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Orig. 1995
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705 INVESTMENTS

I. PURPOSE

The purpose of this policy is to establish guidelines for the investment of school district funds.

II. GENERAL STATEMENT OF POLICY

The policy of this school district is to comply with all state laws relating to investments and to guarantee that investments meet certain primary criteria.

III. SCOPE

This policy applies to all investments of the surplus funds of the school district, regardless of the fund accounts in which they are maintained, unless certain investments are specifically exempted by the school board through formal action.

IV. AUTHORITY; OBJECTIVES

A. The funds of the school district shall be deposited or invested in accordance with this policy, Minnesota Statute Ch. 118A and any other applicable law or written administrative procedures.

B. The primary criteria for the investment of the funds of the school district, in priority order, are as follows

1. Safety and Security. Safety of principal is the first priority. The investments of the school district shall be undertaken in a manner that seeks to ensure the preservation of the capital in the overall investment portfolio.

2. Liquidity. The funds shall be invested to assure that funds are available to meet immediate payment requirements, including payroll, accounts payable, and debt service.

3. Return and Yield. The investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

V. DELEGATION OF AUTHORITY

A. The Director of Business Services of the school district is designated as the investment officer of the school district and is responsible for investment decisions and activities under the direction of the school board. The investment officer shall operate the school district's investment program consistent with this policy. The investment officer may delegate certain duties to a designee or designees but shall remain responsible for the operation of the program.

B. All officials and employees that are a part of the investment process shall act professionally and responsibly as custodians of the public trust and shall refrain from personal business activity that could conflict with the investment program or which could reasonably cause others to question the process and integrity of the investment program. The investment officer shall avoid any transaction that could impair public confidence in the school district.

VI. STANDARD OF CONDUCT

The standard of conduct regarding school district investments to be applied by the investment officer shall be the "prudent person standard." Under this standard, the investment officer shall exercise that degree of judgment and care, under the circumstances then prevailing, that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, investing not for speculation and considering the probable safety of their capital as well as the probable investment return to be derived from their assets. The prudent person standard shall be applied in the context of managing the overall investment portfolio of the school district. The investment officer, acting in accordance with this policy and exercising due diligence, judgment, and care commensurate with the risk, shall not be held personally responsible for a specific security's performance or for market price changes. Deviations from expectations shall be reported in a timely manner and appropriate actions shall be taken to control adverse developments.

VII. MONITORING AND ADJUSTING INVESTMENTS

The investment officer shall routinely monitor existing investments and the contents of the school district's investment portfolio, the available markets, and the relative value of competing investment instruments.

VIII. INTERNAL CONTROLS

The investment officer shall establish a system of internal controls which shall be documented in writing. The internal controls shall be reviewed by the school board and shall be annually reviewed for compliance by the school district's independent auditors. The internal controls shall be designed to prevent and control losses of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions by officers, employees, or others. The internal controls may include, but shall not be limited to, provisions relating to controlling collusion, separating functions, separating transaction authority from accounting and record keeping, custodial safekeeping, avoiding bearer form securities, clearly delegating authority to applicable staff members, limiting securities losses and remedial action, confirming telephone transactions in writing, supervising and controlling employee actions, minimizing the number of authorized investment officials, and documenting transactions and strategies.

IX. PERMISSIBLE INVESTMENT INSTRUMENTS

The school district may invest its available funds in those instruments specified in Minn. Stat. §§ 118A.04 and 118A.05, as these sections may be amended from time to time, or any other law governing the investment of school district funds. The assets of an other postemployment benefits (OPEB) trust or trust account established pursuant to Minn. Stat. § 471.6175 to pay postemployment benefits to employees or officers after their termination of service, with a trust administrator other than the Public Employees Retirement Association, may be invested in instruments authorized under Minn. Stat. Ch. 118A or § 356A.06, Subd. 7. Investment of funds in an OPEB trust account under Minn. Stat. § 356A.06, Subd. 7, as well as the overall asset allocation strategy for OPEB investments, shall be governed by an OPEB Investment Policy Statement (IPS) developed between the investment officer, as designed herein, and the trust administrator. See Appendix A.

X. PORTFOLIO DIVERSIFICATION; MATURITIES

A. Limitations on instruments, diversification, and maturity scheduling shall depend on whether the funds being invested are considered short-term or long-term funds. All funds shall normally be considered short-term except those reserved for building construction projects or specific future projects and any unreserved funds used to provide financial-related managerial flexibility for future fiscal years.

B. The school district shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

1. The investment officer shall prepare and present a table to the school board for review and approval. The table shall specify the maximum percentage of the school district's investment portfolio that may be invested in a single type of investment instrument, such as U.S. Treasury Obligations, certificates of deposit, repurchase agreements, banker's acceptances, commercial paper, etc. The approved table shall be attached as an exhibit to this policy and shall be incorporated herein by reference.

2. The investment officer shall prepare and present to the school board for its review and approval a recommendation as to the maximum percentage of the total investment portfolio that may be held in any one depository. The approved recommendation shall be attached as an exhibit or part of an exhibit to this policy and shall be incorporated herein by reference.

3. Investment maturities shall be scheduled to coincide with projected school district cash flow needs, taking into account large routine or scheduled

expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

The school district will use competitive methods in selection of investment instruments.

XII. QUALIFIED INSTITUTIONS AND BROKER-DEALERS

A. The school district shall maintain a list of the financial institutions that are approved for investment purposes.

B. Prior to completing an initial transaction with a broker, the school district shall provide to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota statutes governing the investment of public funds. The broker must annually acknowledge receipt of the statement of investment restrictions and agree to handle the school district's account in accordance with these restrictions. The school district may not enter into a transaction with a broker until the broker has provided this annual written agreement to the school district. The notification form to be used shall be that prepared by the State Auditor. A copy of this investment policy, including any amendments thereto, shall be provided to each such broker.

XIII. SAFEKEEPING AND COLLATERALIZATION

A. All investment securities purchased by the school district shall be held in third-party safekeeping by an institution designated as custodial agent. The custodial agent may be any Federal Reserve Bank, any bank authorized under the laws of the United States or any state to exercise corporate trust powers, a primary reporting dealer in United States Government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined in Minn. Stat. § 118A.06. The institution or dealer shall issue a safekeeping receipt to the school district listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information.

B. Deposit-type securities shall be collateralized as required by Minn. Stat. § 118A.03 for any amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage.

C. Repurchase agreements shall be secured by the physical delivery or transfer against payment of the collateral securities to a third party or custodial agent for safekeeping. The school district may accept a safekeeping receipt instead of requiring physical delivery or third-party safekeeping of collateral on overnight repurchase agreements of less than $1,000,000.

XIV. REPORTING REQUIREMENTS

A. The investment officer shall generate daily and monthly transaction reports for management purposes. In addition, the school board shall be provided a bi-annually report that shall include data on investment instruments being held as well as any narrative necessary for clarification.

B. The investment officer shall prepare and submit to the school board a bi-annually investment report that summarizes recent market conditions, economic developments, and anticipated investment conditions. The report shall summarize the investment strategies employed in the most recent quarter and describe the investment portfolio in terms of investment securities, maturities, risk characteristics, and other features. The report shall summarize changes in investment instruments and asset allocation strategy approved by the investment officer for an OPEB trust in the most recent quarter. The report shall explain the quarter's total investment return and compare the return with budgetary expectations. The report shall include an appendix that discloses all transactions during the past quarter. The report will also include a summary of advisory fees and expenses. Each quarterly report shall indicate any areas of policy concern and suggested or planned revisions of investment strategies. Copies of the report shall be provided to the school district's auditor.

C. Within ninety (90) days after the end of each fiscal year of the school district, the investment officer shall prepare and submit to the school board a comprehensive annual report on the investment program and investment activity of the school district for that fiscal year. The annual report shall include 12-month and separate quarterly comparisons of return and shall suggest revisions and improvements that might be made in the investment program.

D. If necessary, the investment officer shall establish systems and procedures to comply with applicable federal laws and regulations governing the investment of bond proceeds and funds in a debt service account for a bond issue. The record keeping system shall be reviewed annually by the independent auditor or by another party contracted or designated to review investments for arbitrage rebate or penalty calculation purposes.

XV. DEPOSITORIES

The school board shall annually designate one or more official depositories for school district funds. The Treasurer and the Director of Business Services of the school district may also exercise the power of the school board to designate a depository. The school board shall be provided notice of any such designation by its next regular meeting. The school district and the depository shall each comply with the provisions of Minn. Stat. § 118A.03 and any other applicable law, including any provisions relating to designation of a depository, qualifying institutions, depository bonds, and approval, deposit, assignment, substitution, addition, and withdrawal of collateral.

XVI. ELECTRONIC FUNDS TRANSFER OF FUNDS FOR INVESTMENT

The school district may make electronic fund transfers for investments of excess funds upon compliance with Minnesota Statute§ 471.38.

XVII. REVENUES FROM SCHOOL DISTRICT OWNED REAL ESTATE

Contracts for leasing or renting school buildings or land shall be approved by the school board.

Legal References:
Minn. Stat. § 118A.01 (Public Funds; Depositories and Investments)
Minn. Stat. § 118A.02 (Authorization for Deposit and Investment)
Minn. Stat. § 118A.03 (Depositories and Collateral)
Minn. Stat. § 118A.04 (Investments)
Minn. Stat. § 118A.05 (Contracts and Agreements)
Minn. Stat. § 118A.06 (Delivery and Safekeeping)
Minn. Stat. § 356A.06, Subd. 7 (Authorized Investment Securities)
Minn. Stat. § 471.38 (Claims)
Minn. Stat. § 471.6175 (Trust for Postemployment Benefits)

Cross References:
MSBA/MASA Model Policy 703 (Annual Audit)
MSBA Service Manual, Chapter 7, Education Funding
Minnesota Legal Compliance Audit Guide Prepared by the Office of the State Auditor

A. PURPOSE

The OPEB Trust is intended to provide for funding of non-pension post-employment benefits for employees who meet the age and service requirements outlined in the school district's plan documents. The main investment objective of the OPEB Trust is to achieve long-term growth of OPEB Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the school district's current and long-term non-pension post-employment benefits obligations.

The purpose of this policy is to achieve the following:

1. Document investment objectives, performance expectations and investment guidelines for OPEB Trust assets.
2. Establish an appropriate investment strategy for managing all OPEB Trust assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the OPEB Trust.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements that will effectively monitor investment results and ensure that the investment policy is being followed.
5. Comply with all fiduciary, prudence, due diligence and legal requirements for OPEB Trust assets.

B. INVESTMENT AUTHORITY

The school board, investment officer, and investment advisor will oversee certain policies and procedures related to the operation and administration of the OPEB Trust. The school board and investment officer will have authority to implement the investment policy and guidelines in the best interest of the OPEB Trust to best satisfy the purposes of the OPEB Trust. In implementing this policy, the school board and investment officer believes it may delegate certain functions to:

1. An investment advisor to assist the school board and investment officer in the investment process and to maintain compliance with this policy. The investment advisor may assist in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate. The investment advisor may also select investment managers with discretion to purchase, sell, or hold specific securities that will be used to meet the OPEB Trust's investment objectives. The investment advisor must be registered with the Securities and Exchange Commission.
2. A custodian to physically maintain possession of securities owned by the OPEB Trust, collect dividend and interest payments, redeem maturing

securities, and effect receipt and delivery following purchases and sales, among other duties. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the OPEB Trust.

3. A trustee, such as a bank trust department to be trustee, to assume fiduciary responsibility for the administration of OPEB Trust assets.
4. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the school board and investment officer in meeting its responsibilities and obligations to administer OPEB Trust assets prudently.

C. STATEMENT OF INVESTMENT OBJECTIVES

The investment objectives of the OPEB Trust are as follows:

1. To invest assets of the OPEB Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of OPEB Trust beneficiaries and defray reasonable expenses in a prudent manner, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of non-pension post-employment benefits and related expenses.
3. To conserve and enhance the value of OPEB Trust assets in real terms through asset appreciation and income generation, while maintaining a moderate investment risk profile.
4. To minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this policy under the section labeled “Performance Expectations”.

D. INVESTMENT GUIDELINES

1. Time Horizon
   The OPEB Trust’s investment objectives are based on a 10-year investment horizon. Interim fluctuations should be viewed with appropriate perspective. The school board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

2. Liquidity and Diversification
   Assets will be invested in longer-term securities. Investments shall be diversified with the intent to minimize the risk of investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

3. Asset Allocation

The school board believes that to achieve the greatest likelihood of meeting the OPEB Trust's investment objectives and the best balance between risk and return for optimal diversification, the OPEB Trust assets should be allocated into two broad classes called Investment Assets and Liquidity Assets. The Investment Assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the OPEB Trust's actuarial discount rate as described in the section titled "Performance Expectations". The Liquidity Assets will be held in cash equivalent investments and used to pay for benefits and OPEB Trust expenses.

Investment Assets
Enacted: 6/13/16

Asset Classes	***Asset Weightings*** **Range**	**Target**
Domestic Equity	13% - 53%	33%
International Equity	0% - 37%	17%
REIT	0% - 5%	0%
Inflation Hedge	0% - 5%	0%
Fixed Income	30% - 70%	50%
Cash Equivalent	0% - 20%	0%

The investment managers shall have discretion to temporarily invest a portion of the assets in cash equivalents when they deem it appropriate. The investment managers will be evaluated against their peers on the performance of the total funds under their direct management.

4. Rebalancing Philosophy
The asset allocation range established by this policy represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside policy ranges. When these divergences occur, the investment advisor will rebalance the asset mix to its appropriate targets and ranges. Similarly, if the cash requirement to handle liquidity needs falls to a level where near-term distributions cannot be met and no contributions are anticipated, the investment advisor will rebalance the fund to its appropriate targets and ranges.

When the investment advisor is notified of new contributions, the investment advisor will review the OPEB Trust allocation and fill the liquidity allocation first and the remaining investment allocations last.

5. Risk Tolerance
   The OPEB Trust will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon and that is consistent with the OPEB Trust's investment objectives.

6. Performance Expectations
   Over the long-term, a rolling five year period, the performance objective for OPEB Trust assets will be to achieve an average total annual rate of return that is equal to or greater than the OPEB Trust's actuarial discount rate. Additionally, it is expected that the annual rate of return on OPEB Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual investments and blended benchmark comparisons for the OPEB Trust in its entirety.

E. SELECTION OF INVESTMENT MANAGERS

The investment advisor shall prudently select appropriate investment managers to manage the assets of the OPEB Trust. Managers must meet the following criteria:

1. The investment manager must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.
2. The investment manager must not compensate the investment adviser either directly or indirectly.
3. With respect to OPEB Trust assets invested in a mutual fund, the Manager must provide historical quarterly performance data for the mutual fund compliant with Securities and Exchange Commission ("SEC") standards.
4. The investment manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style and reported net of fees.
5. The investment manager must provide detailed information on history of the firm, key personnel, support personnel, key clients, and fee schedule (including most favored nation clauses). This information can be a copy of a recent Request for Proposal ("RFP") completed by the manager.
6. The investment manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
7. The investment manager for portfolios other than Pooled Vehicles (see Guidelines for Portfolio Holdings) must confirm that it has received, understands and will adhere to the policy and any manager specific policies by signing a consent form provided to the investment manager prior to investment of OPEB Trust assets.

F. GUIDELINES FOR PORTFOLIO HOLDINGS

The investment advisor shall make every effort to prudently select funds that follow the guidelines listed below.

1. Pooled Vehicles
   Every effort shall be made, to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with this policy (as outlined in following sub-sections of the "Guidelines for Portfolio Holdings"). However, given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between this policy and the objectives of these pooled vehicles. A commingled fund or mutual fund will not be included in OPEB Trust portfolio unless it complies with the Investment Company Act of 1940's diversification requirement.

2. Cash Equivalents
   Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

3. Equities
   Pooled equity vehicles shall comply with the diversification rules outlined in the Investment Company Act of 1940. No more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation. Ownership of the shares of one company shall not exceed 2% of those outstanding. Not more than 25% of stock valued at market may be held in any one industry category. Other than these constraints, there are no quantitative guidelines suggested as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the investment manager(s).

   The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the stocks of companies from multiple regions and sectors. The emerging markets exposure as defined by Morgan Stanley Capital International Inc. ("MSCI") should be limited to 35% of the non-U.S. portion of the portfolio.

4. Fixed Income
   Fixed income investments shall be high quality pooled vehicles with a preponderance of the investments in (1) U.S. Treasury, federal agencies and U.S. Government guaranteed obligations, and (2) investment grade corporate issues including convertibles.

   Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets shall be at least "A", based on the rating of one of the three rating agencies (Fitch, Moody's or Standard & Poor's). In cases where the yield spread adequately compensates for additional risk, securities where two of the three rating agencies (Fitch, Moody’s or Standard & Poor’s) have average BB- ratings, can be purchased up to a maximum of 10% of total market value of fixed income securities.

Active bond management is encouraged and may require transactions that will temporarily lower the return or change the maturity of the portfolio in anticipation of market changes.

5. REITs
Real estate assets will be held in pooled vehicles, primarily holding Real Estate Investment Trusts and servicing companies.

6. Inflation Hedge
Inflation hedging assets will include pooled vehicles holding among other assets: Treasury Inflation Protected Securities (“TIPS”), commodities or commodity contracts, index-linked derivative contracts, the equity of companies in businesses believed to hedge inflation.

7. Prohibited Investments
The following investments and transactions are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, short sales, margin transactions, private placements (with the exception of Rule 144A securities), venture capital funds, private equity, or hedge funds. Derivatives, options or futures for the purpose of portfolio leveraging are prohibited. Neither direct real estate equity nor natural resource properties such as oil, gas or timber may be held except by purchase of publicly traded securities or within Pooled Vehicles, except for existing real estate holdings. The purchase of collectibles is also prohibited.

8. Safekeeping
All securities shall be held by a custodian approved by the school district and in consultation with the investment advisor for safekeeping of OPEB Trust assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the OPEB Trust Agreement. Assets of the OPEB Trust held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts.

G. CONTROL PROCEDURES

1. Review of Investment Objectives
The investment advisor shall review annually the appropriateness of this policy for achieving the OPEB Trust’s stated objectives. It is not expected

that this policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

2. Review of Investment Performance

The investment advisor shall report on a quarterly basis to the school board and/or Investment officer to review the total OPEB Trust investment performance. In addition, the investment advisor will be responsible for keeping the investment officer advised of any material change in investment strategy, investment managers, and other pertinent information potentially affecting performance of the OPEB Trust.

The investment advisor shall compare the investment results on a quarterly basis to appropriate benchmarks, as well as market index returns in both equity and debt markets. Examples of benchmarks and indexes that may be used include the S&P 500 Index for large cap equities, Russell 2000 Index for small cap equities, MSCI Europe, Australia, and Far East Index (EAFE) for international equities, Barclays Capital Aggregate Bond Index for fixed income securities, and the U.S. 91-day T-bill Index for cash equivalents.

3. Voting of Proxies

Investment manager(s) are expected to be aware of corporate provisions that may adversely affect stockholdings, including but not limited to “golden parachutes,” “super majorities,” “poison pills,” “fair price” provisions, staggered boards of directors, and other tactics. Proxies should be vigorously voted with the interest of preserving or enhancing the security’s value.

The investment manager(s) of a commingled funds or mutual fund that holds the assets of the OPEB Trust along with assets of other funds with conflicting proxy voting policies must reconcile the conflicting policies to the extent possible, and, if necessary, to the extent legally permissible, vote the proxies to reflect the policies in proportion to each fund’s interest in the pooled fund.