



9.6 Investment Policy Statement

INTRODUCTION:

The State Highway Patrol Retirement System (“System”) was established by section 5505.02 of the Ohio Revised Code (ORC) for State Highway Patrol employees, as defined in division (A) of ORC section 5505.01.

Pursuant to ORC section 5505.04, the administration and management of the Highway Patrol Retirement System are vested in the State Highway Patrol Retirement Board (“Board”). Members of the State Highway Patrol Retirement Board are the trustees of the funds created by ORC section 5505.03. The Board has full power to create and adopt, in regular meetings, an investment committee, policies, objectives, or criteria for the operation of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines.

SYSTEM OBJECTIVE:

The primary objective of the State Highway Patrol Retirement System is to provide eligible members and beneficiaries with scheduled pension benefits. To reach this objective, the Board and other System fiduciaries will comply with the duty detailed in ORC section 5505.06; to exercise care, skill, prudence, and diligence -- under the circumstances then prevailing -- that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. A secondary objective of the fund is to maintain a sufficient degree of liquidity in order to meet unanticipated demands and changing environments. Members of the Retirement Board and other fiduciaries of the Retirement System fully accept the duty to incur only reasonable expenses in the operation of the State Highway Patrol Retirement System.

INVESTMENT POLICY PURPOSE:

This Investment Policy Statement (“Statement”) details the policies, procedures, asset allocation and guidelines for investment of the System, as established by the Board. It defines and assigns the responsibilities of all involved parties. The policy is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

The investment policies and restrictions presented in this Statement serve as a framework to achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives and to minimize the potential of excluding any appropriate investment opportunities.

INVESTMENT OBJECTIVES:

The overall long-term investment objective is for the System is to earn 7.25% over a market cycle. Meeting this return objective among other factors will help the System achieve fully funded status in the future. This investment objective should be achieved with the least required level of portfolio volatility.

DUTIES AND RESPONSIBILITIES:

Board

The role of the Board is supervisory, and discretion is delegated to investment managers who must adhere to the general guidelines established by the Board. The primary role of the Board is to:

- Establish performance goals
- Identify and review appropriate investment policy and guidelines
- Retain outside investment and actuarial counsel
- Review the results of the fund on a regular basis and implement necessary changes in the investment policies, objectives, asset allocation, and investment managers as needed

Investment Committee

As delegated by the Board, the Investment Committee is responsible for ensuring that the investment process is managed in a prudent manner, seeking to meet the System's return objectives.

The Investment Committee will, at least quarterly, review the performance of the overall portfolio and selected components against their investment goals and policies.

The Investment Committee will, in accordance with the Manager Review Policy, consider whether the manager continues to operate in the manner represented when retained and outlined in the agreement between the System and the investment manager. The Committee will have the discretion to accept, reject or modify, in accordance with the Manager Review Policy, any recommendation to terminate an investment manager. The elected Chair, or Vice-Chair, will report to the Board at regularly scheduled meetings.

Other roles of the Investment Committee include the following:

- Approve the initiation of a search in accordance with the Selection of Investment Managers and Agents Policy as well as the Manager Search and Termination Policy
- Validate that the search process was carried out appropriately
- Attend manager presentations when necessary
- Request additional information, if warranted

Chief Investment Officer and Staff

The Chief Investment Officer (CIO), who is responsible for the day-to-day management of the investment program, is employed by, and is directly responsible to, the Retirement Board. A complete job description is available from HPRS upon request.

Other roles of the staff include the following:

- Rebalance the investment portfolio within the asset allocation guidelines of the Statement
- Implement tactical asset allocation positioning within the asset allocation guidelines of the Statement
- Raise cash for the payment of pension benefits and other commitments
- Post RFPs to HPRS' website

- Oversee the work of the Investment Consultant
- Ensure processes are completed in an appropriate manner
- Ensure the Investment Committee and Board receive appropriate information
- Coordinate the development and execution of manager contracts and guidelines
- Conduct on-site due diligence with firms if deemed appropriate

Investment Consultant

An Investment Consultant is employed by, and is directly responsible to, the Retirement Board. The consultant is a fiduciary to the System, attends Investment Committee and Board meetings, provides monthly investment monitoring reports, and works with the CIO to implement the Investment Policy of the Retirement Board.

Other roles of the investment consultant include the following:

- Reviewing asset allocation and investment strategy to determine if the current strategy meets the investment objective of the System
- Monitoring the performance of the total portfolio to determine if the collective investment strategy is outperforming the established benchmarks over rolling time periods
- Recommending strategic and tactical changes to asset allocation from time to time
- Communicating with investment managers to determine portfolio composition and ascertain information concerning organizational change
- Performing an annual fee assessment of the investment portfolio
- Identify the need for new managers
- Develop any request for proposals (RFP) for new managers
- Conduct on-site due diligence with candidate firms when necessary
- Conduct on-site due diligence with existing managers when necessary
- Attend the ORSC or other legislative meetings as needed

Custodian

As provided in ORC section 5505.11, the Treasurer of State is the custodian of HPRS funds. The Treasurer appoints a banking institution as a sub-custodian, which acts as the custodian of HPRS funds. All disbursements are processed under the direction of the Treasurer after authorization by the Board. The custodian will physically maintain possession of securities owned by the System, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian shall also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the System accounts. The custodian is also responsible for providing monthly statements to the System and investment consultant.

Investment Managers

Each investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the System's investment objectives. Each investment manager will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper any investment manager, the investment manager should request modifications that it deems appropriate.

Managers are expected to:

- Act as a fiduciary to the System
- Meet with the Board or Investment Committee when requested, to review investment activity and results
- Hold and maintain errors and omissions insurance and provide proof of this insurance
- Provide frequent communication with HPRS and the Investment Consultant on all significant matters pertaining to the investment of assets
- Promptly notify HPRS and the Investment Consultant of any significant changes in the manager's investment strategy, organizational structure, financial condition, or personnel assigned to manage HPRS assets

ADDITIONAL PROVIDERS:

Additional specialists such as attorneys, auditors, and others may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer the System prudently. All expenses for such experts must be customary and reasonable and will be borne by the System as deemed appropriate and necessary.

ASSET ALLOCATION GUIDELINES:

The asset allocation targets for the System are as follows:

		Long-Term Targets	
		<u>Sub Category</u>	<u>Range</u>
Public Equity	48.0%		38% - 58%
Global Equity		22.0%	17% - 27%
US Equity		20.0%	15% - 25%
Non- US Equity		6.0%	1% - 11%
Alternative Investments	25.0%		15% - 35%
Absolute Return		6.0%	0% - 11%
Private Equity		15.0%	10% - 25%
Real Assets		4.0%	0% - 9%
Real Estate	8.0%	8.0%	3% - 13%
Fixed Income	19.0%		9% - 29%
Core Fixed Income		6.0%	1% - 11%
Opportunistic		9.0%	4% - 14%
Cash		4.0%	0% - 9%
Total Pension	100.0%		

ASSET CLASS PURPOSE:

- The purpose of the public equity allocation is to provide a total return that will simultaneously provide for growth in principal and current income sufficient to support the System, while at the same time preserve the purchasing power of the System's assets. It is recognized that the public equity allocation entails the assumption of greater market variability and risk.
- The purpose of the alternative investment allocation is to provide diversification, risk reduction, hedge inflation, as well as enhance the performance of the System. These purposes will vary by investment.
 - Absolute Return: The purpose of this allocation is to provide diversification, risk reduction and moderate growth.
 - Private Equity: The purpose of this allocation is to provide diversification and growth above public equity.
 - Real Assets: The purpose of this allocation is to provide diversification, income, and to hedge inflation.
- The purpose of the real estate component is to provide for growth of principal while at the same time preserving the purchasing power of the portfolio's assets. In addition, the real estate component seeks to enhance the overall portfolio by providing income, a hedge on inflation and modest diversification.
- The purpose of the fixed income allocation is to provide a deflation hedge, to reduce the overall volatility of the System, and to produce income.
- The purpose of the cash allocation is to provide liquidity for short-term obligations. All cash and equivalent investments should be made with concern for quality. High return is desirable, but the highest possible investment return should be sacrificed where quality is considered questionable.

PERMISSIBLE INVESTMENTS:

System assets may invest in the following types of investments:

Equity Securities

- Common stocks
- Convertible preferred stocks
- American depository receipts (ADRs) of non-U.S. companies
- Stocks of non-U.S. companies (Ordinary shares)
- Equity collective pools, mutual funds, and exchange traded funds

Alternative Investments

- Tactical asset allocation strategies
- Absolute return strategies
- Long-short strategies
- Hedge funds or hedge fund-of-fund strategies
- Private equity and debt strategies
- Timber investments

- Energy master limited partnerships
- Infrastructure strategies
- Alternative collective pools, mutual funds, and exchange traded funds

Real Estate

- U.S. and non-U.S. public real estate (REITS)
- U.S. and non-U.S. private real estate
- Real estate collective pools, mutual funds, and exchange traded funds

Fixed Income Securities

- U.S. government and agency securities
- Municipal bonds
- Corporate notes and bonds
- Convertible notes and bonds
- Mortgage-backed bonds
- Preferred stock
- Fixed income securities of foreign governments and corporations
- Below investment grade corporate bonds
- Tactical fixed income strategies
- Private lending strategies
- Fixed income collective pools, mutual funds, and exchange traded funds

Cash Equivalents

- Treasury bills
- Commercial paper
- Banker's acceptances
- Repurchase agreements
- Certificates of deposit
- Money market collective pools, mutual funds, and exchange traded funds

PERFORMANCE BENCHMARKS:

Performance results will be measured in three ways over a full business cycle:

1. The investment objective of the System: 7.25% (actuarial rate of return)
2. A blended benchmark of market indices based on the targeted asset allocation for the System portfolio:

Asset Class	Benchmark(s)	Weight
U.S. Equity	Russell 3000 Index	20%
Non-U.S. Equity	International Blend: 67% MSCI Emerging Market Index/ 33% MSCI EAFE Small Cap Index	6%
Global Equity	MSCI ACWI Index	22%
Absolute Return	HFRI Fund of Funds Composite	6%
Real Assets	100% Real Assets Composite	4%
Private Equity	Total Portfolio: PE composite performance PE Secondary: Wilshire 5000 + 3% lagged 1 quarter PE Tertiary: Cambridge Private Equity Index	15%
Real Estate	Total Portfolio: Real estate composite performance Real Estate Primary: NCREIF Property Index	8%
Core Fixed Income	Bloomberg U.S. Aggregate Bond Index	6%
Global Opportunistic Fixed Income	Credit Suisse Leveraged Loans Index	9%
Cash	ML 91-Day T-Bill Index	4%

3. The System will be compared to a peer universe of similar sized public pension funds

SEPARATE ACCOUNT PORTFOLIO GUIDELINES:

The following guidelines only apply to separately managed accounts. Mutual funds and collective vehicles are not expected to comply with these guidelines but rather are bound to their fund prospectus for mutual funds and ETFs or the governing documents for collective pools.

Equity

An equity manager may not:

- Hold more than 15% of the account value in a single issuer
- Where a sector is greater than 10% of the benchmark, allow that sector to exceed 60% of the portfolio
- Where a sector is 10% or less of the benchmark, allow that sector to exceed 40% of the portfolio
- Invest in international-domiciled securities exceeding 20% of portfolio value in a domestic mandate
- Allow one country to be more than 20 percentage points above the country weighting of the relative benchmark in an international mandate
- Invest in emerging markets exceeding 35% of portfolio value in a developed international mandate

Equity managers are prohibited from investing in the following:

- Private placements
- Unregistered or restricted stock
- Derivatives
- Margin Trading/Short Sales
- Commodities
- Real Estate Property (excluding REITs)
- Guaranteed Insurance Contracts
- Securities issued by Highway Patrol Retirement System or its affiliates.

Core Fixed Income

A core fixed income allocation will be diversified as to type of security, issuer, coupon, and maturity. Qualifying bonds, at the time of purchase, will be rated as investment-grade by at least two nationally recognized bond rating services. Generally, the average maturity of a fixed income allocation will be ten years or less, although individual securities may be longer.

No more than ten percent of a fixed income allocation will be invested in the securities of any one issuer and no more than five percent in any one issue, with the exception of U.S. government securities. Diversification of the bond portfolio will be accomplished by investing in a combination of U.S. government bonds, U.S. agency bonds, U.S. corporate bonds, high yield bonds, and non-U.S. bonds.

Managers are prohibited from using derivative instruments.

Manager Selection

Investment Managers shall be selected in accordance with the Selection of Investment Managers and Agents Policy as well as the Manager Search and Termination Policy.

The Board will consider investments that enhance the welfare of the State of Ohio, and Ohio citizens, where such investments offer safety and quality of return comparable to other investments currently available. Equal consideration will be given to investments otherwise qualifying under this section that involve minority-owned and controlled firms, or firms owned and controlled by women, either alone or in joint venture with other firms.

The Board will, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified investment managers, when an Ohio-qualified investment manager offers quality, services, and safety comparable to other investment managers otherwise available.

The Board will, at least annually, establish a policy with the goal to increase utilization of Ohio-qualified agents for the execution of domestic equity and fixed income trades on behalf of the System, when an Ohio-qualified agent offers quality, services, and safety comparable to other agents otherwise available.

Voting of Proxies

Investment managers are responsible for voting proxies and should be made in the best interest of investors.

Execution of Security Trades

The Investment Committee expects the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution.

Directed Brokerage

In separately managed equity accounts, HPRS investment managers are encouraged to use brokers that are under contract with HPRS to provide execution-only brokerage. Every five years, these brokers will be reviewed; the Board may consider issuing a Request for Proposal if it is deemed necessary. An investment manager may be excused from the directed brokerage requirement if it can document favorable execution.

Periodic Portfolio and Policy Reviews

Asset allocation should be reviewed at least annually to ensure that the plan is on track to achieve the investment goals and that all the major assumptions used to establish the plan remain reasonable. A comprehensive review of asset allocation in the form of asset-liability modeling should be conducted every five years, or whenever a major structural change occurs in liabilities or investment assets.

An asset allocation plan may require reconsideration when it becomes apparent that the assets are not keeping pace with the liabilities of a plan. This may occur not only as a result of the assets not performing as expected but also because the liabilities may not be behaving as expected.

To assure the continued relevance of the guidelines and objectives, as established in this investment policy statement, the Board should review the investment policy annually, or as deemed necessary.

REVISIONS:

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