirement Fund (LRF) and the Judges' Retirement System II Fund (JRS II).

The policy amendments align the policies with the approved ALM recommendations. This is the second reading with a recommendation to adopt the policies.

Key additions related to JRS II private equity investing that have been added to the presentation based on Committee feedback in September:

- Governance framework overview for the Opportunistic and Innovation Program
- Implementation approach, including sourcing, allocation, and project timeline

Content presented in the first reading is included in the Appendix

Summary of Proposed Policy Amendments

Unchanged from first reading

Fund	Proposed Policy Amendments
Legislators' Retirement Fund (LRF)	• Incorporates the Board-approved SAA targets and removes the Global Equity benchmark • Widens the TIPS policy range from +/- 3% to +/- 5%
Judges' Retirement System II Fund (JRS II)	• Establishes an Opportunistic and Innovation Program, with private equity as an incubated strategy (0% target, 5% cap) • Widens the Global Equity range to +/- 7% and Fixed Income to +/- 6% • Adds governance and reporting requirements for the program

Rationale and detail for each amendment are provided in the Appendix (pages 8–10).

Governance Framework – JRS II

Roles and oversight for the JRS II Opportunistic and Innovation Program

Decision authority

Investment Committee	Program Governance	Investment Office Staff
Approves policy and asset class limits	Follows existing framework, including steering committees, ICOR, and the Board's consultants	Implements the program and reports annually

Independent oversight

General Pension Consultant

Oversees program activities, including investment implementation, on the Committee's behalf

Investment Controls & Operational Risk

Independently reviews program risks and controls

Key policy parameter

5%

Maximum private equity exposure (0% target, +5% range)

Approval of investment implementation option

Reviewed through existing private equity governance framework, with General Pension Consultant oversight, before the first investment

Implementation Approach – JRS II

Sourcing, allocation, and timeline for JRS II private equity, added in response to Committee feedback

Sourcing Approach

Several investment options are being evaluated. The recommended option(s) will be reviewed via the governance framework, with General Pension Consultant oversight.

Sample evaluation criteria

- **Investment merit**
- **Cost and fees**
- **Operating Model**
- **Liquidity**

Allocation of Opportunities

- Where JRS II and the PERF may participate in the same opportunities, allocation will follow documented procedures
- Procedures in place before the first investment
- General Pension Consultant oversight

High-level timeline

Phase 1: Planning → **Phase 2: Readiness** → **Phase 3: Investment**

Q3 2026 – Q4 2026

Policy adoption, project build-out, investment option evaluation, governance framework design

Q4 2026 – Q2 2027

Investment option selected, operating model design, legal, governance, procedures preparation

Q3 2027 & onward

Initial investments; ramp up toward the 5% limit

Recommendation and Next Steps

Recommendation:

1. Adopt the proposed Legislators' Retirement Fund Investment Policy
2. Adopt the proposed Judges' Retirement System II Fund Investment Policy

Next Steps:

1. Continue with project build-out, targeting completion July 2027
2. Provide ongoing updates to the Investment Committee regarding project progress, investment approach, and governance.

Appendix

Summary of Key Changes – LRF

Unchanged from first reading

- Incorporated the Strategic Asset Allocation (SAA) targets and removed the Global Equity benchmark.

  Rationale: aligns the policy with the Board's approved ALM.

- Increased the TIPS policy range from +/- 3% to +/- 5%.

  Rationale: provides more room for market fluctuation between rebalances and better aligns the range with the asset class's increased target.

Summary of Key Changes – JRS II…

Unchanged from first reading

- Established an Opportunistic and Innovation Program to allow investments outside approved SAA, including incubation strategies.
- Private equity would be incubated with a 0% target, +5% range, and 5% cap of JRS II market value.

  Rationale: establishes a governed framework for the incubation of Private Equity while maintaining oversight.

- Widened the Global Equity range from +/- 5% to +/- 7% and Fixed Income from +/- 5% to +/- 6%.

  Rationale: provides additional implementation and rebalancing flexibility during the Private Equity incubation.

…Summary of Key Changes – JRS II

Unchanged from first reading

- Added governance and reporting requirements that include:
  - General Pension Consultant oversight of program activities on the Committee's behalf.
  - Annual General Pension Consultant reporting expanded to be inclusive of the Opportunistic and Innovation Program.
  - Annual staff reporting on investments, performance, and risk.
  - Partnership agreements added to the External Manager section.

Rationale: strengthens program oversight.