



**Ohio Public Employees Retirement System**

**Securities Lending Policy  
March 2024**



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## **I. SCOPE**

This Policy applies to securities lending activities internally managed by the Ohio Public Employees Retirement System (“OPERS”).

## **II. PURPOSE**

This Policy governs the securities lending activities of OPERS. It applies to the lending of securities of all asset class portfolios.

## **III. INVESTMENT PHILOSOPHY**

The securities lending program (“Program”) actively lends securities with agreed upon terms and conditions such that, when combined with investment performance on the related underlying collateral, the risk-adjusted returns are expected to provide incremental income to the respective portfolios.

Borrowers shall provide liquid collateral in exchange for the right to borrow securities. Cash collateral portfolios shall follow the Cash Policy and their respective guidelines.

## **IV. ALLOCATION**

Within the structure of the Program, the maximum percentage of assets that may be on loan is 50% of the Eligible Assets. In addition, in order to further control potential risks associated with lending, the maximum amount that may be on loan with any one borrower is 15% of the Eligible Assets.

## **V. ELIGIBLE ASSETS**

Publicly traded assets held in separate accounts in the Defined Benefit and Health Care 115 Trust Funds are eligible for securities lending. OPERS Retirement Board (“Board”) or Investment Staff (“Staff”) may restrict lending for corporate governance, investment management or other purposes. Scrutinized Companies, as provided periodically by the Corporate Governance area, will be restricted from lending.

## **VI. PERFORMANCE OBJECTIVES**

Staff will assess the performance of the Program on a no less than annual basis by comparing it to an appropriate benchmark or industry composite as determined by Staff. Staff will address any shortcomings in performance with recommendations to the Chief Investment Officer (“CIO”).

## **VII. RISK MANAGEMENT**

Risk is managed through a combination of quantitative and qualitative constraints. Staff shall establish parameters to control the following risks:

## **A. Cash Reinvestment Risk**

The primary risk associated with securities lending is the risk that the cash reinvestment assets would not be sufficient to cover the liabilities due to the borrowing brokers. This risk is to be managed by such activities as adherence to the OPERS Cash Policy and related guidelines for internal management with comparable guidelines or governing documents for external management.

## **B. Counterparty Risk**

Counterparty risk is the risk that a borrowing broker would not return a security from loan. This risk is to be mitigated and managed by such activities as monitoring the amount on loan with each broker, holding excess collateral, marking collateral to market daily and having indemnification from lending agents against borrower default, as appropriate.

Additionally, the terms of all securities lending agreements shall provide for the return of securities at OPERS request within the standard settlement period of the market or five business days, whichever is less.

## **C. Collateral Risk**

In instances where OPERS lends assets to borrowers versus non-cash collateral in a securities lending transaction, the following mitigants will be used to manage and limit the risk of this activity:

- Indemnification by the lending agent
- Over-collateralization of loans by counterparty
- Limits on collateral exposures

# **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 CIO to implement this Policy. Staff is responsible for monitoring the Policy and recommending changes to the Board. Staff is responsible for contracting with any agents or principals in executing the securities lending program. Staff will monitor agents' compliance with this Policy on a regular basis. All documents associated with this Policy are reviewed and agreed to by the Legal Services Division prior to execution.

### **C. Investment Compliance**

The Investment Compliance area of Investment Accounting, Operations and Compliance (“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.

### **D. Investment Advisor**

The role of the Investment Advisor is specified in the Investment Objective and Asset Allocation Policies.

### **E. Corporate Governance**

The Corporate Governance area is responsible for providing a periodic (prior to any auctions or other lending commitments as necessary) list to Securities Lending of Scrutinized Companies, so that those issues may be restricted from lending. In addition, Corporate Governance provides a list of focus companies (Focus List) that may be restricted or called back in order to vote proxies on an annual basis. This Focus List is intended to balance annual revenue generated from securities lending and OPERS’ corporate governance efforts. (Historically this list has been 30 companies or fewer).

### **F. Investment Managers**

Lending agents 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**

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

### **A. Semi-Annually**

Performance and compliance reports – Staff

Report on compliance – Investment Compliance Staff

### **B. Annually**

OPERS Annual Investment Plan – Staff