



**Ohio Public Employees Retirement System**  
**External Investment Managers' Insurance Policy**  
**March 2024**



## TABLE OF CONTENTS

<b>I.</b>	<b>SCOPE.....</b>	<b>1</b>
<b>II.</b>	<b>PURPOSE.....</b>	<b>1</b>
<b>III.</b>	<b>LEGAL AUTHORITY.....</b>	<b>1</b>
<b>IV.</b>	<b>OBJECTIVES OF THIS POLICY .....</b>	<b>1</b>
<b>V.</b>	<b>TYPES OF INVESTMENT MANAGEMENT ARRANGEMENTS .....</b>	<b>1</b>
	A. SEPARATE ACCOUNTS .....	2
	B. COMMINGLED ACCOUNTS .....	2
	C. ARRANGEMENTS COVERED BY POLICY .....	2
<b>VI.</b>	<b>INSURANCE REQUIREMENTS FOR PUBLIC MARKET SEPARATE ACCOUNT MANAGERS.....</b>	<b>2</b>
	A. FIDELITY INSURANCE.....	2
	B. ERRORS AND OMISSIONS INSURANCE .....	4
	C. STANDARDS FOR ALL TYPES OF INSURANCE .....	5
<b>VII.</b>	<b>INSURANCE REQUIREMENTS FOR OTHER ACCOUNT MANAGERS.....</b>	<b>5</b>
	A. PUBLIC MARKET COMMINGLED FUNDS .....	5
	B. PRIVATE MARKET ACCOUNTS.....	5
	C. HEDGE FUNDS .....	5
<b>VIII.</b>	<b>ROLES AND RESPONSIBILITIES .....</b>	<b>6</b>
	A. OPERS RETIREMENT BOARD.....	6
	B. INVESTMENT STAFF .....	6
	C. LEGAL SERVICES DIVISION .....	6
	D. INVESTMENT COMPLIANCE.....	7
	E. INSURANCE CONSULTANT .....	7
	F. INVESTMENT MANAGERS.....	7
<b>IX.</b>	<b>MONITORING AND REPORTING .....</b>	<b>7</b>

### Revision History

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## **I. SCOPE**

This Policy applies to External Managers (“Managers”) of the Ohio Public Employees Retirement System’s (“OPERS”) assets except Real Estate managers, for which insurance requirements are set forth in the Real Estate Policy.

## **II. PURPOSE**

This Policy is intended to assure that Managers of OPERS’ assets comply with requirements of Ohio law, and with prudent investment practices, concerning insurance.

## **III. LEGAL AUTHORITY**

Section 145.113 (E) of the Ohio Revised Code (“ORC”) requires every fiduciary of OPERS’ assets to be bonded or insured to an amount of not less than one million dollars for loss by reason of acts of fraud or dishonesty.

ORC Section 145.11 (A) provides that the OPERS Retirement Board (“Board”) shall have full power to invest OPERS’ funds. In doing so, it specifies that the Board and other fiduciaries shall act, in among other ways:

“With care, skill, prudence, and diligence of a prudent person under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.”

## **IV. OBJECTIVES OF THIS POLICY**

OPERS Staff selects Managers to invest OPERS’ assets who have demonstrated consistent investment philosophy and process and generated competitive returns and who have a high probability of meeting or exceeding benchmark performance over time, while adhering to the mandate for which they were selected.

In addition to meeting the minimum requirements of ORC Section 145.113 (E), the Board also expects that Managers will comply with the fiduciary standards of Section 145.11 (A) in regard to insurance coverage for other types of occurrences. This Policy establishes minimum insurance standards that Managers shall meet.

## **V. TYPES OF INVESTMENT MANAGEMENT ARRANGEMENTS**

OPERS engages Managers to manage its assets through two different types of arrangements.

## **A. Separate Accounts**

Separate Accounts are professionally managed portfolios owned directly by OPERS. Separate Account arrangements are created through negotiations with Managers. OPERS and Managers agree on specific terms and conditions according to which OPERS' assets will be managed. These agreements are set forth in contracts signed by both parties and typically called Investment Management Agreements ("IMAs").

## **B. Commingled Accounts**

Commingled Accounts consist of assets of multiple investors, including OPERS, all of which are managed in the same manner. Commingled Account arrangements are created by legal documents such as trust agreements, declarations of trust and collective trust and partnership agreements. These documents set standard terms and conditions according to which Managers will manage investors' assets. In order to invest in Commingled Accounts, OPERS must agree to the terms of the accounts' governing legal documents.

## **C. Arrangements Covered by Policy**

Public Market Managers of Separate or Commingled Accounts invest in securities bought or sold on stock exchanges or over-the-counter markets. Private Market Managers can invest in both public securities or in assets that are not publicly traded.

This Policy applies to Public and Private Market Managers of Separate and Commingled Accounts, except Real Estate Managers who, by contract, assume the fiduciary duty to insure OPERS' assets appropriately.

# **VI. INSURANCE REQUIREMENTS FOR PUBLIC MARKET SEPARATE ACCOUNT MANAGERS**

Managers of Public Market assets retained by OPERS through individually negotiated IMAs shall provide evidence of insurance coverage in accordance with standards set forth in this Section VI.

## **A. Fidelity Insurance**

The term "fidelity insurance" refers to either insurance policies or bonds that protect an entity against fraudulent or dishonest acts committed by one or more of its employees. Riders to such policies or bonds may extend their coverage to certain types of losses caused by non-employees.

## 1. Form of Coverage

A Manager's organizational type shall determine on which of the following Surety and Fidelity Association of America ("SFAA") forms its fidelity insurance shall be underwritten:

- Form 14 for Mutual and Hedge Funds and Private Equity Firms
- Form 15 for Real Estate Investment Trusts and Broker-Dealers
- Form 24 for Banks and Trust Companies
- Form 25 for Insurance Companies

Policies may also be written on forms that are substantially equivalent to these SFAA forms. Employee Retirement Income Security Act or ERISA Bonds are not equivalent to these SFAA forms and are not acceptable substitutes for policies written on them.

## 2. Scope of Coverage

At a minimum, Managers' fidelity insurance must cover:

- Acts of dishonesty including, but not limited to, employee dishonesty;
- Acts of fraud including, but not limited to, computer fraud, electronic funds fraud and wire transfer fraud; and
- Forgery and alteration

## 3. Amount of Insurance

Managers shall provide evidence of fidelity insurance in at least the amounts set forth in the following table:

<b>Manager's Assets Under Management<sup>1</sup></b>	<b>Minimum Required Limit</b>
Up to \$500 million	\$1 million
\$500 million to \$3 billion	\$3 million
\$3 billion to \$10 billion	\$5 million
\$10 billion to \$25 billion	\$10 million
\$25 billion to \$50 billion	\$15 million
\$50 billion to \$100 billion	\$25 million
\$100 billion to \$250 billion	\$35 million
\$250 billion to \$500 billion	\$50 million
Over \$500 billion	\$50 million and subject to further review <sup>2</sup>

<sup>1</sup> “Assets Under Management” is the higher of a Manager’s total assets disclosed in its most recently filed Securities and Exchange Commission (“SEC”) Form ADV Part 1 or Form ADV Part 2, or similar documents filed with other regulators if it is not SEC-registered, at the time insurance is issued or renewed.

<sup>2</sup> For Managers with assets under management over \$500 billion, OPERS and OPERS Insurance Consultant shall review the Manager’s insurance and may require that the Manager submit additional information.

## B. Errors and Omissions Insurance

Errors and Omissions (“E&O”) Insurance protects an entity, its officers, directors and employees in the event they are sued by clients for any actual or alleged negligent act, error or omission committed within the scope of performing professional services. Such coverage also includes legal defense costs even where allegations are baseless.

Managers shall provide evidence of E&O insurance in at least the amounts set forth in the following table:

<b>Manager’s Assets Under Management<sup>3</sup></b>	<b>Minimum Required Limit</b>
Up to \$250 million	\$1 million
\$250 million to \$500 million	\$2 million
\$500 million to \$1 billion	\$5 million
\$1 billion to \$10 billion	\$10 million
\$10 billion to \$25 billion	\$15 million
\$25 billion to \$35 billion	\$20 million
\$35 billion to \$50 billion	\$25 million
\$50 billion to \$70 billion	\$35 million
\$70 billion to \$100 billion	\$50 million
\$100 billion to \$200 billion	\$65 million
\$200 billion to \$350 billion	\$80 million
\$350 billion to \$500 billion	\$100 million
Over \$500 billion	\$100 million and subject to further review <sup>4</sup>

<sup>3</sup>“Assets Under Management” is the higher of a Manager’s total assets disclosed in its most recently filed SEC Form ADV Part 1 or Form ADV Part 2, or similar documents filed with other regulators if it is not SEC-registered, at the time insurance is issued or renewed.

<sup>4</sup> For Managers with assets under management over \$500 billion, OPERS and OPERS Insurance Consultant shall review the Manager’s insurance and may require that the Manager submit additional information.



## **C. Standards for All Types of Insurance**

### **1. Insurance Carrier Ratings**

An insurance company writing a Manager's fidelity or E&O coverage must be rated A (Excellent) or better and have a financial size category of IX (adjusted policyholder surplus of at least \$250 million) or higher, both ratings as determined by A. M. Best at the time of issuance.

### **2. Deductibles or Retentions**

Managers' deductibles or retentions should not exceed 5% of the Minimum Required Limits set forth in the two preceding tables or 7.5% of the amounts actually purchased, if greater than the Minimum Required Limits.

## **VII. INSURANCE REQUIREMENTS FOR OTHER ACCOUNT MANAGERS**

### **A. Public Market Commingled Funds**

When OPERS retains a Manager of a Commingled Account that consists of Public Market assets, it cannot control the types or amounts of insurance such Manager shall maintain. As part of due diligence reviews of a prospective Commingled Account Manager, Staff shall inquire into their insurance coverage. Such Managers should not be retained unless their insurance practices comply with ORC Section 145.113 (E), conform to the general principles set forth in this Policy and appear to be appropriate for the activities in which such Managers are engaged.

### **B. Private Market Accounts**

When OPERS retains a Private Market Fund Manager, whether through a Separate Account or a Commingled Account, it is generally unable to specify the types or amounts of insurance such Manager shall maintain. As part of due diligence reviews of a prospective Private Market Manager, Staff shall inquire into their insurance coverage. Such Managers should not be retained unless their insurance practices comply with ORC Section 145.113 (E) and appear to be appropriate for the activities in which Managers are engaged. Managers' compliance with the ORC and their representation as to the appropriateness of their insurance coverage should be documented in an appropriate manner such as in a side letter.

### **C. Hedge Funds**

When OPERS retains a Hedge Fund Manager through a Separate Account, the Manager's insurance must comply with all requirements of Section VI of this Policy.

When OPERS retains a Hedge Fund Manager through a Commingled Account, it does so through various types of governing documents. As part of due diligence reviews of a prospective Hedge Fund Manager, Staff shall inquire into their insurance coverage. Such Managers should not be retained unless their insurance practices comply with ORC Section 145.113 (E) and appear to be appropriate for the activities in which Managers are engaged. Their compliance with the ORC and their representation as to the appropriateness of their insurance coverage should be documented in an appropriate manner such as a side letter.

## **VIII. ROLES AND RESPONSIBILITIES**

### **A. OPERS Retirement Board**

The Board is responsible for reviewing and approving this Policy and any changes to it.

In addition, the Board is responsible for reviewing reports related to this Policy.

### **B. Investment Staff**

The Board delegates authority to the Chief Investment Officer (“CIO”) who, in consultation with OPERS’ Legal Services Division, is responsible for reviewing and approving or rejecting deviations from this Policy proposed for inclusion in individually negotiated IMAs. Any approved deviations from this Policy shall be reported to the Board at its next meeting. The CIO shall also review any other exceptions to this Policy.

All members of Investment Staff (“Staff”) are accountable to the CIO. The CIO is responsible for all Staff actions relative to the management of OPERS’ investments. In this regard, it is the responsibility of the CIO to satisfy himself/herself that all Policies and directives of the Board are implemented.

### **C. Legal Services Division**

The Legal Services Division is responsible for advising Staff with respect to legal aspects of insurance matters in connection with Managers, including any deviations from this Policy proposed for inclusion in an individually negotiated IMA.

#### **D. Investment Compliance**

The Investment Compliance area of Investment Accounting, Operations and Compliance (“IC”) is responsible for establishing procedures to track Managers’ compliance with the insurance requirements of their IMAs. Annually, IC shall report to the Board concerning Managers’ compliance with this Policy.

#### **E. Insurance Consultant**

OPERS may engage an insurance consultant to assist Staff in discharging the duties imposed upon them by this Policy.

#### **F. Investment Managers**

Managers engaged by OPERS are responsible for complying with this Policy and their IMAs. They must confirm such compliance to OPERS quarterly and supply copies of their current insurance policies to OPERS, or its Insurance Consultant, at least annually.

### **IX. MONITORING AND REPORTING**

Annually, the Assistant Director of Investment Accounting, Operations and Compliance (“AD”), or the AD’s delegee, will report to the Board concerning compliance with this Policy or any exceptions to it.