State of Oklahoma
Oklahoma Employees Insurance and Benefits Board Office of Management and Enterprise Services Policies and Procedures

OEIBB Statement of Investment Policy

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POLICY

SECTION I. Background

The Oklahoma Office of Management and Enterprise Services Employees Group Insurance Department, ("EGID") is administered by the Director of the Office of Management and Enterprise Services (OMES). 74 O.S. 1304.1 created the Oklahoma Employees Insurance and Benefits Board ("Board") to oversee the operations of EGID in an advisory capacity. The Act was established for the benefit of state and education employees and employees of other state governmental entities authorized by the Act to participate in plans offered by EGID. EGID makes decisions on all policy matters affecting the program, including benefits to be offered, premiums to be charged and investments of the assets.

EGID maintains three statutorily created funds (Health & Dental, Life and Disability) that comprise the self- funded, multi-employer benefit plans offered to active and retired state, education and local government employees in Oklahoma. Each of these funds has unique investment needs based on the liability characteristics of the underlying benefit coverage provided.

1. The **Health and Dental Insurance Reserve Fund**, unlike the other funds, is subject to an underwriting cycle tied to the level of claims submitted and the ability to increase premiums. Liquidity, a positive underwriting experience and safety of principal are a priority.
2. The **Life Insurance Reserve Fund** has more predictable cash flows so that liquidity needs are not as great. Also, the longer-term nature of its liabilities argues for a long-term investment horizon and long-term securities.
3. The **Disability Insurance Reserve Fund** also has more predictable cash flow needs, and its liabilities are a blend of short and long-term.

The risk exposure for the Program in case of a catastrophe is magnified by the fact that many participants are concentrated in one location.

1. Purpose of the Policy

    This Statement of Investment Policy ("Investment Policy") shall serve as the official communication regarding the investment practices for assets held within the Health & Dental, Life and Disability funds. The investment of these funds is generally considered in aggregate, collectively referred to as the "investment program". The policies in this document have been adopted by the Board, which has the duty of overseeing EGID's investment program in an advisory capacity. The Board retains its responsibility for oversight but has delegated authority to the Fiscal and Investments Committee ("Committee") to manage and oversee the investment program on an ongoing basis in an advisory capacity.

    This policy will be implemented in concert with the other governance and financial policies, specifically the Fund Equity Policy, and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

    This policy will be reviewed at least annually by the Committee and updated and revised as appropriate. Changes to this policy may be made only on recommendation of the Committee and approval of the Board. The Board will formally review this policy annually.

2. Investment Objectives

    The primary investment objective is to maximize the expected return while simultaneously maintaining an acceptable level of risk. As capital may be needed to support operations, liquidity and preservation of capital remain key considerations. To achieve the stated objectives, the assets will be managed in a balanced approach and will maintain well diversified exposure across fixed income and equity securities. The evaluation of the Board of an investment decision must be based only on pecuniary factors. When evaluating any investment, appropriate consideration must be given to the risk/return characteristics of the investment as well as the role that the investment course of action plays (in terms of diversification, liquidity, risk and return) with respect to the entire investment portfolio. All investment decisions will be made in accordance with Oklahoma law.

SECTION II. Delegation of Responsibilities

There are various parties that are involved in the management and oversight of the Program. These parties must all comply with the duty of loyalty (no investments will be used to further personal interests). In addition, these parties must act in good faith, with the care an ordinarily prudent person in a like position would exercise in similar circumstances. For those parties that have been retained to provide special skills or expertise to the Program, they must use those skills or expertise in the management and/or investment of the Program's investments. The following is a list of the primary responsibilities of various parties related to the investment portfolio.

1. Responsibilities of the Committee/Board
    a. Retain Qualified Investment Managers to provide for the investment of the monies received by EGID.
    b. Choose said Investment Managers by a solicitation of proposals on a competitive bid basis pursuant to standards set by the OEIBB.
    c. Oversee the management of those monies not specifically allocated to the Investments Managers.

   d. Recommend to the Investment Manager a Custodian bank or trust company offering pension fund master trustee and master custodial services with which to place funds and revenues for investment.
   e. Choose said Custodian by a solicitation of proposals on a competitive bid basis pursuant to standards set by the OEIBB.
   f. Prior to August 1 of each year, develop a written investment plan for the monies received by EGID.
2. Responsibilities of the Staff

   Coordinating and managing the activities of all investment related parties. More specifically, the Staff is expected to:
   a. Maintain all documentation relating to the management of the investment program.
   b. Negotiate and execute contracts with investment related parties.
   c. Manage communications to/from the Committee/Board and investment related parties.
   d. Coordinate meeting with the Committee/Board and investment related parties.
   e. Communicate regularly with Committee/Board and investment related parties to ensure proper functioning and oversight of the investment portfolio.
3. Responsibilities of the Custodian Bank
   a. Acting in accordance with relevant custody agreements.
   b. Complying with all applicable guidelines.
   c. Reporting all financial transactions to Staff and preparing periodic summaries of transactions, asset valuations and other related information as deemed appropriate by Staff.
   d. Accepting and holding cash prior to allocating it to an investment manager and investing such cash in liquid, interest-bearing instruments.
4. Responsibilities of the Investment Consultant
   a. Assisting in the development and documentation of the Statement of Investment Policy.
   b. Preparing detailed asset allocation analyses to assist the Committee/Board in selecting and implementing the long-term investment portfolio.
   c. Identifying investment managers/funds to execute the Board's long-term strategy.
   d. Measuring the portfolio's investment performance results, evaluating the investment program on an ongoing basis and advising the Committee/Board as to the performance and continuing appropriateness of each manager.
   e. Recommending modifications to the investment policy, asset allocation or management structure as appropriate.
   f. Meeting with and being available to the Staff, Committee and Board on a regular basis to provide investment results and make appropriate recommendations.
   g. Keeping the Committee/Board appraised of current investment trends and issues.
5. Responsibilities of the Investment Manager
   a. Managing the portion of the Program's assets under their control in accordance with the policy objectives and guidelines communicated and in accordance with prudency standards.
   b. Complying with any applicable regulatory stipulations and the terms of the Agreement.
   c. Exercising full investment management discretion within the policies and

standards included herein for all assets under management.

d. Promptly informing the Committee or its designated agent regarding significant matters pertaining to the investment of the Program's assets. This includes, at a minimum, communications regarding the following:
    i. Quarterly portfolio asset holdings and transactions.
    ii. Substantive changes in investment strategy and portfolio structure.
    iii. Significant changes in ownership, organizational structure, financial condition or professional staffing.

e. Initiating written communication with the Committee whenever the investment manager believes that this Investment Policy should be altered. No deviation from guidelines and objectives established in the Investment Policy should occur until after such communication has occurred and the Committee has approved such deviation.

f. Providing input as appropriate regarding progress toward the specific objectives developed herein.

SECTION III. Asset Allocation

The asset allocation policy developed herein is based on the Program's investment risk tolerance and financial goals and objectives. To design the asset allocation policy, the Board, with assistance from the Committee, will consider the Program's underlying objectives.

The following factors are considered in determining the asset allocation policy:

1. The Program's long-term goals, including the philosophy and attitudes toward investment return and risk.
2. Historical and prospective risk, return, and correlation characteristics associated with various asset classes and investment management strategies.
3. Unique characteristics such as liquidity requirements, risk preferences or return requirements.

The asset allocation policy should be formally reviewed and approved by the Board during the November Board meeting. Following is the investment portfolio's current asset allocation policy:

		Allowable Range	
Asset Class	**Target**	**Low**	**High**
U.S. Large Cap Stocks	30.5%	25.5%	35.5 %
U.S. Small/Mid Cap Stocks	7%	2%	12%
Non-U.S. Equity Stocks	12.5%	7.5%	17.5 %
Total Equity	**50%**	**25%**	**57%**
Fixed Income[1]		25%	75%

Cash/Cash Equivalents[2]		0%	25%
Total Fixed Income	**50%**		

[1]Fixed Income includes an allocation to intermediate core, core and/or core plus strategies.
[2]Actual cash target is based upon 4% of expected annual premiums.

The Board is responsible for broad asset allocation decisions. An investment manager's cash can disrupt this position. Therefore, it is expected that each investment manager's portfolio is to be fully invested at all times, although cash can be held briefly when a security is sold prior to deciding which new security should be purchased. In no case shall cash comprise more than 10% of an investment manager's portfolio without notification to the Committee.

SECTION IV. Rebalancing and Liquidity

Liquidity needs will be managed by the Staff, accomplished primarily by maintaining the appropriate level of cash reserves based upon historical experience and anticipated flows. If the cash level drops below 2% of annual premiums, Staff will facilitate the replenishment of the cash to its targeted level.

The allocation of the portfolio's assets will be monitored on an ongoing basis. When the actual allocation for a particular asset class is outside the bounds of its allowable range, that asset class may be rebalanced to target. The Investment Consultant will provide an allocation recommendation to the Committee on a periodic basis and assist the Staff with rebalancing the portfolios.

SECTION V. Investment Manager Structure

It is the intention to utilize outside investment managers for the investment of the portfolio. Managers will be identified and evaluated by the Investment Consultant and evaluated by the Committee.

In selecting investment managers to implement the asset allocation policy, a specific process of identification and evaluation of candidate firms will be followed. Candidate organizations for each role will be identified by the Investment Consultant according to its established criteria. Evaluation of organizations will include an analysis of organizational structure, professional personnel, investment philosophy and process, portfolio characteristics, fees and performance, as well as the ability to serve the Program's specific needs.

Candidate organizations will be subjected to the due diligence and qualification process of the Investment Consultant and in accordance with Oklahoma law. Once qualified, the Committee will provide a recommendation to the Board to select the most appropriate firm, given the Policy objectives and guidelines. The selection of an investment manager also considers the correlation with other investment managers in the program.

SECTION VI. Evaluation and Review Procedures

The Committee will review the overall investment program on an ongoing basis. Key issues reviewed will include:

1. Current trends and developments in the capital markets and manager community.
2. The overall portfolio's performance and risk relative to appropriate benchmarks and peer groups.
3. The ongoing appropriateness of the policies included herein.

The Committee will also review the performance and portfolios of the investment managers to determine their success in achieving the investment objectives specified herein and whether they have adhered to applicable restrictions. Failure by a manager to achieve its policy objectives or to adhere to the guidelines will be cause for the Committee to reexamine that manager's continuing appropriateness in the investment program and provide a recommendation to the Board as appropriate.

On a quarterly basis, each manager will be expected to provide to the Committee and/or Staff:

1. A complete listing of assets in the portfolio to include the latest values.
2. A written review of their investment performance and portfolio structure.
3. An organizational update, including a report on any and all changes in organizational structure, staffing, investment processes and strategies and asset base.

On at least a quarterly basis, the Consultant will be expected to provide to the Committee and/or Staff:

1. A summary of the performance of the total portfolio, individual managers and asset classes.
2. A comparison of results to appropriate benchmarks and peer groups.

The Investment Consultant will meet formally at least quarterly with the Committee to review the asset allocation strategy and the investment portfolio's performance. The Investment Managers will be required to meet with the Committee as requested.

SECTION VII. Investment Guidelines

Generally, allowable investments include exchange-traded stocks, bonds and cash equivalents and units in pooled funds (commingled or mutual fund vehicles). The Committee, with the assistance of the Investment Consultant, will be responsible for reviewing and approving the investment guidelines governing all pooled fund investment vehicles used.

On a quarterly basis, the performance of each of the investment managers will be compared to a relevant benchmark index and to a relevant universe of investment management firms. The ongoing review and evaluation of manager results and identification of specific benchmarks will be the responsibility of the Committee, with the assistance of the Investment Consultant.

The following sections outline the specific objectives and guidelines established for each asset category. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program over time. The guidelines will apply to any separately managed accounts selected by the Committee. For investments made through commingled funds or mutual funds, the guidelines governing the fund will be reviewed and deemed acceptable by the Committee prior to investment.

1. Prohibited Investments
    a. Investments in "restricted securities", including fixed income securities, preferred stock, common stock or any common stock acquired upon conversion thereof; "Restricted securities" are defined as securities which have not been registered

under the Securities Act of 1933 and are subject to restrictions on sale.

b. Purchase of securities on margin or any otherwise use of financial leverage.
c. Investment in companies for the purpose of exercising control or management.
d. Investment in real estate fee simple (managers may invest in investment certificates of other financial instruments or open-ended pooled real estate securities).
e. Real estate held as freehold or leasehold (the Board may purchase real estate for home office facilities to be used in administering the Program, including land, equipment and office building, providing that the foregoing shall not prevent the Program from purchasing or selling publicly-traded securities of issuers engaged in any aspect of the real estate business or marketable securities secured by real estate or interest therein, including mortgage-backed securities).
f. Commodities, commodity contracts, mineral oil, gas or other mineral explorations or developmental programs (managers may purchase the securities of companies engaged in the exploration, development, production, refining, transportation and marketing of oil, or other minerals).
g. Loans of money or securities, with the following exceptions: (a) through the purchase of securities in accordance with the investment objectives, (b) by lending portfolio securities under circumstances where the borrower of such securities provides cash or cash equivalents as collateral at all times in an amount at least equal to the value of the owned securities. The Board retains the right to obtain any dividends, interest or other distribution on the securities and any increase in their market value and reserves the right to terminate such arrangement at any time, and (c) by entering into repurchase agreement.
h. Investment in limited partnership interests of a business development company as defined in the Investment Company Act of 1940, 15 U.S.C. Sect. 80(a)-1 to 52(1982).
i. Investments in equity securities not listed on a public exchange.

2. Portfolio Guidelines & Objectives
   a. Cash/Cash Equivalent Guidelines
      Eligible Holdings
      i. The cash/cash equivalent portfolio will be invested exclusively in high quality (A1/P1 only), short-term fixed income instruments such as U.S. Treasury/Agencies, Commercial Paper, Bankers Acceptances, etc.

      Diversification
      i. No single issue and/or issuer may represent more than 10% of the cash/cash equivalent portfolio (excluding U.S. Treasury/Agency securities).

      Performance Objectives
      i. The primary emphasis is to be placed on preservation of capital and provision of liquidity.
      ii. The total return of the portfolio should outperform appropriate market benchmarks.
   b. Fixed Income Guidelines
      Eligible Holdings
      i. The fixed income portfolio may be invested in U.S. and/or foreign fixed income instruments such as government/sovereign bonds (or alternatively, "US Government and other sovereign bonds"), Mortgage Backed Securities, Corporate Bonds, Asset Backed Securities, etc.
      ii. Below investment grade holdings are limited to 10% of the total fixed income portfolio.

iii. Holdings are limited to issues with outstanding principal amount of at least $50 million.

Diversification

i. No single industry group shall constitute more than 20% of a fixed income manager's portfolio.
ii. No single issuer shall constitute more than 2.5% of a fixed income manager's portfolio, except for obligations of the U.S. Government or any of its agencies.
iii. The average duration of the fixed income portfolio should not exceed an effective duration plus or minus more than one year from the manager's benchmark.
iv. The overall portfolio is expected to maintain an average credit quality of BBB- or higher as rated by at least two of three rating agencies (Standard & Poor's, Moody's and/or Fitch).

Performance Objectives

i. The total return of the active portfolios should outperform appropriate market benchmark(s) and peer group(s).

c. U.S. Equity Guidelines

Eligible Holdings

i. The equity portfolio will be invested in U.S. exchange-listed securities.
ii. Equity holdings are limited to stocks of companies with a minimum capitalization (current market price multiplied by shares outstanding) of $50 million at the time of purchase or those stocks included within the Russell 2500 Index.

Diversification

i. No single industry group shall constitute more than 30% of an equity manager's portfolio.
ii. No single company shall constitute more than 5% of an equity manager's portfolio (at the lower of cost or market), unless the manager's benchmark holds more than 5% or with prior consent of the Board.
iii. American Depository Receipts (ADRs) and foreign domiciled companies traded on U.S. exchanges shall not constitute more than 15% of an equity manager's portfolio.

Performance Objectives

i. The total return of the active portfolios should outperform appropriate market benchmark(s) and peer group(s).
ii. The total return of the passive portfolios should match the return and risk profile of the appropriate market benchmark.

d. Non-U.S. Equity Guidelines

Eligible Holdings

i. Equity securities shall be of non-U.S. issues (including ADR's) whose principal markets are outside of the United States.
ii. Equity holdings are limited to stocks of companies included within the MSCI All Country World ex U.S. Index.

Diversification

i. The portfolio should be broadly diversified by number of holdings, market capitalizations, by geographic location and across industry sectors.
ii. While there are no percentage limits in regard to country weightings,

the manager should use prudence and reasonable judgement.

Performance Objectives

i. The total return of the portfolio(s) should outperform appropriate market benchmark(s) and peer group(s).