



State Depository Board
OPEB TRUST INVESTMENT POLICY

POLICY

In accordance with O.C.G.A. §50-5A-7 and O.C.G.A. §47-20-84, the State Depository Board (the "Board") adopts this OPEB Trust Investment Policy (the "Trust Policy") to provide for assets designated for 'Other Post-Employment Benefits to be invested by the Office of the State Treasurer ("OST") and the 'Division of Investment Services of the Teachers' Retirement System' ("DIS"), which also manages investments for the Employees' Retirement System ("ERS"), with the degree of judgment and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering first the probable safety of their capital and then the probable income to be derived. The following provisions stipulate the manner in which investment assets held by the OPEB Trust (the "Trust") will be invested.

OBJECTIVES

The Board's investment objectives are to provide the greatest possible long-term benefits to the Trust by maximizing the total return on investment within prudent limits of risk for a trust fund of this type. The Trust Policy is intended to assure that OST and DIS manage investment risks using care in selecting securities, maintaining appropriate liquidity, and providing for protection against possible substantial market corrections.

Liquidity

The Trust's liquidity needs will be assessed by OST quarterly, in consultation with the Governor's Office of Planning and Budget ("OPB") and the Department of Community Health ("DCH"), to assure that sufficient funds are invested in fixed-income securities that will mature or otherwise can be readily liquidated to meet projected disbursements. Reinvestment of fixed income securities that mature will be made with the Trust's liquidity needs taken into consideration and consistently monitored. Drawdowns from the Trust are intended to be funded from proceeds of the fixed-income portfolio managed by OST to avoid unexpected sale of securities from the equities portfolio managed by DIS.

Preservation of Capital

The basic policy of the Trust is preservation of the capital investment, together with realization of sufficient return to secure and facilitate payment of the statutory benefit objectives of the Trust.

The Board desires to provide for the utilization of all suitable and prudent avenues of investment authorized under the Georgia Statutes to maintain a high quality, diversified portfolio of investments in well-capitalized companies, the prospects of which are continually reviewed and assessed in light of the varying economic climate. Consistent performance of the total portfolio is emphasized. Income is expected to be a key part of investment return for both the fixed-income and equities portfolios.

Diversification

Diversification of the Trust's investments with respect to types of assets, types of industries, companies within industries, quality of the investments, maturities, geographic areas, etc., is an important limitation of risk. All such diversification is considered within the context of the requirements of the Georgia Statutes and the economic climate at various times to assure the maintenance of a diversified portfolio responsive to changing economic conditions. Diversification by asset type requires investments in both high-quality fixed-income securities and in publicly traded equity investments. Appropriate concentration limits for issuers of fixed-income investments and depositories are an important risk limitation.

Investment Advisors

Although both OST and DIS primarily manage investments internally, the Board acknowledges the authority of OST and DIS to contract with investment advisors and investment managers as each deem

appropriate. Any such services utilized by OST shall be subject to the Investment Policy for the Office of the State Treasurer. The Board authorizes DIS to manage the Trust's equities portfolio completely by its internal investment staff or in a similar manner to its investment of publicly traded equities for ERS including internal and external investment personnel.

Asset Allocation and Rebalancing of Assets

Since it is recognized that the Trust has a long-term focus, investment decisions should be made in a manner that is intended to maximize long-term performance and should not be focused on short-term movements in the financial markets. The investment assets of the Trust are to be allocated not more than seventy-five percent (75%) to equity securities on cost basis with the remainder allocated to fixed income securities. OST and DIS will follow the process stipulated in "Initial Buildout of OPEB Trust Portfolios" (see below) to achieve the desired investment allocation of assets in accordance with the Board's desires and O.C.G.A. §47-20-84. Thereafter, in order to maintain the desired asset allocation, OST will consult with DIS annually and rebalance accordingly. Liquidity needs of the Trust may dictate a more conservative asset allocation strategy than utilized by DIS in managing the ERS portfolios. OST and DIS will reallocate assets more frequently than annually if necessary to take into consideration any additional contributions or liquidations.

Equity Investments

The Trust shall be deemed to qualify under O.C.G.A. §47-20-84(a)(5). DIS shall invest Trust assets in publicly traded equities permitted in accordance with O.C.G.A. §47-20-84. DIS shall have discretion to structure and manage equity portfolios comprised of publicly traded equity investments that DIS has approved to purchase in equities portfolios it invests for the Employees' Retirement System ("ERS") and will have discretion to determine specific investment strategies and portfolios, both actively and passively managed. Each equity portfolio will be managed versus the specific equity benchmark utilized in managing ERS equity portfolios investing in the same investment strategy. Assets other than equities shall be invested in accordance with O.C.G.A. §47-20-83. DIS shall receive a fee of 5 basis points (0.05%) per annum, calculated quarterly, on the assets invested by DIS. This fee and all other expenses such as, but not limited to, custodial fees, external manager fees, and audit fees shall be deducted directly from the assets managed by DIS. It is further acknowledged that commissions, both implied and explicit, are an additional expense generally capitalized in each transaction.

Fixed-Income Investments

OST shall invest in bank deposits and fixed income investments permitted in accordance with O.C.G.A. §50-5A-7 and O.C.G.A. §47-20-84. OST shall have discretion to structure and manage fixed-income portfolios in accordance with the "Investment Policy for the Office of the State Treasurer" to be comprised of deposits and fixed-income investments selected on the basis of return, credit quality, marketability, and overall suitability for the Trust.

Initial Buildout of OPEB Trust Portfolios

In accordance with the requirement in O.C.G.A. §47-20-84 that "no fund shall increase its assets in equities through purchase by more than 20 percent in any fiscal year", OST shall initially invest the fixed-income portfolio in a manner that allows for approximately 20% of Trust assets to be invested by DIS in equities each fiscal year until the assets of the Trust are allocated not more than seventy-five percent (75%) to equity securities on cost basis with the remainder in fixed income securities. In establishing this asset allocation, OST will consult with DIS and allocate assets as necessary taking into consideration any additional contributions to or liquidations from the Trust. The value of investments will be computed using the market value of equity securities and the amortized cost of bonds, which means that premiums and discounts are recognized in total over the life of the bonds.

Liquidation of Assets

The fixed-income portfolio should be managed in a manner that provides for the Trust's projected liquidity requirements. OST shall consult with OPB and DCH each calendar quarter to determine expected drawdowns from the Trust. Any drawdowns should be initially funded from the fixed income portfolio to the extent possible.

Transacting Investments

All fixed income investment securities transacted by OST (including, but not limited to, repurchase agreements, negotiable CD's, purchases and sales of U.S. government and agency obligations, and purchases and sales of obligations of corporations) shall be transacted by competitive bidding with procedures for each class of investment determined by the Treasurer. Exceptions may be made by the Treasurer, but such shall be reported to the Board including the circumstances requiring such action. The Treasurer shall establish transaction procedures for investment advisors/managers on a case by case basis. All purchases and sales by DIS shall be transacted in accordance with the same procedures and protocol as DIS follows in investing for ERS as reported from time to time by DIS.

Authorized Institutions

The Treasurer shall maintain a listing of financial institutions authorized to transact business with OST. Each depository shall be approved by the Board. The Treasurer may approve brokers and dealers of government securities and repurchase agreements to transact trades with OST with limits established based on a firm's capitalization, execution capabilities, and other criteria. Brokers and dealers having offices in this state shall receive priority in the approval process to the extent that such limitations do not result in reduced investment performance or insufficient portfolio diversification. DIS shall transact trades through financial firms approved for trades conducted for ERS and a list of such firms shall be provided to the Board upon request. DIS and OST shall have the authority to execute agreements and transactions incidental to fulfilling their respective objectives stated in this policy.

Securities Lending

OST and DIS may lend any securities in their respective Trust portfolios considering first probable safety of capital and then probable income to be derived. OST and DIS may utilize their respective custodian banks or other approved financial institutions to conduct securities lending activities.

Custody of Assets

OST and DIS may utilize their respective custodian banks to hold custody Trust assets.

Reporting

OST shall be responsible for reporting to the Board each investment portfolio's balance, market diversification, asset holdings, investment performance, and such other information, including investment transactions, as requested by the Board. OST will provide DCH copies of all reports it provides to the Board.

This Policy approved by the State Depository Board on May 30, 2018.

The Department of Community Health, the Division of Investment Services, and the Office of the State Treasurer agree to investment of the OPEB Trust as provided in this OPEB Trust Investment Policy and acknowledge it as an intergovernmental contract between the parties meeting the requirements of O.C.G.A. §§50-5A-7, 47-20-84, and 45-18-25.1:

Department of Community Health:  Date: 5-30-2018

Division of Investment Services:  Date: 6-4-2018

Office of the State Treasurer:  Date: May 30, 2018