

## **705.1 SCHOOL DISTRICT OPEB TRUST**

### **I. Purpose**

The purpose of this Investment Policy Statement (the "IPS") is to establish a clear understanding between the Alexandria ISD #206 School District OPEB Trust (the "Client") and Bremer Trust, N.A. (the "Investment Manager") concerning the investment policies and objectives of the OPEB trust assets.

The IPS will establish written standards and restrictions for the Investment Manager; however these are not intended to impede the Investment Manager's effort in attaining the overall objectives of the Trust. This IPS should provide the Investment Manager flexibility in investment selection and diversification for the purposes of increasing investment returns within the client's defined risk tolerance. The IPS defines specific parameters and ranges of allowable asset and sub-asset classes and, investment management styles that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term. The IPS also defines a standard for evaluating performance of the investment manager against relevant benchmarks as defined in section V.

The assets are held in an Irrevocable Trust established by the Alexandria School District with the intention that it qualify as a tax-exempt trust performing an essential governmental function within the meaning of Section 115 of the Code and the Regulations issued there under and as a trust for Postemployment Benefits under Minnesota Statutes Section 471.6175. This policy document states that the investment manager will manage assets in accordance with and authorized under Minnesota Statutes Section 356A.06, subdivision 7, as well as exercise all fiduciary prudence and due diligence requirements expected of experienced investment professionals.

### **II. Investment Objectives**

The objectives for investments made under this IPS policy shall be a primary emphasis on current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The investments shall be managed actively with the intention of obtaining higher rates of total return (current income plus net realized and unrealized appreciation) while accepting a moderate level of variation of returns from time to time. The Investment Manager shall strive to maintain the purchasing power of the assets by producing positive real rates of return on assets

### **III. Time Horizon**

The investment guidelines are based upon an investment horizon of greater than ten (10) years. Interim fluctuations should be viewed with an appropriate perspective. Similarly, the fund's strategic asset allocation is based on this long-term perspective.

In order to meet short-term obligations, the Investment Manager will maintain sufficient liquid reserves. It is understood that the timing and the amount of future distributions may change and that the Client will notify the Investment Manager 30 days in advance of withdrawals to allow sufficient time to build up necessary liquid reserves.

### **IV. Risk Tolerance**

The Client recognizes the difficulty of achieving the Trust's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Client also recognizes some risk must be assumed to achieve the Trust's long-term investment objectives. The risk tolerance for the Client is considered Moderate; that is moderate declines in total portfolio value would be acceptable during certain periods of time. Moderate allocation objective seeks to provide both capital appreciation and income by investing in three major areas: stocks, bonds and cash. A Moderate allocation balances the potential capital appreciation of common stocks with the income and relative stability of bonds over the long term. It should be less volatile than an all-stock portfolio, since prices of stocks and bonds may respond differently to changes in economic conditions and interest rate levels.

### **V. Performance Expectations & Monitoring**

The desired long-term net rate of return on assets is 5%. The target rate of return for the Trust has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the Policy Statement.

The Client realizes market performance varies and a 5 net % rate of return may not be achievable during some periods. Accordingly, relative performance benchmarks for the managers are set forth in the Policy Statement. Over a complete business cycle, the Trust's overall annualized total return, after deducting for money management and custodial fees, as well as total transaction costs, should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the Trust. The performance benchmark is as follows:

60% Barclays Capital U.S. Aggregate Bond Market Index

5% Barclays Capital Global Aggregate Bond Index

30% Wilshire 5000 Total Market Stock Index

5% MSCI EAFE (Europe, Australasia and Far East) Index

## VI. Investment Guidelines

Following is a list of the permissible assets for the Trust portfolio:

- Securities of the U.S. Government, its Agencies and/or Instrumentality
- Commercial Paper; Domestic and Eurodollar
- Corporate Notes/Bonds; Domestic and International
- Asset-Backed Securities
- Certificates of Deposit
- Tax-Exempt and Taxable Municipal bonds
- Mortgage-backed securities ( U.S. Government-backed)
- Domestic Equities traded on a major exchange
- International Equities traded on a U.S. exchange (ADRs)
- Open-ended mutual funds that invest substantially all their assets in the asset classes listed above, such as: money market funds, domestic and foreign equity and fixed income funds
- Alternative funds that employ non-traditional strategies

### Asset Allocation:

The long-term financial requirements and prudent diversification implies a balanced investment approach. Specifically, the Client has determined the target asset class allocation and ranges as follows:

	<u>Long Term Target</u>	<u>Allowable Ranges</u>
Domestic Fixed Income	55%	50-70%
<u>Foreign Fixed Income</u>	<u>5%</u>	<u>0-10%</u>
Total Fixed Income	60%	50-70%
U.S Stocks	30%	20-35%
<u>Foreign Stocks</u>	<u>5%</u>	<u>0-10%</u>
Total Equity	35%	20-40%
Alternative Investments	5%	0-10%

### Fixed Income - Maturity Restrictions:

Duration of the portfolio will generally be within +/- 20% of the Barclays Aggregate Bond Index, or the duration of the OPEB obligation, whichever is greater. Communication of cash flow requirements by the Client to the Investment Manager will be critical in establishing the portfolio in regard to maturities and duration.

**Credit Quality Standards:**

Any individual fixed income security purchased or retained in an account must have a rating of at least BBB-/ Baa3 (i.e., investment grade or above) as determined by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Non-U.S. dollar denominated and below-investment grade obligations may be purchased only if held in a mutual fund.

Industry concentrations within the corporate, municipal revenue and asset-backed sectors should generally be limited to no more than 25% of an account's fixed income portfolio. In general, fixed income portfolios of individual securities will be well diversified and constructed to reflect client risk and return requirements, and will be comprised of investment grade securities.

**Issuer Concentration:**

No single security, with the exception of a security issued by the U.S. Government, its Agencies and/or Instrumentalities, shall at the time of purchase constitute more than 5% of the value of the portfolio.

**VIII. Investment Review**

The investment objectives and performance will be reviewed periodically and not less than annually by the Board. By acknowledging in writing the receipt of this Statement, the Client and Investment Manager agree to its terms and conditions. Should the Investment Manager believe at any time that changes, additions, or deletions to this Statement are advisable, he/she will be responsible for communicating these in writing for review.

The signatures below affirm that this Statement has been read, understood and accepted.

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Bremer Trust, N.A.

Alexandria ISD #206.

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By:

By:

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

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

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**Legal References:**

Minn. Stat. § 471.6175 (Trust for Postemployment Benefits)

Minn. Stat. § 356A.06, subdivision 7 (Expanded List of Authorized Investment Securities)

**Cross References:**

MSBA Policy 703 (Annual Audit)

MSBA Policy 705 (Investments)

MSBA Service Manual, Chapter 7, Education Funding

Minnesota Legal Compliance Audit Guide Prepared by the Office of the State Auditor

Policy Adopted: 8/17/15

Independent School District No. 206

Alexandria, Minnesota