

OKLAHOMA HIGHER
EDUCATION EMPLOYEE
INTERLOCAL GROUP

STATEMENT OF INVESTMENT
POLICY

Effective Date: July 1, 2020

INVESTMENT POLICY STATEMENT for OK Higher Education Employee Interlocal Group

I. SCOPE OF THE INVESTMENT POLICY

This investment policy reflects the investment policies, objectives, and constraints of the Oklahoma Higher Education Employee Interlocal Group funds ("OKHEEI" and the "Fund").

II. PURPOSE OF THE INVESTMENT POLICY:

This investment policy is set forth by the Board of Trustees of OKHEEI in order to:

- A. Define and assign the responsibilities of all involved parties;
- B. Establish a clear understanding for all involved parties of the Fund's investment goals and objectives;
- C. Offer guidance and limitations to all investment advisors, consultants and managers regarding the investment of the Fund's assets;
- D. Establish a basis for evaluating investment results;
- E. Manage the Fund's portfolio according to prudent standards;
- F. Establish the relevant investment horizon for which the Fund's assets will be managed.

III. ROLES & RESPONSIBILITIES

It is generally expected that management of the Fund will involve the cooperative efforts of the Board of Trustees, the Trust Committee, (the "Committee") key internal staff members, and outside professionals in various fields of expertise who may be engaged by the Board to provide professional services. To provide clarity, a general description of the roles and specific responsibilities of certain key stakeholders has been provided.

- A. **BOARD OF TRUSTEES:** The Board of Trustees serves as a fiduciary for the assets of the OKHEEI Group. In that capacity, the Board has a legal responsibility for enacting the investment policies that govern the Fund and overseeing management of the OKHEEI Group assets. In its role as a fiduciary the Board is accountable to exercise procedural prudence and appropriate care.
- B. **TRUST COMMITTEE:** The Trust Committee is asked by the Board to recommend the strategic investment objectives of the Fund. The Committee is also tasked with recommending appropriate OKHEEI Group investment policies; the overall investment strategy; investment consultants/advisors, investment managers and custodians; monitoring and evaluating performance of the Fund; and maintaining sufficient knowledge of the Fund and its consultants/advisors/managers to be reasonably assured of their compliance with the Fund's

Investment Policy Statement. Specific responsibilities of the Trust Committee include recommending to the Board:

- i. Investment policies to govern the Fund;
- ii. Broad investment objectives of the Fund;
- iii. Strategic asset allocation targets consistent with the Fund's investment objectives;
- iv. Appropriate spending and liquidity procedures for the Fund;
- v. Appropriate benchmarks and time horizon for evaluating the Fund's performance;

The Board will also meet with Investment Consultant/Advisor at least annually or more frequently as deemed necessary to review the Fund's investment performance relative to objectives and monitor compliance with investment policies. The Trust committee will meet with the investment consultant/advisor as needed.

C. INVESTMENT MANAGEMENT CONSULTANT/ADVISOR The consultant/advisor should advise the Trust Committee and Board on the adoption and implementation of the appropriate investment policies, procedures and strategies that will govern the management of the Fund and achieve desired results. In this capacity the consultant/advisor will assist the Committee and Board in fulfilling its fiduciary responsibilities. The consultant/advisor may or may not assume discretionary management of the Fund's portfolio. Specific responsibilities of the consultant/advisor include:

- i. Advise the Trust Committee on the appropriate investment objectives, policies and overall strategy to be adopted;
- ii. Provide discretionary investment management of the Fund's portfolio, including decisions to buy or sell individual securities, determining the short-term tactical asset allocation of the portfolio within long-term strategic targets established by the Committee, and selection of the Fund's investment managers;
- iii. Prepare, on a timely basis, investment performance reports as requested;
- iv. Provide a monthly or quarterly valuation of the investment portfolio as requested;
- v. Communicate any material changes to the economic and/or capital markets outlook, investment strategy, or any other factors which may affect the implementation or achievement of the Fund's investment objectives;
- vi. Inform the Committee of any qualitative change in the investment management organization; examples include changes in portfolio management personnel, ownership structure, and investment philosophy;

D. INVESTMENT MANAGER(S): Investment managers are generally selected to manage allocations of the Fund's portfolio to a particular asset class or asset subclass. The investment manager(s) has discretion to purchase or sell the specific securities that will be used to meet the Fund's investment objectives while maintaining compliance with investment policies at all times.

- E. **CUSTODIAN:** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by OKHEEI Group, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets, owned, purchased, or sold as well as movement of assets into and out of OKHEEI Group's accounts.

IV. GENERAL INVESTMENT PRINCIPLES

- A. Investments shall be made solely in the interest and purposes of OKHEEI Group;
- B. Assets shall be invested with the care, skill, prudence, and diligence that a prudent person in a similar situation would exercise under the circumstances then prevailing, and in a manner the Committee reasonably believes to be in the best interest of OKHEEI Group;
- C. Investment of the assets shall be so diversified as to mitigate the risk of large losses, unless under extraordinary circumstances, it is clearly prudent not to do so;
- D. A long-term view should be adopted regarding the Fund's investment strategy;
- E. Asset allocation of the Fund's portfolio to multiple and various asset classes and asset subclasses will be the primary driver of returns over the long-term;
- F. Investment decisions regarding an individual asset or asset subclass should not be made in isolation, but rather in the context of the Fund's investment portfolio as a whole and as part of an overall investment strategy;
- G. The Board has defined risk as the permanent impairment of the Fund's capital to achieve stated investment objectives;
- H. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

V. INVESTMENT OBJECTIVES

In order to achieve desired results, the investment strategy of OKHEEI Group should emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary investment objective for the Fund shall be:

RATE OF RETURN: Measured over a Market Cycle (generally defined as 5 - 7 year rolling periods)

- A. Over a full market cycle to equal or exceed a total return, net of investment and administration expenses, equal to 0% plus the 5-year rolling average Consumer Price Index (CPI).
- B. To equal or exceed the relative return of a static, blended market index benchmark as determined by the Funds' strategic asset allocation targets:
 - i. Market Indices by Asset Class
 - Cash – 3-Month T-Bills
 - Fixed Income – Barclays U.S. Aggregate Bond Index (U.S. Core Bonds)
 - Equities – Russell 3000 (Domestic) and MSCI All Country World ex-USA Index (Developed International & Emerging Market Equities)
 - Alternatives – HFRI Fund of Funds Composite Index

Additional standard market indices may be substituted where appropriate should data become unavailable or timely.

- C. To equal or exceed an absolute nominal target return of 3% per annum over a market cycle.

VI. INVESTMENT GUIDELINES

A. Allowable Assets/Security Types

i. Cash Equivalents

- Treasury Bills
- Money Market Mutual Funds
- Repurchase Agreements
- Certificates of Deposit
- FDIC Insured Deposits

ii. Fixed Income Securities

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Inflation Protected Bonds
- Mortgage Backed Securities (MBS)
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- Foreign Bonds
- Preferred Stocks
- Other appropriate fixed income securities

iii. Equity Securities

- Common stocks of companies listed on a U.S. exchange
- American Depository Receipts (ADRs) of non-U.S. companies listed on a U.S. exchange
- Other appropriate domestic or international equity securities

iv. Liquid Alternatives

Alternatives are broadly defined as asset classes and/or investment strategies that do not meet the conventional definition of traditional equity and fixed income assets or strategies and are generally perceived to provide diversification benefits to the Fund's investment portfolio. Investments in this asset class shall be restricted to mutual funds and/or Exchange Traded Funds (ETF's) with daily liquidity.

- Real Estate Investment Trusts (REITs)
- Commodities
- Master limited partnerships (MLP's)
- Long/short or other hedged equity strategies
- Covered call strategies
- "All asset" strategies

- Global infrastructure strategies
- v. Mutual Funds / Pooled Funds
 - Mutual Funds, Exchange Traded Funds (ETF's), and Closed End Funds (CEF's) which invest in securities or assets as allowed by this policy.
- B. Restricted Assets & Activities
 - i. Derivative Securities: options and future contracts (except covered call writing or protective put purchases, or within a Fund as described in V., A., iv.);
 - ii. Short Sales of Individual Securities (except short sales executed within a mutual fund or other pooled investment vehicle as part of an approved alternatives strategy described in V., A., iv.);
 - iii. **Direct investments** in the following assets are prohibited:
 - Commodities
 - Futures contracts
 - Short sales
 - Naked option contracts
 - Real estate
 - Precious metals
 - Currencies
 - Non-publicly traded REIT's
 - Private placements
 - Margin purchases/leverage;
 - iv. This is not intended to prohibit **indirect investments** in the assets or transactions listed above via mutual funds or other pooled investment vehicles with daily liquidity as part of an approved alternatives strategy described in V., A., iv.

VII. VOLATILITY OF RETURNS

The Committee understands that in order to achieve the Fund's investment objectives, the Fund will experience volatility of returns and fluctuations in market value. It further understands that the Fund could experience significant market value losses in any 1-year period, but expects that losses over a full market cycle (5-7 years or more) to be a low probability. Therefore, the Committee supports an investment strategy that minimizes the probability of large losses while acknowledging that the Fund's total return objective is its primary concern, and there is no guarantee that the Fund will not sustain larger than expected short-term losses in value.

VIII. LIQUIDITY

The Committee or its designee will periodically provide the Investment Consultant/Advisor with an estimate of any expected liquidity needs that exceed the strategic target allocation for cash.

IX. ASSET ALLOCATION GUIDELINES

- a. The following strategic asset allocation targets and ranges have been identified as appropriate in order to meet the long-term investment objectives of the Fund:

| ASSET CLASS | Minimum | Strategic Target | Maximum |
|--------------------|---------|------------------|---------|
| Cash & Equivalents | 0% | 5% | 10% |
| Fixed Income | 70% | 80% | 90% |
| Equities | 5% | 15% | 25% |
| Alternatives | 0% | 0% | 10% |

- b. No more than 5% of the value of the principal should be invested in any individual investment unless such investment is a direct obligation of the U.S. Government. Mutual Funds are not considered to be an individual holding since they are diversified among many holdings.
- c. The portfolio's allocations will be reviewed quarterly and rebalanced when any asset class is outside the minimum or maximum policy allocation.
- d. Asset Class Guidelines
 - i. Equities – It is expected that the equity portfolio will be diversified by market capitalization (large, mid & small cap), and global geography (U.S., developed international & emerging markets).
 - ii. Fixed Income – Investments in individual fixed income securities will be limited to securities that are rated within the four investment grade rating categories (AAA, AA, A, BBB) at the time of purchase by a nationally recognized securities rating organization or, if unrated, found by the manager to be of comparable quality.
 - a. In the event that a security rating drops below BBB-, said security should be sold unless it is determined that holding the security would be the best course of action. The Investment Consultant/Advisor shall advise the Finance Committee regarding the justification to hold a downgraded security rather than sell.
 - b. Non-Investment Grade Securities (“High Yield”) – For purposes of diversification, investments in non-investment grade or “high yield” securities are allowed with the following limitations: 1) investments are limited to mutual funds and ETF’s with daily liquidity; and 2) the allocation to non-investment grade securities shall not exceed 25% of the Fund’s fixed income allocation.
- e. Strategic targets are based upon long-term (10 years) capital market expectations, and are intended to be the normal asset class mix. The Investment Consultant/Advisor may overlay tactical target allocations based upon near-term (12-18 month) forecasts within the established

strategic ranges for each asset class. Strategic targets should be reviewed annually by the Committee, however may remain unchanged for extended periods.

- f. Further diversification within the above broad asset classes is considered prudent and should be considered as part of ongoing risk management by the Investment Consultant/Advisor.

X. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports shall be compiled periodically and distributed to the Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this policy statement. The Committee intends to evaluate the portfolio(s) over at least a full market cycle, but reserves the right to terminate a manager for any reason including the following:

- A. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- B. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- C. Significant qualitative changes to the investment management organization.
- D. Investment managers shall be reviewed periodically regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

XI. INVESTMENT POLICY REVIEW

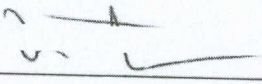
- a. To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations established in this statement of investment policy, the Committee plans to review this Investment Policy Statement no less frequently than annually.
- b. Policy Revisions - The Committee may submit amendments to this Investment Policy Statement and its Exhibits for consideration by the Board of Trustees at any regularly scheduled meeting. Amendments may be adopted by majority vote of the Board.

XII. APPROVAL AND EFFECTIVE DATE

This Investment Policy Statement was approved by the Board of Trustees on June 30, 2020 and shall be effective as of August 3, 2020

Signature,

OKHEEI Board Chair:

 8/3/20
Dennis Westman, OKHEEI Board Chair