

Real Estate	5.0%	NFI-ODCE Index
Private Equity	5.0%	DJ US Total Stock Market Index + 3% net

The allowable range for individual managers is $\pm 3\%$ of the target allocation established by the Council.

Any uncalled private equity or real estate capital will be invested in the public U.S. equity markets.

The Total portfolio will be benchmarked to a weighted average of the asset class benchmarks outlined above, based on the long-term target allocation. Interim targets may be used for Real Estate and Private Equity as long-term target allocations are phased-in. The difference between interim target weightings and long-term target weightings to Real Estate and Private Equity will be added to the long-term target weighting to U.S. Equity for the purpose of calculating total portfolio benchmark returns.

The strategy for the domestic fixed income sector is to be managed primarily as a buy and hold, laddered portfolio of high quality fixed income securities, with a maximum maturity of ten years, and that also provides the necessary liquidity.

In addition, within the domestic fixed income portfolio is an allocation in high quality, short-term securities to specifically provide for the mandated current year cash withdrawals. These highly liquid securities are held in the Health Care Endowment-Fixed Income portfolio but are independent of the asset allocation. From the October cash inflow, funds are invested for nine months to July of the following year. From the April cash inflow, funds are invested in 90-day investments to July of the current year. The combined total of the investments provides the funding for the annual July distribution.

INVESTMENT MANAGER GUIDELINES

The separate account investment portfolios are managed according to written investment guidelines that are approved by the State Investment Officer (SIO) and reported to the Council. These guidelines are intended to ensure that each manager operates in the manner and style consistent with the approach it represented and for which it was retained, and within acceptable risk parameters. The guidelines for each manager are included in their written, signed Investment Manager Agreement. While it is not expected that commingled fund guidelines will align perfectly with this investment policy, it is expected that commingled funds will be vetted to ensure a reasonably high degree of consistency with this investment policy before an investment is made.

The guidelines and restrictions for the internally-managed U.S. fixed income portfolio are as follows:

Allowable investments: U.S. Treasuries and U.S. Agencies. Commercial Paper, Euro Time Deposits and Money Market Funds, all with the highest quality rating by 2 nationally recognized rating service organization (NRSO). Corporate Bonds with a rating of A or better by 2 NRSO's. Structured notes, reverse repos, or any other strategies that introduce leverage are not allowed.

Maturity: Maximum maturity of any single bond is 10 years.

Diversification: U.S. Treasuries – minimum 15%; U.S. Agencies – maximum 15% per agency issuer and a maximum of 50% in total; Commercial Paper – 5% per issuer; Money Market Funds – 15% in total;

Corporate Bonds – 10% per industry, 50% maximum for the total corporate sector, for A rated bonds – 1% per issuer and maximum 5% in total, for AA rated bonds – 2% per issuer and maximum 20% in total, for AAA rated bonds – 5% per issuer and maximum 30% in total; and Misc. – 5% on an as needed basis with the approval of the SIO.

Private Equity Specifics

The endowments' private equity investments will be executed through fund of funds, which by their nature will provide diversification. While it is not expected that the fund-of-fund guidelines will align perfectly with the DB private equity portfolio guidelines (copied below), it is expected that the fund-of-funds will be vetted to ensure a reasonably high degree of consistency with this structure.

Sub Sector Allocations and Ranges

Buyouts/Corporate Finance	40.0-50.0%
Venture Capital	up to 25.0%
Special Situations	25.0-40.0%

Investment Type

Allocation required across the spectrum of sub sectors.

Geography

Allocation required across the geographic spectrum. No more than 35% outside of the United States.

Manager Concentration

Allocation to a single manager is limited to 20% of the private equity portfolio.

Industry

No more than 30% of the private equity portfolio may be invested in any single industry.

Real Estate Specifics

Style Allocations

Core	50% - 80%
Value-Added	10% - 30%
Opportunistic	10% - 30%

Property Type

Allocation across the spectrum of property types:

Office	10-50%
Industrial	10-40%
Retail	10-40%
Multifamily (apartment)	10-40%
Lodging (hotel)	0-20%
Other	0-15%

Geography

Allocation across the geographic spectrum. No more than 25% of the real estate portfolio may be invested outside of the United States.

Within the United States:

West	NPI +/- 50%
East	NPI +/- 50%
Midwest	NPI +/- 50%
South	NPI +/- 50%

Individual Investment

Direct investment into properties is prohibited as are fund investments that have the sole purpose of acquiring or developing one property.

Manager Concentration

The net asset value exposure to a single real estate manager is limited to 20% of the real estate portfolio. Exposure to a single Core fund manager is limited to 35%. Fund-of-funds manager concentration is limited to 50% of the private market real estate portfolio.

RESPONSIBILITIES FOR THE HEALTH CARE ENDOWMENT FUND

The Council:

- Approves the IPS for the Portfolio. The IPS includes the investment objectives, asset allocation, investment strategy and manager benchmarks.
- Approves exceptions to the IPS as requested by the SIO.
- Approves investment managers upon recommendation by the SIO.

The State Investment Officer:

- Makes recommendations to the Council regarding components of the IPS, such as asset allocation, investment managers utilized, and manager benchmarks.
- Implements the Council-approved IPS for the Portfolio.
- Rebalances the investments when necessary halfway back to target allocation and looks for efficient and opportunistic ways to get back to target.
- Evaluates and reports investment performance and other investment-related issues of the Portfolio.
- Maintains a current written IPS approved by the Council.
- Establishes written procedures for internal implementation of the IPS as needed.
- Obtains Council-approved IPS exceptions as needed.

ADMINISTRATIVE AND GOVERNANCE POLICIES

Council Administrative and Governance Policies are contained in two additional documents.

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