INDEPENDENT SCHOOL DISTRICT #877 POLICY

Buffalo-Hanover-Montrose

INDEX TITLE Administration **SERIES NO.** 700

POLICY TITLE Investments Policy – OPEB **CODE NO.** 705.1

I. Purpose

The purpose of this Investment Policy (the "IP") is to establish a clear understanding between the Buffalo-Hanover-Montrose Independent School District #877 (the "Client") and Bremer Trust, N.A. (the "Investment Manager") concerning the investment policies and objectives of the OPEB trust assets.

The IP 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 IP 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 IP 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 IP 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 Buffalo 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 IP 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 Trust's overall objective is to provide cash flows for eligible District employees' and former employees' other post-retirement employee benefit costs while lowering the overall cost of those promises over time.

The Trust's intermediate-term goal is to produce returns exceeding the discount rate on its liabilities, as determined by actuarial valuation, precluding the need for further contribution. Over the long term, the goal is to exceed the projected rate of return determined by the actuarial valuation.

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 exceed a customized index comprised of market indices weighted by the strategic asset allocation of the Trust. The performance benchmark is as follows:

% of portfolio	Asset Class	Benchmark
2%	Cash Equivalents	90- Day Treasury Bill Index
43%	Bonds	Barclays Capital U.S. Aggregate Bond Market Index
5%	International Bonds	Barclays Capital Global Aggregate Ex-U.S. Dollar Bond Index
24%	U.S. Large Cap Stocks	S&P 500 Index
6%	U.S. Midcap Stocks	Russell Midcap Index
6%	U.S. Small Cap Stocks	Russell 2000 Index
11%	Intl. Stocks (Developed Mkts.)	MSCI EAFE (Morgan Stanley Capital Intl. Europe, Australasia and Far East) Index
3%	Emerging Markets Stocks	MSCI Emerging Markets Free Index
1%	Real Estate Investment Trusts (REITs)	Wilshire REIT 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
- Real Estate Investment Trusts 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. These investments require prior client approval prior to initial investment.

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:

Asset Class	Central Tendency	Range
Cash Equivalents	2%	0-100%
Bonds	48%	+/-15%
Equities	50%	+/-15%

Sub-Asset Class View	Central Tendency	Range
Cash Equivalents	**2%**	**0-100%**
Bonds	**48%**	**+/-15%**
Investment-Grade U.S. Bonds	90% of bond allocation	+/-15%
Intl Bonds	10% of bond allocation	+/-15%
Equities	**50%**	**+/-15%**
U.S. Large Cap Equity	45% of equity allocation	+/-15%
U.S. Midcap Equity	13% of equity allocation	+/-15%
U.S. Small Cap Equity	13% of equity allocation	+/-15%
Intl. Equity (Developed)	22% of equity allocation	+/-15%
Intl. Equity (Emerging)	5% of equity allocation	+/-15%
REITs	2% of equity allocation	+/-15%

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. Communication from the Client's actuary regarding liabilities' duration is welcomed.

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. Diversified mutual funds, since they are not single securities, are not covered by this restriction.

VIII. Investment Review

The investment objectives and performance will be reviewed periodically and not less than annually by the Board.

Legal References:
Minn. Stat. 115
Minn. Stat. 356A.06, Sub. 7 Authorized Investment Securities
Minn. Stat. 471.6175 Trust for Postemployment Benefits

Administrative Offices
Buffalo, Minnesota 55313

FIRST READING October 26, 2009

DATE OF ADOPTION ____________________

DATE OF REVIEW ____________________