MONTANA STATE FUND
INVESTMENT POOL
INVESTMENT POLICY

Approved April 14, 2020

Last Revised June 9, 2020

Table of Contents

Page

1. Introduction 3
2. Purpose 3
3. Legal and Constitutional Authority 3
4. Strategic Investment Objectives 4
5. Time Horizon 4
6. Performance Measurement 4
7. Roles and Responsibilities 4
8. Strategic Asset Allocation 5
9. Rebalancing 5
10. Risk Management 6
    a. Monitoring Public Market Investment Managers 6
    b. Private Investments Evaluation Policy 6
    c. Liquidity 6
    d. Monitoring/Reporting – Transparency 6
    e. Leverage 6
11. Securities Lending 7
12. Exercise of Shareholder Rights 7
    a. Proxy Voting 7
    b. Class Action Litigation 8
13. Investment Policy Review 8

Appendixes
- a. Appendix I: State Fund Investment Pool Asset Allocation Ranges 9
- b. Appendix II: Investment Objectives and Guidelines 10
    - i. Schedule II-A – Public Equity Asset Class 10
    - ii. Schedule II-B – Real Estate Asset Class 12
    - iii. Schedule II-C – High Yield Asset Class 14
    - iv. Schedule II-D – Investment Grade Fixed Income Asset Class 16

1. Introduction:

Montana State Fund (MSF or State Fund) provides Montana employers with an option for workers' compensation and occupational disease insurance coverage and guarantees available coverage for all employers in Montana. The State Fund Investment Pool (SFIP) seeks to attain investment returns that assist State Fund in meeting liabilities as well as maintaining stable, cost effective rates for workers' compensation insurance. Workers' compensation benefit payments typically require immediate medical payments and then ongoing medical and indemnity benefits that can span four decades. Therefore, it is important to have a well-diversified, high quality portfolio that is positioned for the long term. The SFIP invests directly in the underlying Asset Classes. Each Asset Class has an underlying set of investment objectives and investment guidelines.

This policy is effective upon adoption and supersedes all previous Investment Policy Statement (IPS) related to the investment management of the State Fund Investment Pool (SFIP).

2. Purpose:

The purpose of this policy statement is to provide a broad strategic framework for the SFIP investments under the guidance of the Montana Board of Investments.

3. Legal and Constitutional Authority:

Article VIII, Section 13, of the Montana Constitution requires that the Legislature provide for a Unified Investment Program for public funds and State Fund assets. Section 17-6-201, Montana Code Annotated (MCA), established the Unified Investment Program, created the Montana Board of Investments (the "Board") and gave the Board sole authority to invest state funds, in accordance with state law and the state constitution.

Section 17-6-201(1), MCA requires the Board to operate under the "prudent expert principle," defined as:

1) "discharging its duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of like character with like aims;
2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and
3) discharging its duties solely in the interest of and for the beneficiaries of the funds managed."

Article VIII, Section 13 (4), of the Montana Constitution requires:

> *"Investment of state compensation insurance fund assets shall be managed in a fiduciary capacity in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance organization. State compensation insurance fund assets may be invested in private corporate capital stock. However, the stock investments shall not exceed 25 percent of the book value of the state compensation insurance fund's total invested assets."*

State Fund investments are subject to Title 33, Chapter 12 of the Montana Code. The purpose of Chapter 12 (Insurer Investments) *"is to protect the interests of insureds by promoting insurer solvency and financial strength."*

The Board, as the investment fiduciary, is responsible for establishing the investment parameters for the SFIP.

4. Strategic Investment Objectives

The Board's primary objective is to provide investment income that assists the State Fund in meeting claim benefit liabilities as well as maintaining stable, cost effective rates for workers' compensation insurance. The Board's secondary objective is to achieve long term capital appreciation in excess of inflation. Both objectives must be compatible with the Board's risk tolerance and prudent investment practices. The Board seeks to maintain a long-term perspective in formulating and implementing investment policies and evaluating investment performance.

5. Time Horizon

The Board expects to meet or exceed these objectives over a long-term investment horizon. Over shorter periods, the anticipated market volatility and specific actions, including risk mitigation efforts of the Board, may lead to unfavorable, but expected, deviation from the objectives.

6. Performance Measurement

Success in achieving these objectives will be measured by comparing the risk and return of the SFIP account to the return on the **Bloomberg Barclays Intermediate Aggregate Index** (fixed income), the return on the **S&P 500 index** (domestic equity), the return on the **MSCI ACWI Ex U.S. Index** (international equity), and the return of the **NCREIF ODCE index** (real estate), each weighted proportionately to the portfolio's holdings. Performance results will be monitored and evaluated quarterly. However, success in achieving the objective will be measured on a three-year, five-year, and ten-year annualized basis.

7. Roles and Responsibilities

a) **Board of Investments** – The Board is responsible for approving the IPS and has the authority to manage the SFIP as it considers prudent, and subject to such limitations as contained in this Policy, the law and the state Constitution. The Board reviews this document periodically and, as needed, approves any changes to the policy.

   As described in the Board of Investments Governance Manual, the Board delegates authority to the Executive Director, Chief Investment Officer (CIO), and other Staff to execute the day to day duties required to carry out the Board's mission.

b) **Executive Director** – The Executive Director is empowered by the Board to sign any and all documents required to conduct Board business, unless there are specific written policies or instructions from the Board to the contrary. The Executive Director is responsible for the oversight of the SFIP and the establishment of the financial reporting procedures and the collection and reporting of all income.

c) **Chief Investment Officer** – The CIO is empowered by the Board to serve as the principal Staff person responsible for overseeing the investment activities under the Board's jurisdiction in compliance with the Board's policies. The CIO, with the support of other Staff, is responsible for recommending IPS changes for Board approval.

d) **Staff** – The Staff is responsible for:
   I. Managing day-to-day operations and delegating work to external resources as appropriate;
   II. Monitoring allocations and overseeing all investment manager due diligence activities and recommending changes to the CIO;
   III. Monitoring and reporting to the Board the performance of each asset class and the individual managers' performance;
   IV. Informing the Board of any new managers or terminations; and
   V. Reporting any deviations from the IPS to the Board and the State Fund;
   VI. Coordinating with the State Fund to provide financial data necessary for their quarterly reporting and calendar year closing cycle.

e) **Investment Consultant** – The investment consultant assists the CIO and Staff with policy recommendations and provides advice to the Board. The investment consultant shall provide assistance to Staff as requested in conjunction with the management of the SFIP.

f) **External Managers** – Managers are responsible for all aspects of portfolio management as set forth in the contract specific to each manager. Managers must communicate with Staff as needed, regarding investment strategies and results. Managers must also cooperate fully with Staff regarding administrative, accounting, and reconciliation issues as well as any requests from the investment consultant and the master custodian.

8. Strategic Asset Allocation

The current asset allocation ranges for the SFIP are in **Appendix I**. The asset allocation ranges are subject to change as modifications are adopted by the Board, at which time **Appendix I** will be revised to reflect these changes.

9. Rebalancing

The actual asset allocation mix may deviate from time to time from the approved asset allocation ranges due to financial market performance, cash flows, and manager performance. Material deviations from the asset allocation ranges can alter the expected return and risk of the separate accounts. Rebalancing to remain within the Board-approved allocation ranges is delegated to Staff in consultation with the CIO and the Executive Director. Any necessary rebalancing will be made in a timely manner and will take into consideration associated costs and current market conditions.

10. Risk Management

a) **Evaluation of Investment Managers**
The Investment Manager Evaluation Policy is a distinct policy that is regularly reviewed and updated separate from the IPS because Staff utilizes the Investment Manager Evaluation Policy to oversee and manage other assets in addition to the SFIP assets.

b) **Liquidity**
The total liquidity needs for the SFIP are generally low in relation to total invested assets and State Fund capital is not expected to change dramatically on short notice. However, illiquidity risk still needs to be monitored and managed by Staff on a regular basis to ensure that assets are not required to be sold too quickly, or at an unfavorable time, and potentially at a discount to fair value to meet the cash needs of State Fund.

A significant percentage of the investment in Core Real Estate and High Yield Asset Classes is considered illiquid. Due to the limited liquidity of these assets, it will typically be impractical to fund cash needs or correct deviations from policy ranges through the purchase or sale of these assets.

The investments held in Equities and Investment Grade Asset Classes are categorized as publicly traded securities. In "normal market" conditions, many of the underlying assets can be liquidated in a relatively short period to accommodate both expected and unexpected withdrawals as well as any repositioning of the asset allocation to stay within approved ranges.

c) **Monitoring/Reporting – Transparency**
Managers shall submit periodic reports to facilitate Staff's monitoring of the Managers' conformance to investment restrictions and performance objectives.

Staff shall provide regular reporting to the Board regarding the asset allocation and performance of the SFIP to confirm these items are known and adhere to all IPS requirements and expectations.

d) **Leverage**
Leverage is a significant risk factor. Investment managers may utilize leverage only when permitted in the manager's investment guidelines approved by Staff. Staff shall monitor the use of leverage and its impact on risk and return.

The use of derivative securities can generate additional leverage even if the derivative is being used to reduce the risk in other investments. Investment managers may only use derivatives when permitted in the manager's investment guidelines approved by Staff.

e) **Cash Investments**
Cash investments held within the SFIP entail an element of credit risk. Thus, only approved cash investment vehicles are permitted. These include: STIP; any cash vehicle at the Custodial Bank; or any SEC-registered money market fund employed by an external asset manager which specifically address credit risk in their respective investment guidelines.

11. Securities Lending

Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. The Board may lend its publicly traded securities through an agent, to other market participants in return for compensation. Currently, through an explicit contract, the state's Custodial Bank, manages the state's securities lending program. The Board seeks to assess counterparty and reinvestment risk, associated with each aspect of its securities lending program. The Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the collateral falls below the agreed-upon ratio of over-collateralization. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously by the contractor. From time to time, Staff may restrict a security or borrowing counterparty from the lending program upon notification to the Custodial Bank. Staff will monitor the securities lending program, and will periodically report to the Board on the status of the program. The Board's participation in securities lending may change over time given account activity, market conditions and the agent agreement.

12. Exercise of Shareholder Rights

The Board recognizes that publicly traded securities and other assets of the SFIP include certain ancillary rights, such as the right to vote on shareholder resolutions at companies' annual shareholders' meetings, and the right to assert claims in securities class action lawsuits or other litigation. The Board will prudently manage these assets for the exclusive purpose of enhancing the value of the SFIP through such means as adopting and implementing a proxy voting policy and undertaking productive, cost- effective action to exercise its rights as shareholders or claimants in litigation.

a) **Proxy Voting**

Active voting of proxies is an important part of the Board's investment program. Under the contractual arrangements between the Board and its investment managers, the responsibility for voting proxies on the investments is delegated to the managers. Managers are contractually required to establish a proxy voting program in coordination with Board Staff and are required to vote proxies, excluding shares on loan on record date unless recalled under the Board's securities lending program, in the interest of the Plans' beneficiaries. Records of proxy votes shall be maintained by the Managers, and/or its third-party designee, and submitted to Staff and/or an external service provider annually.

Staff will monitor the proxy voting practices of the Board's external investment managers. External service providers may be retained by either the Board or the Managers to assist in monitoring efforts. This monitoring will be coordinated with each manager to reasonably assure the Staff that Managers are fulfilling their fiduciary responsibilities with respect to proxy voting.

b) **Class Action Litigation**

Claims arising out of losses on securities under the Board's management under U.S. state and federal securities laws are assets subject to the Board's fiduciary duty of prudent management. The Board shall take reasonable, cost effective steps to identify, pursue and collect upon claims under securities laws for losses suffered by the Board on its investment. Accordingly, the Board maintains a detailed litigation policy, including process steps, outlined in the Board's Governance Manual, Appendix F.

13. Investment Policy Statement Review

Per Board's Governance Policy, "the Board shall create, maintain, and revise as necessary Investment Policy Statements (IPS) for each separate account it manages. The IPS shall cite the law establishing the account if such law exists, the permissible investments authorized by law, and establish an investment range for each of the permissible investments. The Board shall review such policies at least annually or more frequently at the request of Board staff. IPS may only be revised in a public meeting. All IPS shall be posted on the Board's web site for review by the public."

Appendix I: State Fund Investment Pool Allocation Ranges

Permitted Ranges:

Approved April 14, 2020

State Fund Investment Pool Asset Class		
Asset Class	**Range Low**	**Range High**
Public Equity	0	15
Real Estate	0	8
High Yield	0	7
Investment Grade Fixed Income	70	100

Appendix II: Investment Objectives and Guidelines

Schedule II-A:
Investment Objectives and Guidelines
Public Equity Asset Class

Effective Date of Schedule: April 14, 2020

This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Equities.

Statement of Purpose:
The purpose of these objectives and guidelines is to:

1. Establish the investment objectives and performance standards of the Public Equity Asset Class; and
2. Provide diversified exposure to the equity market in a prudent and cost-effective manner.

Investment Objective:

<u>Strategic:</u>
The objective of the Public Equity Asset Class is to attain the highest possible total return within the parameters of the Investment Guidelines set forth below.

<u>Performance:</u>
Success in achieving this objective will be measured by comparing the risk and after-fee return of the Equity Asset Class to the **S&P 500 Index and ACWI ex. U.S. Index** (the "Benchmark") each proportionately weighted to the portfolio's domestic and international equity holdings. Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a three-year, five-year, and ten-year annualized basis.

Investment Guidelines:

Staff will have full discretion to manage this Asset Class consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting. State Fund will be notified of any exceptions or compliance violations within five days.

Most of the Public Equity Asset Class investments will be managed by external investment managers.

It is expected that the Public Equity Asset Class shall invest in public market investments that provide liquidity and meaningful transparency to portfolio characteristics and risk exposures.

Permitted Investments:

The Public Equity Asset Class may invest only in the following:

1. Public equity securities and derivatives held in separate accounts, commingled funds, limited partnerships, or limited liability companies managed by external investment managers and governed by their respective investment management contracts and investment guidelines;
2. Exchange-Traded Funds (ETFs) based on an equity index that is approved by the CIO and purchased and monitored by Staff.

Other Restrictions:

1. A maximum of 15% of the market value of the SFIP will be invested in public equities;
2. A maximum of 4% of the market value of the SFIP will be invested in in international equities.

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board's next regularly scheduled quarterly meeting, the CIO shall inform the Board of any cases that the Public Equity Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Public Equity Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five days.

Schedule II-B:
Investment Objectives and Guidelines
Real Estate Asset Class

Effective Date of Schedule: April 14, 2020

This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Core Real Estate.

Statement of Purpose:

The purpose of these objectives and guidelines is to:

1. Establish the investment objectives and performance standards of the Real Estate Asset Class; and
2. Provide diversified exposure to Real Estate in a prudent and cost-effective manner.

Investment Objective:

Strategic:
The objective of the Real Estate Asset Class is to attain the highest possible return within the parameters of the Investment Guidelines set forth below.

Performance:
Success in achieving this objective will be measured by comparing the risk and after-fee return of the Real Estate Asset Class to the **NCREIF ODCE Index** (the "Benchmark"). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a five-year, and ten-year annualized basis.

Investment Guidelines:

Staff will have full discretion to manage the Real Estate Asset Class consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting. State Fund will be notified of any exceptions or compliance violations within five days.

Most of the Real Estate Asset Class investments will be managed by external investment managers.

Real Estate is classified as "Core" if it is an investment in operating, substantially leased, and positively cash flowing institutional quality real estate across property types, geographies and markets.

Permitted Investments:

The Real Estate Asset Class may invest only in the following:

1. Separate Accounts, Open-Ended Funds, Closed-Ended Funds, Exchange-Traded Funds (ETFs), Real Estate Investment Trusts (REITs), or Master Limited Partnerships (MLPs) managing publicly traded Real Estate, where the investments are approved by the CIO and purchased and monitored by Staff;
2. Private Investment partnership interests. These private partnerships may be direct limited partnerships, limited liability companies, or vehicles that primarily invest in partnerships, including Fund-of-Funds and Secondary Funds;
3. Individual public or private securities received as distributions from funds are also permitted to be held in the Real Estate Asset Class.

Other Restrictions

The following restrictions are preferred structures and limitations, recognizing precision relative to current market value or net asset value may not be feasible due to their illiquid nature.

1. No less than 75% of the aggregate of the Core Real Estate Asset Class net asset value plus capital shall be invested in "Core" Real Estate;
2. Separate Accounts, Open-Ended Funds, Closed-Ended Funds, Exchange-Traded Funds (ETFs), or Master Limited Partnerships (MLPs) managing publicly traded Real Estate may not exceed 25% of the aggregate of the Real Estate Asset Class net asset value plus uncalled committed capital;
3. The Core Real Estate Asset Class market value invested in any single mandate/portfolio shall be no greater than 5% of the SFIP Assets;
4. Individual public securities received as distributions will be liquidated over a reasonable time period dependent on market conditions.
5. Leverage will be monitored on an individual fund level. Total Real Estate Asset Class leverage shall not exceed 50%.

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board's next regularly scheduled quarterly meeting, the CIO shall inform the Board of any cases that the Core Real Estate Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Core Real Estate Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five days.

While no formal diversification ranges are set forth for property type diversification or regional diversification within the United States, it is expected that the Core Real Estate Asset Class shall remain diversified across these factors. These and other factors shall be monitored and reported to the Board at least annually.

Schedule II-C:
Investment Objectives and Guidelines
High Yield Asset Class

Effective Date of Schedule: April 14, 2020

This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for High Yield.

Statement of Purpose:
The purpose of these objectives and guidelines is to:

1. Establish the investment objectives and performance standards of the High Yield Asset Class; and
2. Provide diversified exposure to the High Yield markets in a prudent and cost-effective manner.

Investment Objective:

Strategic:
The objective of the High Yield Asset Class is to attain the highest possible total return within the parameters of the Investment Guidelines set forth below.

Performance:
Success in achieving this objective will be measured by comparing the risk and after-fee return of the High Yield Asset Class to the **Bloomberg Barclays US High Yield - 2% Issuer Cap Index** (the "Benchmark"). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a three-year, five-year, and ten-year annualized basis.

Investment Guidelines:

Staff will have full discretion to manage the High Yield Asset Class consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting. State Fund will be notified of any exceptions or compliance violations within five days.

Permitted Investments:

The High Yield Asset Class may invest only in the following:

1. Securities and derivatives held in separate accounts, commingled funds, limited partnerships, or limited liability companies managed by external investment managers and governed by their respective investment management contracts and investment guidelines.

Other Restrictions

1. A maximum of 10% of the market value of the High Yield Asset Class shall be held in Non-U.S. securities if they are denominated in a foreign currency;
2. The average duration of the High Yield Asset Class will be maintained in a range of + or – 25% of the index duration;
3. A maximum of 25% of the market value of the High Yield Asset Class shall be in securities rated more than 6 notches below investment grade as defined by the average rating of the nationally recognized statistical rating organizations (NRSRO).

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board's next regularly scheduled quarterly meeting, the CIO shall inform the Board of any cases that the High Yield Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the High Yield Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five days.

Schedule II-D:
Investment Objectives and Guidelines
Investment Grade Fixed Income Asset Class

Effective Date of Schedule: April 14, 2020

This Schedule is effective upon adoption by the Board and supersedes all previous Investment Objectives and Guidelines for Investment Grade Fixed Income Asset Class.

Statement of Purpose:
The purpose of these objectives and guidelines is to:

1. Establish the investment objectives and performance standards of the Investment Grade Fixed Income Asset Class; and
2. Provide diversified exposure to the Investment Grade Fixed Income markets in a prudent and cost-effective manner.

Investment Objective:

Strategic:
The objective of the Investment Grade Fixed Income Asset Class is to attain the highest possible total return within the parameters of the Investment Guidelines set forth below.

Performance:
Success in achieving this objective will be measured by comparing the risk and after-fee return of Investment Grade Fixed Income Asset Class to the **Bloomberg Barclays Intermediate US Aggregate Bond Index** (the "Benchmark"). Performance results will be monitored and evaluated quarterly. However, the success in achieving the objective will be measured on a three-year, five-year, and ten-year annualized basis.

Investment Guidelines:

Staff will have full discretion to manage the Investment Grade Fixed Income Asset Class consistent with the investment guidelines stated below. Compliance with the following guidelines for permitted investments and other restrictions is the sole responsibility of the Staff. Any exceptions or compliance violations are to be reported to the Board at the next scheduled quarterly Board meeting. State Fund will be notified of any exceptions or compliance violations within five days.

Permitted Investments:

The Investment Grade Fixed Income Asset Class may invest only in the following:

1. Debt obligations of the U.S. Government, including its agencies and instrumentalities;
2. Dollar denominated debt obligations of Quasi and Foreign Government entities;
3. Dollar denominated debt obligations of domestic and foreign corporations;

4. Dollar denominated securitized assets, including U.S. Agency mortgage backed securities (MBS), U.S. Agency collateralized mortgage obligations (CMOs), commercial mortgage backed securities (CMBS), and asset backed securities (ABS);
5. Cash – either an investment in the Short-Term Investment Pool (STIP), a vehicle available through the Custodian, or an SEC registered money market fund that is considered a "US Treasury" or "US Government" money market fund per the SEC regulations.

Other Restrictions

1. A minimum of 20% of the market value must be held in U.S. Treasury/Agency securities;
2. A maximum of 10% of the market value may be held in dollar denominated quasi and foreign government securities;
   a. Quasi and foreign government securities must be rated a minimum of the 7th highest rating by any nationally recognized statistical rating organization (NRSRO) at the time of purchase;
3. A maximum of 50% of the market value may be held in corporate bonds;
4. A maximum of 50% of the market value may be held in U.S. Agency mortgage backed securities (MBS & CMO);
5. A maximum of 5% of the market value may be held in asset backed securities (ABS);
6. A maximum of 10% of the market value may be held in commercial mortgage backed securities (CMBS);
7. The average duration will be maintained in a range of + or – 20% of the index duration;
8. The average life for individual fixed income securities will be less than 12 years;
9. A maximum of 3% of the market value may be held in a single parent company issuer, foreign/quasi government issuer or ABS specific pool at the time of purchase; there is no limit on U.S. Government/Agency securities;
   a. Exposure to a single parent company issuer, foreign/quasi government issuer or ABS specific pool will be limited to 4% of the market value regardless of when securities were purchased;
10. Securities must be rated investment grade by at least two nationally recognized statistical rating organizations (NRSRO), with the exception of securities issued or guaranteed by agencies or instrumentalities of the U.S. Government. In the case of split-rated securities, the lower rating is used;
11. Securities that drop below investment grade as defined above may be held to maturity. However, the Investment Grade Fixed Income Asset Class may not hold more than 5% below investment grade;
12. Fixed income securities rated lower than the 7th highest rating by any nationally recognized statistical rating organization (NRSRO) are limited to 30% of the market value of the Investment Grade Fixed Income Asset Class;
    a. In the case of split rated securities, the lowest rating will apply;
13. Securitized assets must be rated a minimum of the 4th highest rating by any nationally recognized statistical rating organization (NRSRO) at the time of purchase;
    a. Securities that drop below the 4th highest rating by any NRSRO may be held to maturity. However, the Investment Grade Fixed Income Asset Class may not hold more than 4% in these securities;
14. A minimum of 1% of the Investment Grade Fixed Income Asset Class will be held in cash investments;
15. The use of derivatives is prohibited;
16. The use of leverage is prohibited.

If at any time, due to market fluctuations or any other circumstances, any of the guidelines are not maintained, Staff will use its best efforts to conform to these limits in a timely manner, while considering current market conditions and the associated costs of rebalancing. At the Board's next regularly scheduled quarterly meeting, the CIO shall inform the Board of any cases that the Investment Grade Fixed Income Asset Class allocations were outside of the limits and either inform the Board of the actions that were taken to return the Investment Grade Fixed Income Asset Class back within guidelines or a plan to do so. State Fund will be notified of any exceptions or compliance violations within five days.