Ohio Public Employees Retirement System

Investment Objectives and Asset Allocation Policy
Health Care 115 Trust Fund
September 2019
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Revision History

<p>| Health Care Fund Policy Established | October 19, 2004 |
| Health Care Fund Revised            | May 18, 2005     |
| Health Care Fund Revised            | November 14, 2007|
| Health Care Fund Revised            | November 18, 2009|
| Health Care Fund Revised            | December 15, 2010|
| Health Care Fund Revised            | January 18, 2012  |
| Health Care Fund Revised            | March 20, 2013    |
| Health Care Fund Policy Revised     | February 19, 2014 |
| Health Care Fund Policy Revised     | February 18, 2015 |
| Health Care Fund Policy Revised     | September 18, 2015|</p>
<table>
<thead>
<tr>
<th>Policy</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care 115 Trust Fund Policy Established</td>
<td>September 15, 2015</td>
</tr>
<tr>
<td>Health Care Fund Policy Revised</td>
<td>January 20, 2016</td>
</tr>
<tr>
<td>Health Care 115 Policy Revised</td>
<td>January 20, 2016</td>
</tr>
<tr>
<td>Health Care 115 Policy Revised</td>
<td>February 15, 2017</td>
</tr>
<tr>
<td>Health Care 115 Policy Revised</td>
<td>March 21, 2018</td>
</tr>
<tr>
<td>Health Care 115 Policy Revised</td>
<td>September 18, 2019</td>
</tr>
</tbody>
</table>
I. SCOPE

This Policy applies to the assets within the Ohio Public Employees Retirement System ("OPERS") 115 Trust Agreement for Funding Employee Benefit Plans ("HC Fund").

II. PURPOSE

This Policy provides the broad strategic investment framework for managing the HC Fund.

III. LEGAL AUTHORITY

Pursuant to its authority in Chapter 145 of the Ohio Revised Code to establish and fund health care coverage for OPERS retirees, the OPERS Retirement Board ("Board") began pre-funding retiree health care coverage in an account under Internal Revenue Code ("IRC") Sec 401(h). Through a series of changes to the health care plans offered by OPERS, the Board established a trust under IRC Sec. 115, which also holds health care assets. Together, the 401(h) Account and 115 Trust were used to accumulate contributions and fund OPERS' health care plans during the years 2014, 2015, and 2016. During 2016, the Board obtained favorable guidance from the Internal Revenue Service on a method to close the 401(h) Account and consolidate all health care assets in the 115 Trust. The Board proceeded with this change. Going forward, the 115 Trust is the primary source of retiree health care funding for benefit recipients in the Traditional Pension and Combined Plans. The Internal Revenue Service also approved the closure and consolidation (into the 115 Trust) of the OPERS VEBA Trust, which funds the Retiree Medical Accounts for Member-Directed Plan participants. The Health Care Fund may be used only for providing health care coverage and it is held in trust by OPERS with the same duties and responsibilities as other funds.

The investment powers and fiduciary responsibilities of the Board are specified in Section 145.11 of the Ohio Revised Code. Section 145.11(A) states, in part:

The members of the public employees retirement board shall be the trustees of the funds created by section 145.23 of the Revised Code. The board shall have full power to invest the funds. The board and other fiduciaries shall discharge their duties with respect to the funds solely in the interest of the participants and beneficiaries; for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the public employees retirement system; with care, skill, prudence, and diligence 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; and by diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

OPERS Investment Staff ("Staff") and others, who are involved in the management of the HC Fund’s assets, are subject to the same fiduciary standards as the Board.
IV. INVESTMENT PHILOSOPHY

The Board believes OPERS’ assets should be managed in a fashion that reflects OPERS’ unique liabilities, funding resources and portfolio size, by incorporating accepted investment theory and reliable, empirical evidence and supports the following principles:

- Asset allocation is the key determinant of return and, therefore, commitments to asset allocation ranges will be maintained through a disciplined rebalancing program.
- Diversification, both by and within asset classes, is the primary risk control element.
- Active management, or the pursuit of returns in excess of benchmarks, entails the possibility of disappointing results over short periods of time. Therefore, assets will be invested with a long-term perspective.
- Passive investment vehicles consist of index funds and derivatives-based strategies that are suitable alternatives to actively managed portfolios, especially in highly efficient markets.

V. INVESTMENT OBJECTIVE

The investment objective of the HC Fund is to provide discretionary health care coverage for eligible benefit recipients over a solvency period as defined by the Board from time to time. Meeting this objective necessitates making active decisions about markets in a long-term framework which, by its nature, involves taking reasonable risks. OPERS also seeks to operate effectively and at an appropriate cost. The investment objective of the Fund is to earn a reasonable return and preserve capital.

VI. ASSET ALLOCATION

A. Purpose

The asset allocation establishes a framework for OPERS that has a high likelihood, in the judgment of the Board, of realizing OPERS’ long-term investment objective, given the discretionary nature of the HC Fund, and the lower funded status vis a vis the Defined Benefit Fund.

B. Targets and Ranges

The Board sets Target allocations (“Targets”) to various asset classes designed to meet OPERS’ long-term investment objectives, and establishes a band of minimum and maximum allowable allocations, or Ranges (“Ranges”), surrounding each Asset Class Target. The purpose of Ranges is to appropriately and cost-effectively balance the Board’s Investment Policy with the investment strategies pursued over shorter time periods. The table below sets forth Targets and Ranges for each Asset Class and sub-asset class.
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>44%</td>
<td>35 to 53%</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>**</td>
<td>+/- 5%</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>**</td>
<td>+/- 5%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>36%</td>
<td>25 to 47%</td>
</tr>
<tr>
<td>Core Fixed</td>
<td>18%</td>
<td>13 to 23%</td>
</tr>
<tr>
<td>Emerging Markets Debt</td>
<td>6%</td>
<td>4 to 8%</td>
</tr>
<tr>
<td>Floating Rate Debt</td>
<td>0%</td>
<td>0 to 2%</td>
</tr>
<tr>
<td>Securitized Debt</td>
<td>1%</td>
<td>0 to 2%</td>
</tr>
<tr>
<td>TIPS</td>
<td>6%</td>
<td>3 to 9%</td>
</tr>
<tr>
<td>High Yield</td>
<td>2%</td>
<td>0 to 5%</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>3%</td>
<td>0 to 5%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>15%</td>
<td>8 to 23%</td>
</tr>
<tr>
<td>REITs</td>
<td>6%</td>
<td>3 to 9%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>5%</td>
<td>1 to 9%</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>2%</td>
<td>0 to 4%</td>
</tr>
<tr>
<td>Commodities</td>
<td>2%</td>
<td>0 to 4%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>5%</td>
<td>2 to 8%</td>
</tr>
<tr>
<td>Operating Cash</td>
<td>0%</td>
<td>0 to 5%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

** Reset quarterly based on the ratio of U.S. to Non-U.S. market capitalization of the MSCI All Country World - Investable Market Index (“ACWI-IMI”). As per the dynamic asset allocation changes approved in 2018, the target allocations for U.S. and Non-U.S. Equity will be static at 21% and 23%, respectively, effective October 1st, 2019.

In setting Ranges, the following principles are applied:

- The equity sub-allocation has a symmetrical Range equivalent to 20% of its Target, rounded to a whole percentage point. Due to the floating nature of the Public Equity allocation, the Range for U.S. and Non-U.S. is +/- 5.0 percentage points as a proportion of the HC Fund.

- Each of the Fixed Income Asset Class and the Core Fixed sub-asset class has a symmetrical Range of 30% from its Target allocations, rounded to a whole percentage point. The Allocations to Emerging Markets Debt, TIPS, and High Yield, are given wider Ranges for greater flexibility and to accommodate wider market swings.
• The Alternatives Asset Class has a symmetrical Range of 50% from its Target allocation, rounded to a whole percentage point. The Ranges for the sub-allocations within Alternatives are given wider symmetrical ranges to reflect the dominant influence of public market fluctuations on their proportion.

• The Ranges for Risk Parity and Global Tactical Asset Allocation are given wider symmetrical ranges to reflect the dominant influence of public market fluctuations on their proportion.

Exposure from derivatives or the securitization of cash is assigned to the respective sub-asset class for purposes of measuring the sub-asset class allocations stated herein. Operating cash for such purposes as paying benefits or other day-to-day expenses is generally unsecuritized. Unsecuritized cash is limited to a Range of 0% to 5%.

To the extent the actual allocation to the Alternatives Asset Class differs from the Target percentage, that difference will be added to, if under, or subtracted from if over, the Target and Range for Public Equity.

C. Rebalancing

Staff will ensure conformance with the asset allocation set by the Board through monthly, or more frequent, review. In conducting rebalancing activities, the Board expects Staff to operate under the following principles:

• Staff must initiate rebalancing transactions to bring all percentages to values inside the Ranges or promptly seek Board approval to remain outside the Ranges.

• To implement the investment strategy, Staff will manage the asset allocation nearer to or away from the Targets, but within Policy Ranges. Quarterly performance reports to the Board will also reflect actual allocations and variances from Targets.

• The spirit of this Policy is to implement the investment strategy within the Targets and asset allocation Ranges at a reasonable cost, recognizing that overly precise management of asset exposure can result in transaction costs that are not economically justified.

D. Periodic Review

The Board establishes the asset allocation Targets and Ranges and reviews them annually. Every three to five years or when material changes to the liabilities take place (e.g., plan design changes, material changes in underlying assumptions, etc.), the Board will undertake a comprehensive asset allocation review designed to assess the continuing appropriateness of this Policy. Such review will consider an asset-liability study of future benefits, funding requirements, the appropriateness of the actuarial interest rate assumption and the prospective funded status of future benefits. It may also include a study of portfolio design for optimal diversification and comparisons with peer practices.
VII. PERFORMANCE OBJECTIVES

A. HC Fund

The performance objective for the HC Fund is to exceed the return of its Policy benchmark, net of investment expenses. The Policy benchmark combines designated market indices for Asset Classes, weighted by asset allocation Targets. The table on the next page contains the benchmark indices for the respective Asset Classes.

Expectations for outperformance are a function of the projected excess returns for each Asset Class and are aggregated at the Fund level. Actual HC Fund performance is compared to the Policy benchmark return with projected excess returns.

In addition, HC Fund risk-adjusted performance relative to the Policy benchmark return is expected to be competitive with peer funds with similar allocations.

During periods of transition resulting from a change in the Board-approved Targets, the interim target asset allocation and associated benchmarks used to calculate benchmark performance for the HC Fund will be established on a quarterly basis in advance of the subsequent quarter. That target mix will be based on allocations made by Staff and reported to the Board through quarterly performance reports.

B. Asset Classes

Each Asset Class shall be measured relative to its designated benchmark index. It is expected that the active management of individual Asset Classes will provide an investment return in excess of the index, net of expenses.
<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Equity</strong></td>
<td></td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>Russell 3000 Index</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>Custom benchmark of the following indices:</td>
</tr>
<tr>
<td></td>
<td>■ 55% MSCI World Index ex U.S. Standard</td>
</tr>
<tr>
<td></td>
<td>■ 10% MSCI World Index ex U.S. Small Cap</td>
</tr>
<tr>
<td></td>
<td>■ 31% MSCI Emerging Markets Standard</td>
</tr>
<tr>
<td></td>
<td>■ 4% MSCI Emerging Markets Small Cap</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
</tr>
<tr>
<td>Core Fixed</td>
<td>Bloomberg Barclays U.S. Aggregate Index</td>
</tr>
<tr>
<td>Emerging Markets Debt</td>
<td>Custom benchmark of the following indices:</td>
</tr>
<tr>
<td></td>
<td>■ 50% JP Morgan Emerging Markets Bond Index Global</td>
</tr>
<tr>
<td></td>
<td>■ 50% JP Morgan Government Bond Index Emerging Markets Global Diversified</td>
</tr>
<tr>
<td>Floating Rate Debt</td>
<td>Credit Suisse Leveraged Loan Index</td>
</tr>
<tr>
<td>Securitized Debt</td>
<td>Custom benchmark of the following indices:</td>
</tr>
<tr>
<td></td>
<td>■ 50% Bloomberg Barclays Non-Agency Investment Grade</td>
</tr>
<tr>
<td></td>
<td>CMBS: BBB Total Return Index Unhedged USD</td>
</tr>
<tr>
<td></td>
<td>■ 50% Bloomberg Barclays Non-Agency CMBS Agg Eligible</td>
</tr>
<tr>
<td></td>
<td>Total Return Index Value Unhedged USD</td>
</tr>
<tr>
<td>TIPS</td>
<td>Bloomberg Barclays U.S. TIPS Index</td>
</tr>
<tr>
<td>High Yield</td>
<td>Bloomberg Barclays U.S. High Yield Index</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>Bloomberg Barclays U.S. Treasury Index</td>
</tr>
<tr>
<td><strong>Alternatives</strong></td>
<td></td>
</tr>
<tr>
<td>REITs</td>
<td>Dow Jones U.S. Select Real Estate Securities Index Total Return</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>Custom benchmark using the HFRI single strategy indices weighted by the target allocations listed in the Annual Investment Plan</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>Market value weight of underlying portfolio benchmarks</td>
</tr>
<tr>
<td>Commodities</td>
<td>S&amp;P GSCI Total Return Index</td>
</tr>
<tr>
<td><strong>Risk Parity</strong></td>
<td></td>
</tr>
<tr>
<td>HC Fund</td>
<td>Custom Health Care 115 Benchmark*</td>
</tr>
</tbody>
</table>

*Policy weight (reset quarterly) of underlying asset/sub asset class benchmarks
VIII. RISK MANAGEMENT

The Board ensures adequate risk control through the following means:

A. Diversification

Investments shall be diversified to minimize the impact of the loss from individual investments. In addition to achieving diversification by asset class, careful attention shall be paid to diversification within each asset class and sub-allocation and across managers.

B. Liquidity

Liquidity is carefully managed through adherence to OPERS’ Liquidity Policy.

C. Portfolio Guidelines

Public market separate account portfolios, excluding cash and custody accounts which are not enabled for trading, shall operate under written guidelines approved by both Staff and the Investment Advisors (“Advisors”) that are designed to ensure the portfolio pursues its return objective within the acceptable risk parameters. Other portfolios shall operate pursuant to their governing documents.

D. Risk Parameters

Staff in conjunction with Advisors shall recommend active risk (risk of achieving performance different than the HC Fund benchmark) parameters for the HC Fund to the board. The Board shall approve active risk parameters as part of OPERS Annual Investment Plan and approve Asset Class risk parameters in the Asset Class Policies. Risk management reports shall be provided periodically to the Board.

IX. ROLES AND RESPONSIBILITIES

The following section outlines the roles and responsibilities for each of the parties involved with executing this Policy. In addition to those activities that are described below, each person involved with this Policy is to act with the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in like capacity and fully familiar with such matters would use in like activities for like aims in accordance and compliance with all applicable laws, rules, and regulations.

The Board will determine the manner in which it fulfills its duties and how duties are delegated to other parties that are identified in this section.

A. OPERS Retirement Board

The Board’s authority includes:
1. Asset Allocation
   a) Establishing and modifying the asset allocation Targets and Ranges for the HC Fund
   b) Approving Asset Class Policies
   c) Reviewing this Policy annually which would include making a determination whether or not the Fund is in transition, a period when the Fund is moving toward new target allocations

2. Asset Management
   a) Approving OPERS Annual Investment Plan to manage the investments
   b) Determining delegations of authority in connection with investment management
   c) Ensuring adequate supervision of investment managers
   d) Approving all other Investment-related Policies

3. Risk Control and Administration
   a) Ensuring that appropriate investment Policies are in place
   b) Ensuring that adequate risk controls are in place
   c) Ensuring compliance with all of its Policies and directives
   d) Ensuring that custody and other ancillary investment functions are performed as described in the Policy
   e) Reviewing risk reports and taking appropriate actions when necessary

4. Monitoring, Evaluation, and Approval
   a) Establishing performance benchmarks and expectations
   b) Monitoring the performance of investments
   c) Evaluating Staff's capability and performance
   d) Retaining Advisors, actuaries and other consultants, as appropriate
   e) Reviewing and approving this Policy, and any changes to it
   f) Reviewing reports related to this Policy

B. Investment Staff

   Staff manages the investments and reports to the Board.

   The Board expects Staff to take a leadership role in investment management. Recognizing that OPERS operates with a very high standard of care, the Board expects Staff to discharge its fiduciary responsibilities in managing OPERS' investments. Furthermore, the Board expects Staff to:
• Advise the Board when Staff believes action relative to Investment Policies or implementation is required of the Board.

• Review and approve portfolio guidelines and proposed changes to guidelines.

• Establish and conduct an appropriate process for monitoring OPERS' investments and implementing the Board’s decisions.

• Assure that this Policy and all other investment-related Policies are reflected in investment manager agreements and/or guidelines, as appropriate.

• Establish, in advance, the interim target asset allocations for the subsequent quarter, which are to be used to calculate benchmark performance for the HC Fund during periods of transition resulting from a change in the Board-approved target asset allocations. Annually, Staff will discuss with the Board the Fund’s transition status including forward plans.

• Inform the Board of any and all matters Staff believes to be sufficiently material to warrant the Board’s attention.

• Operate at all times in the best and exclusive interest of OPERS and in compliance with all applicable laws and Investment Policies.

All members of 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. Investment Compliance

The Investment Compliance area of Investment Accounting, Compliance & Risk (“IC”) is responsible for monitoring compliance with this Policy, including guidelines established pursuant to it. If IC determines that an exception to this Policy has occurred, IC shall notify Staff, the CIO, the Executive Director and the Board. Regular monitoring reports are also submitted to the Board.

D. Custodian

Ohio's Treasurer of the State ("Treasurer") acts as custodian of OPERS as specified in Section 145.26 of the ORC. The Treasurer may employ subcustodians to perform certain functions.

E. Investment Advisors

The Board may appoint Advisors unaffiliated with OPERS to assist with the investment program. These Advisors will be appointed by the Board and shall be responsible to the Board. Such Advisors shall perform functions established through contractual agreements that may include:

• Advising the Board in the management of OPERS’ investments

• Evaluating OPERS Annual Investment Plan and investment proposals that come before the Board
• Reviewing and approving portfolio guidelines and proposed changes to guidelines, which includes the benchmarks
• Monitoring OPERS’ investments, internal investment activities, and external managers
• Reporting independently to the Board on the performance of OPERS investments
• Conducting periodic and special studies on behalf of the Board
• Researching, identifying, and evaluating investment managers
• Assisting and supporting Staff in various projects

F. Actuary

The Board retains an actuary for the purpose of forecasting asset and liability growth and the many complex factors included in estimating future health care costs and the solvency period of the HC Fund. These factors include, but are not limited to, interest rates, inflation, investment earnings, mortality rates, health care costs and employee turnover. These actuarial assumptions are then used to prepare a Health Care Projection Report. The actuary shall be held to the highest standards and shall provide periodic reports on the Fund and shall provide recommendations to the Board including, among other things, the estimated level of contributions necessary to maintain a target solvency period as determined by the Board. The Board shall consider review of the asset liability study approximately every three to five years or when material changes to the liabilities take place (e.g., plan design changes, material changes in underlying assumptions, etc.).

G. Investment Managers (Internal and External)

The primary responsibility of each investment manager is to invest assets in accordance with written guidelines which reflect this Policy and other investment-related Policies, as appropriate. Accordingly, investment managers are responsible for determining best method for implementing investment strategy. The specific duties and responsibilities of each investment manager are as follows:

• Managing the assets of the HC Fund under their supervision in accordance with the guidelines and objectives contained within their guidelines
• Exercising full investment discretion in regards to buying, managing and selling assets within the guidelines to achieve the objectives
• Communicating with Staff and the Advisors, in writing, regarding all significant changes pertaining to the assets it manages or the firm itself in a timely manner

The Board expects the investment managers to use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in like capacity and fully familiar with such matters would use in like activities for like aims in accordance and compliance with all applicable laws, rules, and regulations.
X. ANNUAL INVESTMENT PLAN

Staff shall present to the Board for its consideration a proposed OPERS Annual Investment Plan. The principal functions of the Annual Investment Plan are to:

• Describe key forward asset management characteristics for the HC Fund and the principal Asset Classes which include, but are not necessarily limited to, Targets and Ranges, benchmarks, investment strategy, and strategies concerning utilization of active and index management.

• Specify expected excess (active management) return and risk, provisions for risk control and investment expense.

• Clarify delegations of authority by the Board to Staff for various aspects of investment management.

• Identify resource (staffing and budgetary) requirements.

• Describe key initiatives for the year.

The Annual Investment Plan is the principal, although not exclusive, vehicle by which Staff will describe planned asset allocation and investment strategies with related performance benchmarks as well as new strategies and a general framework to support the need for new or replacement portfolios, managers, or Advisors.

XI. MONITORING AND REPORTING

To ensure monitoring and compliance with this Policy, the following reports will be reviewed with the Board:

A. Quarterly

   Performance report – Advisors and Investment Compliance Staff

   Report on risk – Staff

   Review of asset allocation relative to Targets – Staff

   Report on compliance – Investment Compliance Staff

B. Annually

   OPERS Annual Investment Plan – Staff

C. Periodically

   Additional reports as needed