# Investment Policy Statement for Private Credit Investments

**Approved by the Board of Trustees**

Adopted: May 19, 2022

## A. Introduction

The following investment policies govern the objectives, strategies, implementation, and performance measurement of the Private Credit Program.

## B. Investment Objective

The investment objective of the Private Credit Program is to earn risk-adjusted returns in excess of the public credit markets. The Private Credit Program also provides diversification benefits and is expected to help decrease the volatility of the overall Fund, through stable income and downside protection. The performance objective of the Private Credit Program is to exceed the long-term Private Credit Program benchmark, as defined in the current Asset Allocation Policy, net of fees, over ten-year rolling periods (one quarter lagged). Performance inside of ten years will be compared to the short-term Private Credit Program benchmark, as defined in the current Asset Allocation Policy.

## C. Investment Guidelines

The investment policies and guidelines for the Private Credit Program follow below.

1. **Private Credit Investments:** Private Credit investments are generally defined as non-bank financing and/or private placements and incorporate multiple collateral types (including but not limited to corporate credit, mortgage credit, asset-based, and consumer credit) and strategies. There are two general types of strategies, income oriented and opportunistic.

   Income oriented investment strategies (e.g., direct lending and specialty finance) target primary/origination-based transactions that focus on generating returns through regular coupon payments and principal repayment over time. Alternatively, opportunistic (e.g., special situations and opportunistic) investment strategies primarily target secondary/asset purchases that rely more heavily on generating returns through appreciation. There are four broad strategy types within Private Credit:

- ***Direct Lending*** investments include first lien, uni-tranche, second lien, and mezzanine/junior debt within the capital structure and usually take place with smaller or middle market borrowers. Direct lending strategies focus on multiple industries and can be across the US and non-US geography.

- ***Specialty Finance*** Specialty finance lending is broadly defined as any financing activity outside of the banking system and typically ties to consumer lending (student loans, auto loans, credit cards) and commercial lending (equipment leasing, business credit cards, SBA loans, merchant cash advance). Investments include, but are not limited to, direct origination, portfolio acquisitions, pre-securitization warehousing (bridge to public ABS market). Assets/strategies include, but are not limited to, loans, leases, receivables, mortgages, tax credits, royalties, service contracts, equipment leasing, trade finance, solar finance, homebuilder finance, mortgage credit, real assets.

- ***Special Situations*** investment strategies include, but are not limited to, distressed debt (e.g., corporate, mortgage, commercial real estate), capital solutions and non-performing loans.

- ***Opportunistic*** investment strategies include, but are not limited to, royalties (e.g., music, healthcare, intellectual property), litigation finance, CLO debt/equity, venture debt and portfolio finance.

2. **Private Credit Program Investment Targets:** The long-term target for the Private Credit program is 70% Income Oriented and 30% Opportunistic with ranges of 50% to 90% Income Oriented and 10% to 50% Opportunistic. Prior to reaching the full allocation target, the program may differ from these targets.

3. **Investment Vehicles:** The vehicles for Private Credit investments are typically closed-end limited partnerships. In addition, other allowable investment vehicles are funds-of-one, separate accounts, and commingled evergreen vehicles.

4. **Sector/Geographic Concentration:** The Private Credit allocation will be diversified across strategies, collateral types, and geography to limit the potential for any investment to negatively impact the long-term results of the Program.

5. **Investment Vehicle Concentration:** DCRB shall not comprise more than 20% of total fund commitments (including funds committed to parallel vehicles and measured at final closing) to a private commingled fund. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle will be evaluated as part of the annual commitment budget for the Private Credit Program.

6. **Investment Timing:** DCRB shall strive to limit the potential for any one investment to negatively impact the long-term results of the Private Credit Program by investing across business cycles and vintage years.

7. **Liquidity:** Private Credit investments are relatively illiquid and typically have expected holding periods of 5-7 years, with the potential for funds to extend significantly longer. Income typically is distributed, with some funds distributing income throughout the life of fund while others make distributions following the Investment Period.

8. **Fund Performance Evaluation:** The individual investment vehicle performance, as measured by the net of fee internal rate of return (IRR) and net of fee total value to paid-in capital (TVPI) multiple, will be evaluated compared to the performance of respective peer universes and vintage years, as provided by a recognized industry benchmark provider.

## D. Monitoring

Through the monitoring process, the CIO and investment consultant(s) will continue to evaluate whether the initial reasons for selecting the strategy and investment vehicle remain valid.

The underlying principle of the monitoring program is to determine whether the risks to which DCRB is exposed have been identified, understood, and, to the extent possible, mitigated. The monitoring process focuses on four key areas:

1. Continuity of investment philosophy and process;
2. Stability of personnel and organization;
3. Performance and risk management; and
4. Compliance with reporting and valuation requirements.

The CIO and consultant(s) will aggregate investment vehicle data and perform analysis on the overall Private Credit Program, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification. The CIO and consultant(s) also will conduct due diligence on the respective investment vehicle managers to understand the underlying drivers of risk and return. The CIO and consultant(s) will conduct portfolio reviews and on-site due diligence as necessary. Additionally, the CIO and consultant(s) will address any fund amendments or other legal issues in a timely manner. The CIO and consultant(s) will provide the DCRB Board with regular performance reports and advise the DCRB Board on other matters as appropriate.