

# INVESTMENT MANAGEMENT AGREEMENT

An Investment Management Agreement (Agreement) between the Board of Investors of the EDGE Fund (Board) and [REDACTED], an Oklahoma limited liability company (Manager).

## I. RECITALS.

### 1.1 Definitions

- a. "Account" means the account established hereunder with Manager on behalf of the Board containing assets of the Fund allocated to the Manager. The assets allocated to the Account include all interest, earnings, accruals and capital growth thereon, without limiting the Board's discretion to add or withdraw assets.
- b. "Authorized Person" means any person or entity, jointly or severally authorized in writing delivered to Manager, to act on behalf of the Board, with respect to any action required or permitted to be taken under this Agreement.
- c. "Board" means the Board of Investors of the EDGE Fund, a constitutionally created board created by section 47 of Title 62 of Oklahoma Statutes, to administer and manage the Fund.
- d. "Fund" is the EDGE Fund created by section 47 of Title 62 of Oklahoma Statutes.
- e. "Instructions" means written and manually signed instructions of any Authorized Person. Instructions shall also include instructions received by any other means, including, but not limited to, oral instructions, or instructions received by computer, electronic instructions system or telecommunications terminals, such as telex, TWXS, facsimile transmission or bank wire, provided that the parties hereto shall have agreed in a manually signed writing to the firm, the means of transmission and the means of identification of such instructions.
- f. "Manager" means [REDACTED] Management Company, an Oklahoma corporation, and an investment manager, registered as an Investment Adviser with the Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and which has been selected and appointed by the Board to manage the assets of the Fund in the account.
- g. "Master Custodian" means the Board's designated custodian bank, at which the Board shall establish a Sub-account in Manager's name for transactions involving the assets allocated to Manager by the Board for

investment and management.

- h. "OST" means the Oklahoma State Treasurer's office which is statutorily required to provide staff support to the Board by section 47 of Title 62 of Oklahoma Statutes.
- i. "Policy" means the Investment Policy Statement established and adopted by the Board, attached hereto as Exhibit A, as may be amended from time to time.
- j. "Sub-account" means the account(s) which the Board shall establish with its Master Custodian in Manager's name for the deposit of the assets and the accounting of transactions related thereto, separately from the Board's other assets.
- k. "Transition Period" means a period of up to three (3) months following the termination date of this Agreement during which Manager continues to perform those services required under this Agreement in order to complete any transactions pending on the termination date and to facilitate an orderly transition of investment management services.

1.2. The Board hereby appoints Manager as a fiduciary authorized to invest and manage certain Fund assets of the Account which the Board, in its sole discretion, may from time to time allocate to Manager. Manager has been duly selected and appointed by the Board, after a competitive selection process, on           , 20XX. By execution of the Agreement Manager accepts such appointment, assumes full responsibility for the investment and management of the Account and agrees to execute its duties according to the terms, conditions and standards set forth in this Agreement.

1.3. Manager acknowledges that it is a fiduciary with respect to the Fund, and asserts that it is registered and/or licensed pursuant to the rules and regulations of the Oklahoma Securities Commission and all applicable state and federal laws. Manager shall discharge its duties under this Agreement solely in the interest of the Fund with the 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 and with like aims.

1.4. It is understood that Manager and its affiliates provide investment management and advisory services for other clients, including registered investment companies. It is further understood that Manager or its affiliates may take investment action or give advice on behalf of such other clients which differs from investment action taken on behalf of the Account. If a purchase or sale of securities or other assets for multiple client accounts is deemed by Manager to be advisable and is considered at or about the same time, and Manager is unable to purchase or sell the amount of securities or other assets in the aggregate amount

then contemplated by Manager on behalf of the client accounts, the transactions in such securities or other assets will be allocated among the client accounts contemporaneously purchasing or selling as deemed equitable by Manager and its affiliates.

- 1.5 The Board has selected Manager to act as a Domestic Core Fixed Income manager. The asset class for the Account is Domestic Core Fixed Income. The specific style benchmark for Manager on the Account shall be the Lehman Brothers Aggregate. For performance measurement purposes the Peer Group Universe shall be other U.S. Core Fixed Income managers. Manager shall not be exempt from any of the provisions of the Policy attached as Exhibit A.

## **II. RELATIONSHIP BETWEEN THE BOARD AND MANAGER**

- 2.1 The Board has negotiated and entered into this Agreement with Manager for itself according to the Board's duty to administer the Fund. Manager is an independent contractor who has entered into this Agreement as an investment manager for the assets of the Fund and is not, nor is intended to be, the employee of the Board in the performance of this Agreement.
- 2.2 Nothing in this Agreement is intended to be construed, or be deemed to create any rights or remedies in any third party, including but not limited to another investment manager.
- 2.3 The Board shall instruct its Master Custodian to: (a) establish a separate custody Sub-account on its books and records in Manager's name, (b) maintain the Sub-account in a manner that enables the Master Custodian to account for the assets in the Account and any transactions thereto, separately from the Board's other assets, and (c) to accept instructions from the Manager. It is expressly understood and agreed that ownership of the assets in the Account shall remain with the Fund at all times and under all circumstances.

## **III. MANAGER'S DUTIES AND RESPONSIBILITIES**

- 3.1 Manager shall provide investment management services and other related services as specified in this Agreement. In that respect, all right, title and interest in and to the assets shall at all times be vested in the Fund. All assets held in the Account hereunder shall be kept with the same care as Manager exercises in respect of its own assets.
- 3.2 As a fiduciary, Manager shall have the discretion to manage, invest and reinvest the assets in the Account according to the terms of this Agreement and the Policy of the Board.
- 3.3 Manager agrees and is authorized as follows:
  - a. Manager is authorized to invest the Fund assets in the Account, subject to

the written Policy of the Board and pursuant to the statutes of the State of Oklahoma created by section 47 of Title 62 of Oklahoma Statutes.

Manager agrees such assets will be invested pursuant to all the terms and conditions herein set forth for the exclusive benefit of the Fund and shall not divert any such assets for any other purpose. Such assets include any income or earnings thereon which Manager shall be directed to reinvest.

- b. Manager is authorized to buy, sell, exchange, convey, transfer or otherwise trade any assets held in the Account to the extent permitted and authorized by this Agreement and the Policy of the Board.
- c. Manager is authorized to execute in the Fund's name such ownership and other certificates, documents and contracts as may be required or necessary to carry out the duties and responsibilities established under this Agreement.
- d. Manager will provide the Master Custodian with such information as is necessary to settle each transaction.
- e. All transactions will be consummated by payment to, or delivery by, the Master Custodian, of all cash and/or securities due to or from the Account.

3.4 Manager shall be responsible for the proper diversification of the assets under its discretion, provided, however, such responsibility is subject to and limited by the Policy attached as Exhibit A to this Agreement. It is understood that the Board is responsible for the overall diversification of the assets of the Fund, and any statutory limitations thereon.

3.5 Manager shall be responsible for voting all proxies which are timely received by the Manager, which proxies are solicited by or with respect to the issuers of securities in which assets of the Fund in the Account may be invested, according to the Proxy Voting guidelines of the Manager. Manager shall issue a report to the Board at least once per year detailing these proxy votes. Manager may place all orders for the execution of portfolio transactions for the Account to such reputable, qualified and financially sound dealers and brokers as Manager in good faith judgment may choose. All portfolio transactions shall be made in the best interest of the Fund, and shall be consistent with the principles of best execution and the Manager's Statement of Policy on Brokerage Practices. Unless authorized in writing by the Board, Manager shall not act as its own broker at any time. Manager shall issue a report to the Board at least quarterly detailing the brokerage and commissions from the Account. If the Board amends the Policy by adopting a policy or program to direct brokerage services to certain dealers and brokers for the overall benefit of the Fund, Manager shall place orders for the execution of portfolio transactions for the Account, and direct brokerage services in the manner and amount directed by the Board, as reflected in the Policy, subject to the principles of best execution. Manager's detailed brokerage policy is attached hereto as Exhibit B.

- 3.6 Manager will receive reasonable prior written notice of Instructions issued by the Board or OST to the Master Custodian of any distributions and transfers of funds held in the Account which may be directed from time to time and Manager shall acknowledge such notices in writing.
- 3.7 Manager agrees upon reasonable request and at a time mutually agreed upon, to make available to the representatives of the Board any and all records pertaining to the duties and responsibilities under this Agreement.
- 3.8 Manager shall prepare a monthly report showing information concerning the Account including, but not limited to, the assets and liabilities of the account, a written inventory of the investments and transactions, including the cost, par and market values, the performance of the Account and reconciliation report. The report shall be provided in a form and manner, and include such additional information, as may be reasonably required by the Board or OST. It is the responsibility of Manager to reconcile with the Master Custodian any and all discrepancies in the reports. It is the responsibility of Manager to reconcile with the Master Custodian any and all discrepancies in cash and holdings in the reports. There shall be a tolerance level of 75 basis points on all discrepancies in the aggregate market value of the securities in the portfolio. Such report will be prepared within fifteen (15) business days of the succeeding month's end.
- 3.9 Manager may meet with the Board annually to present its reports on the performance of the Account. In addition, at the Board's request and at mutually agreed upon times, Manager shall meet with the Board as requested to discuss any action with respect to the Account, including a review of performance or to discuss present and future investment strategy. Manager shall be available to answer questions by the Board, its consultant or OST from time to time as needed.
- 3.10 The Board considers it an essential fiduciary duty of the Manager to immediately provide the Board and OST by telephone, fax or overnight mail, and in written reports, a complete and candid disclosure of bankruptcies or corporate actions that could result in near or total loss to the Fund.
- 3.11 Manager represents that it has completed and filed with the SEC its ADV and will provide the Board with a copy.
- 3.12 The Client Appointment letter, attached hereto as Exhibit C, confirms the appointment of Manager as investment manager and shall serve as evidence of such appointment and of the discretionary authority granted to Manager by the Board as set forth in the Agreement and any amendments hereto. The Client Appointment does not confer any greater authority on Manager than is set forth in the Agreement and any amendments hereto.

#### **IV. THE BOARD'S DUTIES AND RESPONSIBILITIES**

- 4.1 The Board agrees to pay Manager compensation pursuant to the provisions of Exhibit D attached hereto and made a part of this Agreement.
- 4.2 The Board shall, from time to time, provide Instructions which indicate the person or persons authorized to direct Manager with respect to the assets held in the Account and any actions identified in this Agreement. Manager may conclusively rely upon any Instructions of such Authorized Person which Manager reasonably believes to be genuine, correct and to be signed, sent or made by an Authorized Person, until Instructions revoking the authority of such person are received.
- 4.3 The Board represents that the Policy comply with any applicable law, statute or regulation and any terms and conditions of the Fund or its supporting documents.
- 4.4 **SECURITIES CLASS ACTION CLAIMS.** The Board acknowledges that the Board's custodian will be responsible for evaluating and making recommendations regarding securities litigation claims involving securities held in the Investment Account. Investment Manager shall assist the custodian in evaluating such securities litigation claims, as reasonably requested in writing, but the Investment Manager will not be responsible for filing claims.

## **V. DISPUTE RESOLUTION**

- 5.1 The Board and Manager agree that their authorized representatives will timely meet and negotiate in good faith to resolve any problems or disputes that may arise in performance of the terms and provisions of this Agreement.

## **VI. INDEMNIFICATION**

- 6.1 Manager shall indemnify, defend and hold harmless the Board, its officers, its agents (the term "agents" as used herein shall exclude broker/dealers, custodians and third party service providers), its fiduciaries other than Manager, OST and its employees and agents, from and against any and all claims, damages, losses, liabilities, suits, costs, charges, expenses (including, but not limited to, reasonable attorney fees and court costs), judgments, fines and penalties, of any nature whatsoever, to the extent attributable to any bad faith, negligence, or willful misconduct in the breach of fiduciary duty or breach of contract or violation of any material legal duty or requirement by Manager acting in connection with this Agreement. This indemnification shall survive any termination of this Agreement.

Notwithstanding the preceding sentences, nothing in this section 6.1 is intended to or shall impose a liability on the Manager as a result of a breach of this Agreement or applicable law by the Board, its officers, its agents or its fiduciaries in circumstances where the Manager has met its obligations under the Agreement and applicable law.

- 6.2 Notwithstanding any other provisions of this Agreement, neither the Board nor

Manager shall be held liable for any losses to the Account arising from causes beyond the control and without the fault of such party, provided that, in every case, the failure to perform must be beyond the control and without the fault or negligence of such party.

- 6.3 Without limiting the indemnification obligations provided in this Agreement, for the duration of the Agreement, Manager shall provide and maintain, at its own expense, errors and omissions insurance policies, and shall provide evidence of such to the Board.

## **VII. TERM AND TERMINATION**

- 7.1 This Agreement shall commence                     , 20XX and remain in effect until terminated by either the Board or the Manager.
- 7.2 Either party may terminate this Agreement with or without cause, upon giving 30-day notice pursuant to Section 8.2, at any time. In no event shall the termination of this Agreement pursuant to the Section be deemed a waiver of either party's right to make a claim for damages resulting from any default which occurred prior to the termination date.
- 7.3 Upon any termination of the Agreement by either party, to the extent directed by the Board, Manager shall continue to serve as investment manager, pursuant to the same terms and conditions, for the duration of the Transition Period, as determined and directed by the Board. Manager shall cooperate with the Board in good faith to affect a smooth and orderly transfer of such services, assets and all applicable records.
- 7.4 Nothing in this Agreement shall be construed to limit either party's remedies at law or in equity in the event of a material breach of this Agreement.
- 7.5 Pursuant to the Oklahoma Department of Libraries Consolidated General Records Disposition Schedule dated April 24, 2003, following termination of this Agreement, the Board shall continue to have access to Manager's records of services provided under this Agreement for five (5) years from the date of provision of the services to which the records refer; or, if Manager is notified that legal action is pending, two (2) years after the exhaustion of all legal remedies, whichever is later.

## **VIII. GENERAL PROVISIONS**

- 8.1 **Assignment.** This agreement or any of the rights, duties, or obligations of the parties hereunder, shall not be assigned by either party without the express written consent and approval of the other party.
- 8.2 **Instructions and Notices.**

a. Any Instructions or notices required to be given pursuant to the terms and provisions of this Agreement shall be in writing, postage prepaid, and shall be sent by First Class Mail or by courier, or copier or facsimile and confirmed by First Class Mail, to the Board and/or OST or Manager at the addresses in subsection b., below. The notice shall be effective on the date indicated on the postmark or other indicated date of receipt.

b. The Board and/or OST

**Board of Investors of EDGE Fund**

c/o Oklahoma State Treasurer

Attn: Travis Monroe

2300 N. Lincoln Blvd., Room 217

Oklahoma City, OK 73105

Telephone No.: 405-522-4232

Fax No.: 405-521-4994

Email: travis.monroe@treasurer.ok.gov

c. Manager

\_\_\_\_\_ **Management Company**

Attention: \_\_\_\_\_

\_\_\_\_\_

Telephone No.: \_\_\_\_\_

Fax No: \_\_\_\_\_

Email: \_\_\_\_\_

8.3 **Material Changes.** Manager shall notify the Board within 30 days of any of the following changes: (a) Manager becomes aware that any of the representations, warranties and covenants set forth herein or in its Proposal cease to be materially true at any time during the term of this Agreement; (b) there is any material change in Manager personnel assigned to perform services under this Agreement; (c) there is any material change in control of Manager, or (d) Manager becomes aware of any other material change in its business organization, including, but not limited to the filing of bankruptcy relief or other legal suits or actions.

8.4 **Confidential Relationship.** Information provided to the Board or OST by Manager shall become a public record as provided for in the Oklahoma Public Records Act unless otherwise prohibited by federal law.

- 8.5 **Entire Agreement.** This Agreement, together with Exhibits, contains the entire Agreement between the Board and Manager relating to the rights granted and the obligations assumed by the parties. Any prior agreements, promises, negotiations, or representations, either oral or written, relating to the subject matter of this Agreement not expressly set forth in this Agreement are of no force or effect. The Request for Proposals and Proposal by Manager and, where appropriate, the Policy of the Board are adopted and incorporated into this Agreement.
- 8.6 **Amendment.** This Agreement, or any part or Section of it, may be amended at any time during the term of the Agreement by mutual written consent of the Board and Manager.
- 8.7 **Governing Law and Venue.** This Agreement shall be construed and enforced in accordance with the laws of the State of Oklahoma. Should either party initiate a lawsuit or other dispute resolution proceeding over any matter relating to or arising out of this Agreement, such lawsuit or other proceeding shall be filed in and conducted in Oklahoma County, State of Oklahoma.
- 8.8 **Severability.** The terms and provisions of this Agreement shall be deemed to be severable one from the other, and determination at law or in a court of equity that one term or provision is unenforceable shall not operate so as to void the enforcement of the remaining terms and provisions of this entire Agreement, or any one of them, in accordance with the intent and purpose of the parties hereto.

This Agreement made and entered into this [REDACTED] day of [REDACTED], 20XX, by and between the Board of Investors of the EDGE Fund and [REDACTED] Management Company.

**BOARD OF INVESTORS OF THE EDGE FUND**

X \_\_\_\_\_

**By: Ken Miller, Chairman**

**Title: Oklahoma State Treasurer**

**Date: \_\_\_\_\_**

**MANAGEMENT COMPANY.**

X \_\_\_\_\_

**By:**

**Title: \_\_\_\_\_**

**Date: \_\_\_\_\_**

**AFFIDAVIT**

State of \_\_\_\_\_ )

) SS:

County of \_\_\_\_\_ )

\_\_\_\_\_, of lawful age, being first duly sworn, on oath, says that (s)he is the agent authorized by \_\_\_\_\_ Management Company, (Manager), to submit the attached contract to the State of Oklahoma. Affiant further states: (1) Manager has not paid, given or donated or agreed to pay, give or donate to any officer or employee of the State of Oklahoma any money or other thing of value, either directly or indirectly, in the procuring of the contract; (2) Manager has not previously entered into a contract with the agency or other state agencies which would result in a substantial duplication of the final product required by the proposed contract; and (3) Manager certifies that no person who has been involved in any manner in the development of this contract while employed by the State of Oklahoma shall be employed to provide any of the services required by the contract.

\_\_\_\_\_

AFFIANT

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

\_\_\_\_\_

NOTARY PUBLIC

My Commission Expires \_\_\_\_\_

Commission No. \_\_\_\_\_

# **OKLAHOMA EDGE TRUST FUND**

## **INVESTMENT POLICY STATEMENT**

**June 2011**

# TABLE OF CONTENTS

INTRODUCTION

STATEMENT OF GOALS AND OBJECTIVES

ROLES AND RESPONSIBILITIES

    BOARD

    CONSULTANT

    INVESTMENT MANAGERS

    CUSTODIAN

    SECURITIES LENDING AGENT

ASSET ALLOCATION POLICY

REBALANCING POLICY

TRANSITION MANAGEMENT POLICY

INVESTMENT GUIDELINES

    INELIGIBLE INVESTMENTS

    DERIVATIVES

    DISTRIBUTIONS

    PROXY VOTING

    DIRECTED COMMISSIONS

    SECURITIES LENDING

    HIRING MANAGERS

    TERMINATING MANAGERS

IMPLEMENTATION

# OKLAHOMA EDGE TRUST FUND

## INVESTMENT POLICY STATEMENT

### I. INTRODUCTION

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The Oklahoma EDGE Fund (the **Fund**) is a permanent trust fund, established in 2003 to help fund research projects in biotechnology, aerospace, weather science and technology, energy, agriculture, sensor research, advanced materials, telecommunications and other areas. In June 2006, the legislature appropriated \$150 million for the fund. Governance of the EDGE Fund will be provided by two appointed boards. The Board of Investors will have the responsibility of managing the assets of the fund while the EDGE Fund Policy Board will be responsible for expenditure of certified funds for projects and programs which shall increase private and public applied research and development, technology transfer and technology commercialization.

This policy statement is issued for the guidance of fiduciaries, including the members of the Board of Investors (the **Board**), investment managers and consultants responsible for investing the assets of the Fund.

The **Board**, both upon their own initiative and upon consideration of the advice and recommendations of the investment managers and other fund professionals involved with the assets, may amend policy guidelines. Proposed modifications should be documented in writing to the Board.

### II. STATEMENT OF GOALS AND OBJECTIVES

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This statement of investment goals and objectives is to set forth an appropriate set of goals and objectives for the Fund's assets and to define guidelines within which the investment managers may formulate and execute their investment decisions.

1. The primary investment goal of the overall fund is total return, consistent with prudent investment management standards. Total return includes income plus realized and unrealized gains and losses on Fund assets. In addition, assets of the Fund shall be invested to ensure that principal is preserved and enhanced over time. The Board seeks to limit and control risks which jeopardize the safety of principal and, to prohibit investments that are not prudent.
2. The long-term goal of the Fund is a real rate of return (after inflation) of at least 5.0% per year to protect and enhance the purchasing power of assets. As of the date of the revision of the investment policy statement, the nominal target return is 8.0% per year assuming an annual inflation rate of 3.0%. The nominal return target is based on the Board's judgment regarding the long-term expectations for permissible asset classes within a diversified Fund, a long-term outlook for inflation, and the current and projected needs of the EDGE Fund.
3. While long-term return is a key objective, the Fund currently operates under statutory restrictions which limit distributions and spending from the Fund. In determining earnings, the Board of Investors certifies so much of which they believe to be prudent. Within these restrictions, the Fund Policy Board makes the specific spending decisions for the Fund. As a result, the Board of Investors has a strong interest in allocating assets in a manner to provide for maximum, stable, predictable annual earnings distributions.

4. The total return for the overall Fund shall meet or exceed the Fund's Asset Allocation Index.
5. Total risk exposure and risk-adjusted returns will be regularly evaluated and compared with a universe of similar funds for the total Fund and each investment manager. Total portfolio risk exposure as measured by the standard deviation of return should generally rank in the mid-range of comparable funds.
6. Investment managers' returns shall exceed the return of their designated benchmark index and rank in the top-third of the appropriate asset class and style universes. Passive managers shall match the return of the designated index.
7. The Board is aware that there will be deviations from these performance targets. Normally, results are evaluated over a three to five year time horizon, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the Fund.

Asset Class	Benchmark	Style Universe
Domestic Large Cap Equity	Russell 1000 Core, Growth or Value Index	Style Specific Large Cap Equity Universe
Domestic Mid Cap Equity	Russell Mid Cap Core, Growth or Value Index	Style Specific Mid Cap Equity Universe
Domestic SMid Cap Equity	Russell 2500 Index	Style Specific SMid Cap Equity Universe
Domestic Small Cap Equity	Russell 2000 Core, Growth or Value Index	Style Specific Small Cap Equity Universe
International Equity	MSCI EAFE or MSCI ACWI	International Equity Funds
Master Limited Partnerships	Alerian Total Return Index	MLP Managers
Domestic Fixed Income	BarCap Aggregate	Domestic Fixed Income Funds
High Yield Fixed Income	ML High Yield II Index	High Yield Fixed Income Funds

8. The Board expects the asset classes above to generate the following returns over long-term horizons. These return expectations are based on historical market behavior and are an important part of the Fund's asset allocation strategy. The return expectations will be updated as needed.

Asset Class	Expected Long Term Return	Standard Deviation of Returns
Domestic Large Cap Equity	10.0%	15.0%
Domestic Mid Cap Equity	10.8%	17.0%
Domestic SMid Cap Equity	11.0%	18.0%
Domestic Small Cap Equity	11.3%	19.0%
International Equity	11.0%	15.0%

Master Limited Limited Partnerships	9.0%	12.5%
Domestic Fixed Income	4.5%	3.5%
High Yield Fixed Income	7.5%	7.5%
International Fixed Income	8.8%	12.0%
<b>Total Fund</b>	<b>8.08%</b>	<b>5.58%</b>

### III. ROLES AND RESPONSIBILITIES

#### A. BOARD OF INVESTORS

The Board of Investors shall be responsible for the overall management of the Fund's investments. The Board shall review the total investment program, shall establish the investment policy and provide overall direction to the State Treasurer's Office, the Investment Consultant and retained investment managers in the execution of the investment policy.

The Board is responsible for evaluating, hiring, and terminating investment managers, custodian banks, transition managers, and consultants.

#### B. INVESTMENT CONSULTANT

The Investment Consultant shall assist the Board in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies. The Consultant shall assist the Board by monitoring compliance with this Investment Policy. The Consultant shall also provide assistance in manager searches and selection, and in investment performance calculation, evaluation, and analysis. The Consultant shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board. The Consultant shall monitor the Board's investment managers and notify the Board of any material changes in the investment managers' firms or their staffing.

#### C. INVESTMENT MANAGERS

The duties and responsibilities of each of the investment managers retained by the Board include:

1. Managing the Fund's assets in accordance with the policy guidelines and objectives expressed herein.
2. Prudently selecting investments based on thorough evaluation of all risks including market, interest rate, and credit risk.
3. Working with the custodian bank and the Investment Consultant to verify monthly accounting and performance reports.

4. Acknowledging in writing to the Board the investment manager's intention to comply with this Statement as it currently exists or as modified in the future.
5. Meeting with the Board at their request. Each manager shall report to the Board and the Investment Consultant as outlined below. Quarterly reports should be submitted in writing within 30 days of the end of each quarter.

#### **INVESTMENT MANAGER REPORTING REQUIREMENTS**

##### **As Necessary** (based on occurrence and on a timely basis)

1. Review of Organizational Structure
  - A. Organizational changes (i.e., ownership).
  - B. Discussion of any material changes to the investment process.
  - C. Departures/additions to investment staff.
  - D. Material changes in assets under management.

##### **Monthly**

1. Report to Investment Consultant

##### **Quarterly**

1. Summary of Investment Guidelines
  - A. Discuss adherence to guidelines.
  - B. Comments, concerns, or suggestions regarding the policy statement.
2. Performance Review
  - A. Present total fund and asset class returns for last calendar quarter, year-to-date, last year, last three years, last five years and since inception versus designated benchmarks.
  - B. Discuss performance relative to benchmarks; provide attribution analysis that identifies returns due to allocation and selection decisions.
  - C. Provide portfolio characteristics.
3. Provide Portfolio Holdings
  - A. Present book value and current market value.
  - B. List individual securities by sector.
4. Other Comments or Information

##### **Annually**

1. Review of Investment Process and Evaluation of Portfolio Management Process

- A. Brief review of investment process
- B. Investment strategy used over the past year and underlying rationale
- C. Evaluation of strategies success/disappointments
- D. Current investment strategy and underlying rationale

**D. CUSTODIAN BANK**

In order to maximize the Fund's return, no money should be allowed to remain idle. Dividends, interest, proceeds from sales, new contributions and all other monies are to be promptly invested. The custodian should temporarily place funds in a fully collateralized interest bearing bank account or any of the short term money market vehicles commonly used for funds awaiting investment distribution. Securities lending shall only be engaged in by the custodian or third party lending agent with the express agreement of the Board.

The custodian bank(s) will be responsible for performing the following functions:

- 1. Accept daily instructions from designated staff.
- 2. Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
- 3. Resolve any problems that designated staff may have relating to the custodial account.
- 4. Safekeeping of securities.
- 5. Timely collection of interest, dividends, and processing and filing foreign tax reclaims.
- 6. Daily cash sweep of idle principal and income cash balances.
- 7. Processing of all investment manager transactions.
- 8. Collection of proceeds from maturing securities.
- 9. Disbursement of all income or principal cash balances as directed.
- 10. Providing monthly statements by investment account and a consolidated statement of all assets.
- 11. Provide written statements revealing monthly reconciliation of custody and investment managers' accounting statements.
- 12. Working with the investment consultant and the Fund's accountant to ensure accuracy in reporting.
- 13. Monitor compliance with investment policies and guidelines.

## 14. Processing and filing of Foreign Tax Reclaims

**E. SECURITIES LENDING AGENT**

The securities lending agent will be responsible for managing the securities lending program including the following functions:

1. Arrange terms and conditions of securities loans.
2. Monitor the market value of the securities lent and mark to market at least daily and ensure that any necessary calls for additional collateral are made and that such collateral is obtained on a timely basis.
3. Direct the investment of cash received as collateral provided such investments are consistent with guidelines provided in this document.

**IV. ASSET ALLOCATION POLICY**

In order to have a reasonable probability of achieving the target return at an acceptable risk level, to reduce the risk of losses resulting from over-concentration of assets, and providing a stable level of earnings distributions, the Board has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on a quarterly basis and will be adjusted when an asset class weighting breaches its minimum or maximum allocation.

	Target Allocation	Minimum Allocation	Maximum Allocation
Domestic Large Cap Equity	25.0%	20.0%	30.0%
Domestic Mid Cap Equity	10.0%	7.5%	12.5%
Domestic Small Cap Equity	10.0%	7.5%	12.5%
International Equity	18.0%	15.0%	21.0%
Master Limited Partnerships	6.0%	3.0%	9.0%
Domestic Fixed Income	25.0%	20.0%	30.0%
High Yield Fixed Income	6.0%	3.0%	9.0%
Cash and Equivalents	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>-</b>	<b>-</b>

The Fund's Asset Allocation Index is a custom benchmark designed to indicate the returns that a passive investor would earn by consistently following the asset allocation targets set forth above. The Allocation Index can be used to separate the overall impact of active management from asset allocation.

The Asset Allocation Index is calculated by multiplying the target commitment to each asset class by the rate of return of the appropriate market index, as listed above, on a monthly basis.

## **V. REBALANCING POLICY**

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The purpose of the rebalancing policy is to establish a disciplined framework for decision-making. A long-term target asset allocation has been chosen which the Board believes can be implemented reasonably effectively within the organizational structure of this Fund.

### **A. OVERALL FUND ALLOCATION**

The following rebalancing procedure will be employed by the Fund: The Investment Consultant will report asset class exposures to the State Treasurer, or his/her designee, at the end of each calendar quarter. If the percentage of the Fund's assets allocated to an asset class has breached its target range, the following action shall take place. After giving consideration to Consultant recommendations concerning which Manager(s) should lose and/or gain assets, the State Treasurer, or his/her designee, may cause assets to be shifted between managers so as to bring the asset allocation of the "out of range" asset class back to its appropriate target. The action shall be reported to the Board at their next scheduled meeting. In order to accomplish a required rebalancing with as little transaction cost as is reasonably possible, the State Treasurer, or his/her designee, is authorized to take into account any cash flows which are anticipated to occur within a reasonable period of time (generally three months or less). Examples of such cash flows would be a contribution to the Fund from the State or a Manager termination. (No manager rated "On Alert" or lower shall receive additional assets without extenuating circumstances.)

### **B. ALLOCATION AMONG EQUITY STYLES**

Rebalancing of the allocation among equity styles is desirable: If rebalancing of the Fund's overall asset allocation (described above) is required, the general policy will be to rebalance among equity style weightings in such a way as to restore the balance of styles within an asset class. The State Treasurer, or his/her designee, will consider Consultant recommendations on this issue. These actions shall be reported to the Board at its next scheduled meeting.

## **VI. TRANSITION MANAGEMENT POLICY**

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The purpose of this transition management policy is to establish an effective and efficient procedure for transitioning assets during manager replacement, funding a new asset class, or investing contributions to the Fund. As timing is a key factor in realizing the benefits of transition management, the Board has approved the following abbreviated selection process:

**Step 1 Creating List of Approved Providers:** The Investment Consultant will review potential providers and classify them into recommended and not recommended providers.

**Step 2 Board of Investors Reviews and Approves Lists of Providers:** The Board of Investors will review the lists of providers recommended and not recommended by the Investment Consultant. The Investment Consultant will provide education on each of the recommended providers as requested. The Investment Consultant will also provide information regarding potential providers who were not recommended as requested. The Board of Investors may add potential providers to or delete potential providers from the recommended lists before adopting final approved provider lists. The Board of Investors will review the approved provider lists annually.

**Step 3 Board of Investors Approves Prudent Use of Transition Management:** Annually, the Board of Investors will approve the prudent use of transition management and empower the State Treasurer, or his or her designees, to solicit and evaluate pre-trade analyses and select a Transition Manager as further described below.

**Step 4 The State Treasurer, or his or her designees, and the Investment Consultant May Determine Vendor for Each Specific Transition:** The State Treasurer and/or designated staff may select the appropriate provider from the approved provider list through a competitive bid process in which pre-trade analyses are solicited from at least two of the approved providers. As each transition (and transition manager) is unique, the Investment Consultant and the State Treasurer and/or designated staff will consult to discuss which of the providers on the short list should be solicited for bids. At a meeting held pursuant to the Open Meeting Act, a winning manager may be selected based on cost as well as fit for the particular transition according to the State Treasurer and/or designated staff and Investment Consultant's advice. Upon review of the pre-trade analyses and the Investment Consultant's advice, the State Treasurer and/or designated staff may determine not to proceed with Transition Management if it does not make sense to do so.

**Step 5 The State Treasurer, or his or her designees, and the Investment Consultant Present Post-Trade Results to the Board of Investors:** The transition manager will provide post-trade analytics that describe the trading process and results. This will be made available to all involved to review the success of the transition.

## **VII. INVESTMENT GUIDELINES**

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Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the allocation of their portfolios, the selection of securities, and the timing of transactions.

1. Equity investments, i.e., common stocks, convertibles, warrants, and rights and master limited partnerships are permitted; subject to guidelines. Managers are expected to keep funds allocated to them fully invested. Equity managers may vary their equity commitment from 90% to 100% of the portfolio's total market value.
2. MLP portfolios will be limited to the purchase of MLP interests, which include: (a) securities such as units and other securities issued by MLPs that are organized as partnerships or limited liability companies which elect to be taxed as a partnership; (b) securities that offer economic exposure to MLPs from entities holding primarily general partner or managing member interests in MLPs; and (c) securities that are derivatives of MLP interests, such as exchange-traded shares and other derivative securities of MLPs. Leverage is not allowed. Short-selling is not allowed.
3. Fixed income investments are permitted, and may include U.S. Government and Agency obligations, corporate bonds, and other securities deemed appropriate by the investment managers.
4. The minimum quality rating of any fixed income issue purchased in the fixed income portfolio shall be CCC as rated by Moody's, or an equivalent rating agency, and the overall weighted average quality shall be AA or higher. The ratings in this Policy Statement are minimum guidelines only; the investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments.

5. High Yield bond portfolios will hold a maximum of 5% in cash or cash equivalents and will not concentrate greater than 25% of market value of funds under advisement in holdings of a single industry. High Yield portfolios will not concentrate greater than 5% of market value of funds under advisement in holdings of a single issuer. This restriction does not apply to sovereign issues and will not hold greater than 5% of the issued securities of a single issuer. .
6. The effective duration (interest rate sensitivity) of an actively managed fixed income portfolio shall not exceed seven years.
7. Securities of an individual issuer, excepting the U.S. government and agencies and sovereign nations and their agencies, shall not constitute more than 5% of any portfolio's market value.
8. Investment managers may maintain reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall carry the equivalent of S&P A1 or A2 ratings.

**A. INELIGIBLE INVESTMENTS**

Unless specifically approved by the Board, certain securities, strategies and investments are ineligible for inclusion within the Fund. Among these are:

1. Derivative instruments, unless previously approved by the Board by policy.
2. Privately placed or other non-marketable debt, except securities issued under Rule 144a.
3. Lettered, legend or other so-called restricted stock.
4. Commodities
5. Straight preferred stocks and non-taxable municipal securities should not normally be held unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume.
6. Short sales, unless part of a hedging strategy or market neutral strategy.
7. Direct investments in private placements, real estate, oil and gas and venture capital.

**B. DERIVATIVES**

**1. Objectives**

These derivatives guidelines identify and allow common derivative investments and strategies which are consistent with applicable law and the Investment Policy Statement. These guidelines require investment managers to request the inclusion of additional derivative instruments and strategies. The guidelines require investment managers to follow certain controls, documentation and risk management procedures.

## 2. Definition and Classification of Derivatives

A derivative is a security or contractual agreement that derives its value from some underlying security, commodity, currency, or index. These guidelines classify derivatives into four separate categories distributed across two classes:

### a. Derivative Contracts

- i. Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments
- ii. Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments

### b. Derivative Securities

- i. Collateralized Mortgage Obligations (CMOs)
- ii. Structured Notes

## 3. Allowed Uses of Derivatives

### a. Derivative Contracts

- i. **Hedging.** The investment managers are permitted to use derivatives for clearly defined hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements below.
- ii. **Creation of Market Exposures.** Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class.

### b. Derivative Securities

- i. **Plain Vanilla CMOs.** For the purpose of this policy, we will define a "plain vanilla" CMO as one which satisfies one or both of the following criteria:
  - (a) It passes the Federal Financial Institutions Examination Council (FFIEC) test;
  - (b) It can be shown that the CMO is less exposed to interest rate and prepayment risk than the underlying collateral.
- ii. **Other CMOs.** CMOs, which are not plain vanilla, are restricted to 10% of a manager's portfolio.
- iii. **Structured Notes.** Structured notes may be used so long as the exposure implied by their payment formula would be allowed if created without use of structured notes.

## 4. Prohibited Uses of Derivatives

Any use of derivatives not listed in section C is prohibited without written approval of the Board of Investors. Investment managers are encouraged to solicit such approval if they believe the list in section C is too restrictive. By way of

amplification, it is noted that the following two uses of derivatives are prohibited:

- a. **Leverage.** Derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.
- b. **Unrelated Speculation.** Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

**5. Transaction-Level Risk Control Procedures and Documentation Requirements**

For each over-the-counter derivative transaction, except foreign exchange forward contracts, investment managers are required to obtain at least two competitive bids or offers. For small-issue CMOs, it is acceptable to obtain competitive prices on similar securities. For all derivatives transactions, investment managers should maintain appropriate records to support that all derivative contracts used are employed for allowed strategies. In addition, the following requirements apply to derivative securities:

- a. **"Plain Vanilla" CMOs.** Document that the CMO is in fact "plain vanilla", according to the definition in section C.2.a.
- b. **Other CMOs.** These CMOs must be stress tested to estimate how their value and duration will change with extreme changes in interest rates. An extreme change is one of at least 300 basis points.

**C. DISTRIBUTIONS**

The Fund Policy Board has the discretion to decide how and when to spend earnings from the Fund as certified by the Board of Investors. The Board of Investors will provide liquidity in the Fund to meet these withdrawals.

Investment managers should assume that withdrawals might be made from the Fund from time to time to meet distribution needs. The Board will endeavor to provide ample notice of any material withdrawals. Investment managers will be given adequate notice of cash needs and an estimation of the liquidity requirements from their funds. They will be expected to manage their funds to provide for anticipated withdrawals without impairing the investment process.

**D. PROXY VOTING**

Responsibility for the exercise of ownership rights through proxy solicitations shall rest solely with the investment managers, who shall exercise this responsibility strictly for the benefit of the Fund. Managers shall annually report to the Board standing policies with respect to proxy voting, including any changes that have occurred in those policies. Investment managers shall provide a written annual report of the proxy votes for all shares of stock in companies held in the Funds investment program. These reports shall specifically note and explain any instances where proxies were not voted in accordance with standing

policy.

**E. DIRECTED COMMISSIONS**

Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a "best execution" basis. Additionally, arrangements to direct commissions shall only be implemented by specific authorization of the Board.

**F. SECURITIES LENDING**

The Board may engage their custodian or other financial institution to act as securities lending agent. Securities lending should be managed to gain an incremental return while protecting principal and not impeding the operation of the managed investment accounts. Securities lending agent shall:

1. provide indemnification against borrower default,
2. have written agreements with each borrower prior to engaging in securities lending activities.
3. Lending shall be fully collateralized and securities should not be lent before acceptable collateral valued at 102% of domestic securities and 105% of international securities lent is received.
4. Lending agent shall monitor collateral at least daily and ensure that any necessary calls for additional collateral are made and that collateral is received in a timely basis.
5. Lending agent shall regularly review and monitor their approved borrowers to minimize risk.

**Approved Investments**

The securities lending agent is hereby authorized to invest and reinvest Cash Collateral in the following investments. Ratings descriptions specified in any category of investments listed below shall mean the rating that is assigned to the investment at the time that it is acquired.

Investment

Securities issued or fully guaranteed by the United States government and any agency, instrumentality or establishment of the United States government ("Government Securities").

Obligations issued by the central government of any member country of the Organization for Economic Co-operation and Development and any agency or instrumentality thereof (currency hedged) ("OECD Securities").

High-grade commercial paper, notes, bonds and other debt obligations including promissory notes, funding agreements and guaranteed investment contracts whether or not registered under the Securities Act of 1933, as amended. Such obligations may have

fixed, floating, or variable rate interest payment provisions. Obligations maturing within one year shall be issued by issuers rated at least A-1 (by Standard & Poor's) or P-1 (by Moody's). Obligations maturing beyond one year shall be issued by issuers rated at least A (by Standard & Poor's) or A2 (by Moody's).

Asset-Backed Securities which carry the highest credit rating by Standard & Poor's or Moody's.

Certificates of deposit, time deposits and other bank obligations of U.S. banks, their branches and subsidiaries, and the branches and subsidiaries of foreign banks. Obligations will be rated A-1 (Standard & Poor's) or P-1 (Moody's) if maturing within one year, or be rated A (Standard & Poor's) or A2 (Moody's) if maturing beyond one year.

Repurchase and reverse repurchase agreements collateralized by Approved Investments listed on this Schedule I and entered into with counterparties approved by The Bank of New York (including The Bank of New York and its affiliates).

Securities, units, shares and other participations in money market funds, unregistered short-term investment funds, pools or trusts (including those managed by The Bank of New York).

No more than 5% of the fund may be invested in the debt of any single issuer.

No more than 25% of the fund may be invested in any single corporate or financial industry group. Bank instruments that mature in less than one week are exempt from this requirement. All instruments backed by the US Government are exempt from this requirement.

The maximum percentage of the fund in commercial paper invested in is 50%.

The Fund will not invest in unsecured broker dealer commercial paper.

Maturities

Government Securities and OECD Securities have no maturity limit.

The maximum weighted average maturity reset for the fund shall be no more than 60 days. The maximum final maturity for a security shall be no more than one year at the time of purchase.

#### **G. HIRING INVESTMENT MANAGERS**

When the Board selects investment managers to manage assets of the Fund, factors to be considered shall include, but not be limited to, the stability of the investment organization, staff and client base, consistency of the investment process, style and philosophy, competitiveness of risk and return versus indices and peers, and reasonableness of fees.

#### **H. TERMINATING INVESTMENT MANAGERS**

The Board may terminate investment managers based on significant changes to the organization, staff and client base, significant changes to the investment process, style and philosophy, underperformance over the long term versus benchmarks and peer group results,

significant non-compliance with investment guidelines, ownership change of a firm, or other factors deemed appropriate by the Board.

#### **VIII. IMPLEMENTATION**

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It is the intent of the Board to revise this statement of goals and objectives to reflect modifications and revisions to the Fund, which may develop from time to time. It is also the policy of the Board to review these goals and objectives at least once per year and to communicate any material change thereto to the investment managers.

This policy statement is prepared to provide appropriate guidelines for the investment managers, consistent with the Fund's return objectives and risk tolerances. Should any investment manager believe that the guidelines are unduly restrictive or inappropriate, the Board expects to be advised accordingly.

All monies invested for the Fund by its investment managers after the adoption of this Investment Policy shall conform to this policy. The Investment Policy statement was adopted by the Board of Investors of the EDGE Fund at their meeting on June 28, 2011.

Approved By: \_\_\_\_\_

Date: \_\_\_\_\_

**APPENDIX I**

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**INVESTMENT MANAGER CLASSIFICATION**

The investment managers may be classified according to a scale which reflects the satisfaction of the Board of Investors. Managers will be informed of their status and it will be included in the Consultant's quarterly report. The classification scale appears in the table below:

<b>OFFICIAL CLASSIFICATION</b>	<b>EXPLANATION</b>
<b>IN COMPLIANCE</b>	In Compliance with all applicable investment policies and performance objectives
<b>ON ALERT</b>	Board of Investors is concerned with organizational issues, portfolio issues, or progress meeting performance objectives
<b>ON NOTICE</b>	Board of Investors is significantly concerned with the firm's ability to meet its performance objectives. Termination being considered.
<b>TERMINATION</b>	Termination of manager in progress

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EDGE Fund

**MANAGER'S BROKERAGE POLICY**

**Re: Board of Investors of the EDGE Fund**

This is to confirm the appointment of, and acceptance by, [REDACTED] Management Company. ("Manager") as investment manager to manage, supervise and direct the investments of and for the above captioned account (the "Account"), which appointment includes the authority to act as agent for and on behalf of the Account with full and complete authority, subject to the Investment Policy of the Board of Investors of the EDGE Fund, (i) to purchase, sell, exchange, convert and otherwise transact in any and all stocks, bonds, cash held for investment and other assets as Manager may select, including shares of a registered investment company for which Manager may act as investment adviser and upon proper authorization by the undersigned, interests in a collective trust maintained by a bank or trust company, including one maintained by an affiliate of Manager; and (ii) to establish accounts and execute securities transactions with one or more securities broker/dealer firms and other financial intermediaries as Manager may select. No cash or securities due to or held for the Account shall be paid or delivered to Manager, except in payment of the management fee payable to Manager under the Agreement pursuant to procedures approved by the Client.

It is further understood that Manager may deliver to any securities broker/dealer firm or other financial intermediary executing transactions on behalf of the Account a copy of this document as evidence of the authority of Manager to act as agent for and on behalf of the Account.

Very truly yours,

**Ken Miller, State Treasurer and  
Chairman of the Board of Investors**

## EDGE Fund

### MANAGER COMPENSATION SCHEDULE

Manager shall submit to the Board an invoice for services rendered following the end of each calendar quarter, providing such information as the Board reasonably deems necessary to verify the amount of the invoice.

- A. Payment shall be made to the Manager by the Board within 30 days of receiving a correct and accurate invoice. All payments are made in arrears and no payments shall be made in advance.
- B. For services under the Agreement with [REDACTED] Management Company (“Manager”), the Board of Investors of the EDGE Fund will agree to pay, or cause to be paid, to Manager a management fee determined below based upon the following:

1. Master Custodian Values. All fees will be based on the average value of the portfolio at the end of each month within the calendar quarter as determined by the Master Custodian. In the event that Manager' records differ from those of the Master Custodian, reconciliation will occur as soon as possible and fees will be adjusted upon completion of the reconciliation.
2. Management Fee. The management fee is as follows:


The management fees shall be payable quarterly in arrears based upon the value of the portfolio at the end of each calendar quarter as determined by the Master Custodian. Fees shall be pro-rated for services rendered for any partial quarters.