

**I. PURPOSE**

The purpose of this Investment Policy Statement is to establish an understanding as to the investment goals, objectives, and management policies for this portfolio.

The investment policy will also:

1. Establish overall standards for the management of the assets held in the portfolio.
2. Define overall investment parameters to help manage risk in the portfolio in accordance with the identified risk tolerance.
3. Communicate the intent of this plan to the appropriate parties.
4. Provide a written strategy and standard, which will guide the decisions regarding the management of the portfolio assets, including any restrictions to the management of the assets.
5. Establish a methodology for evaluating the performance of the portfolio and its components.

This statement should be reviewed periodically and revisions should be made as necessary to reflect changes in circumstances or objectives. All revisions must be made in writing and distributed to the appropriate parties on a timely basis.

**II. INVESTMENT OBJECTIVE****Balanced**

Balance in emphasis between current income and longer-term capital appreciation. Assets are primarily invested in equity and fixed-income securities with a moderate to strong emphasis on capital appreciation and current income. This objective can be considered for clients with average risk tolerance and intermediate to longer term time horizons, in which to grow principal. Real assets and complementary strategies (e.g., hedge funds, private equity) may be utilized to improve the return/risk relationship of the portfolio. Client suitability, liquidity needs, investment minimum requirements, and investor qualifications will be considered before investing in these asset classes.

**III. INVESTMENT HORIZON**

The Client has an investment horizon that is considered longterm, in excess of 11 years or more.

**IV. TAX SENSITIVITY**

The North Branch ISD #138 OPEB Trust was established by the school district with the intention that it qualify as a tax-exempt trust performing an essential government function within the meaning of Section 115 of the Code, and the Regulations issued thereunder, and as a trust for Postemployment Benefits under the Minnesota Statutes Section 471.6175.

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### V. RISK TOLERANCE

Historical capital market data, together with modern investment theory, indicate a relationship between the level of risk (volatility) and the level of return that can be expected. Higher returns are typically associated with higher risk; therefore the risk profile of the aggregate plan assets should parallel the volatility of the total plan benchmark.

#### Moderate

Moderate

The risk tolerance of the Client can be described as 'moderate'. The Client has a medium tolerance for risk, but moderate down years in investment performance are acceptable. The Client is willing to accept more risk to achieve the return objective set forth in this investment policy statement. The Client understands that the actual level of risk in the Portfolio, as well as the overall Portfolio investment returns may be higher or lower than the Client's stated tolerance and objective.

### VI. ASSET ALLOCATION STRATEGY

After consideration of the Client's investment objective, risk tolerance, and other portfolio specifications, the initial allocation will be:

| <u>Asset Class</u>       | <u>Value</u>       | <u>Percent</u> | <u>Range*</u> |
|--------------------------|--------------------|----------------|---------------|
| Equities                 | \$1,630,000        | 40%            | 30%-50%       |
| Fixed Income             | \$1,630,000        | 40%            | 30%-50%       |
| Real Assets              | \$407,500          | 10%            | 0-20%         |
| Comp. Strategies         | \$407,500          | 10%            | 0-20%         |
| Cash Equivalents         | \$0                | 0%             |               |
| Other                    | \$0                | 0%             |               |
| Unclassified             | \$0                | 0%             |               |
| <b>Total Assets 100%</b> | <b>\$4,075,000</b> | <b>100%</b>    |               |

\* Ranges may fluctuate and/or change from what is noted due to new asset allocation recommendations.

*Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses.*

Portfolio rebalancing shall be performed periodically to remain consistent with the established asset allocation. At a minimum, the Plan's assets, governed by this policy, shall be reviewed annually, and trading costs shall be considered if cash flow is insufficient to effect the rebalancing. The allocation does not involve market timing and is intended to represent a diversified approach to investing based upon the Client's investment horizon.

### VII. CLIENT INVESTMENT TIMING

Client is comfortable with rebalancing the portfolio to meet the revised IPS allocation targets within the next three months.

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NORTH BRANCH INDEPENDENT SCHOOL DISTRICT NO. 138: Policy #799

Adopted: March 14, 2013

Replaces:

Reviewed: 2/12/26

Revised:

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**VIII. PERFORMANCE EVALUATION OR MONITORING**

1. Performance of the Portfolio will be monitored, measured, and evaluated over a market cycle.
2. Performance will be measured against an appropriate benchmark given the client's long term goals and objectives and the strategic allocation that has been selected. The selected benchmarks or indices for the portfolio shall be:
  - 1) For total portfolio return we have modeled a net total return of 4.7%.
  - 2) Individual separate account managers and/or funds will be evaluated against appropriate benchmarks.

**IX. SPECIAL CONSIDERATIONS**

This OPEB Trust was established to provide benefit payments to retirees in accordance with GASB 45. Actual benefit payments may vary in amount and timing and will be made at the direction of appropriate school personnel. Sufficient lead time will be given to the investment manager prior to distribution requests to permit the orderly generation of cash. While there is no specific cash target required by this investment policy statement, the investment manager is well aware that distributions will likely be made on an annual basis and will structure the portfolio to ensure liquidity is readily available.

**X. RESTRICTIONS**

The following asset classes, securities, and/or sectors, will be excluded from this portfolio:

Investment(s) to be restricted or excluded from portfolio:

Trust Investments are limited to investments authorized under Minnesota Statutes Chapter 118A or Section 356A.06, subdivision 7.

Within 356A.06, subd. 7, "other investments" includes portions of real assets and comp. strategies, as well as non-US securities. Collectively cannot exceed 35%.

**XI. BACKGROUND**

The Minnesota Legislature in 2008 enacted Minnesota Statutes, Section 471.6175 which authorized a Minnesota political subdivision or public entity that creates or has created an actuarial liability, to pay post-employment benefits to employees or officers after their termination of service to establish a trust to pay for those benefits. Pursuant to these statutes the North Branch ISD #138 school district created this OPEB Trust for the purpose of funding its OPEB obligations as required to be reported pursuant to GASB 43 and 45 (Government Accounting Standards Board).

**XII. LIQUIDITY**

Liquidity for annual distributions will be managed within the fixed income portion of the OPEB Trust.

*Legal References:*

*Cross References:*